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 thereto contained in Item 8 of this report. This overview summarizes the MD&A, which includes the following sections:

- *Our Business* — a general description of our business and the nonalcoholic beverages segment of the commercial beverages industry; our objective; our areas of focus; and challenges and risks of our business.
- *Critical Accounting Policies and Estimates* — 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. Except to the extent that differences among our 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; off-balance sheet arrangements and aggregate contractual obligations; the impact of foreign exchange; an overview of financial position; and the impact of inflation and changing prices.

Our Business

General

We are the largest manufacturer, distributor and marketer of nonalcoholic beverage concentrates and syrups in the world. We also manufacture, distribute and market some finished beverages. 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. Our Company owns or licenses more than 400 brands, including carbonated soft drinks, juice and juice drinks, sports drinks, water products, teas, coffees and other beverages to meet consumers' desires, needs and lifestyle choices. More than 1.3 billion servings of our products are consumed worldwide each day. 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, fountain wholesalers and some fountain retailers and, in the case of finished products, to distributors. Our bottlers sell our branded products in more than 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 most emerging economies. Our strong and stable system helps us to capture growth by manufacturing, distributing and marketing existing, enhanced and new innovative products to our consumers throughout the world.

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 2005 worldwide unit case volume.

We make significant marketing expenditures in support of our brands, including expenditures for advertising, sponsorship fees and special promotional events. As part of our marketing activities, we, at our discretion, 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 Nonalcoholic Beverages Segment of the Commercial Beverages Industry

We operate in the highly competitive nonalcoholic beverages segment of the commercial beverages industry. We face strong competition from numerous 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 spending, economic conditions, availability and quality of water, consumer preferences, inflation, political climate, local and national laws and regulations, foreign currency exchange fluctuations, fuel prices and weather patterns.

Our Objective

Our objective is to use our formidable assets—brands, financial strength, unrivaled distribution system, global reach, and a strong commitment by our management and employees worldwide—to achieve long-term sustainable growth. Our vision for sustainable growth includes the following:

- People: Being a great place to work where people are inspired to be the best they can be.
- Portfolio: Bringing to the world a portfolio of beverage brands that anticipates and satisfies people's desires and needs.
- Profit: Maximizing return to shareowners while being mindful of our overall responsibilities.
- Partners: Nurturing a winning network of partners and building mutual loyalty.
- Planet: Being a responsible global citizen that makes a difference.

Areas of Focus

Revitalizing the Organization

We are focused on driving accountability throughout the organization, leveraging our internal talent and strengthening the corporate culture. We realize that our bench strength has been weakened as a result of prior organizational realignments. Therefore, we are investing in building capability by training our existing associates and hiring experienced individuals from outside the Company. We are revising our organizational structure to help improve execution around the world. We are simplifying and clarifying individual roles and responsibilities.

Unleashing Our System's Potential

Our goal is to drive efficiency and effectiveness throughout the global Coca-Cola system. This begins with the alignment of our system around shared goals and performance targets. We must work in a collaborative manner with our bottling partners throughout the world.

Driving enhanced revenue growth across the system is a key focus area for both the Company and our bottling partners. Our plans in this area are centered on tailoring strategies to match shopping occasions, offering differentiated packages, building value collaboratively with customers, strengthening in-market execution and supporting our family of brands with strong marketing activities. We are building system capability

in this area, sharing learning across the system and capitalizing on immediate-consumption opportunities. Focusing on revenue growth is an enabler for the financial health of the Coca-Cola system as a whole. Markets where we effectively implemented a segmented brand, package, price and channel strategy as a system have seen strong results.

At the same time that we are focused on revenue growth, we are also focused on working with our bottling partners to reduce system costs and improve system efficiencies. Together with our bottling partners, we have created a supply chain management company in Japan and supported the creation of a bottler-owned supply chain organization in North America. By pooling the resources of bottling partners, we have reduced the costs to manufacture our products. This type of supply chain initiative is being replicated in China and Africa and a number of other markets. We recognize that our ability to respond to customers' needs as a system provides a significant opportunity for future growth. Therefore, we are committed to improving our route to market and our response to customers. For example, in Mexico, we created a joint sales company for noncarbonated beverages. This sales company is focused on the efficient sale and distribution of noncarbonated beverages to customers that span multiple bottler territories.

Executing with Excellence Globally

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. We must efficiently transfer the knowledge and insights we have gained from successes and failures from one market to other markets around the world. The nonalcoholic beverages segment of the commercial beverages industry provides 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 the growth of such products. We also believe that the immediate-consumption channel offers significant growth potential, and we plan to expand our offerings in this channel. We must ensure that our family of brands is selectively and profitably expanded to address consumers' 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 of these 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.

Reestablishing Our Marketing Leadership

In 2005, we created our new Marketing, Strategy and Innovation group. We created this distinct group to ensure that these three functional areas are fully aligned and integrated. Carbonated soft drinks 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 we have 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 increased our marketing and innovation spending in 2005 and intend to maintain the increased spending level for the foreseeable future.

Challenges and Risks

Operating in more than 200 countries provides unique opportunities for our Company. Challenges and risks accompany those opportunities.

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

Obesity and Inactive Lifestyles. Increasing awareness among consumers, public health professionals and government agencies of the potential health problems associated with obesity and inactive lifestyles represents a significant challenge to our industry. We recognize that obesity is a complex public health problem. Our commitment to consumers begins with our broad product line, which includes a wide selection of diet and light beverages, juice 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.

Water Quality and Quantity. Water quality and quantity is an issue that increasingly requires our Company's attention and collaboration with the nonalcoholic beverages segment of the commercial beverages industry, governments, nongovernmental organizations and communities where we operate. Water is the main ingredient in substantially all of our products. It is also a limited natural resource facing unprecedented challenges from overexploitation, increasing pollution and poor management. Our Company is in an excellent position to share the water-related knowledge we have developed in the communities we serve—water-resource management, water treatment, wastewater treatment systems, and models for working with communities and partners in addressing water and sanitation needs. We are actively engaged in assessing the specific water-related risks that we and many of our bottling partners face and have implemented a formal water risk management program. We are working with our global partners to develop water sustainability projects. We are actively encouraging improved water efficiency and conservation efforts throughout our system. 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 consumer 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 continuing to expand the variety of choices we provide to consumers to meet their 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 beverages segment of the commercial beverages industry and re-energize our marketing and innovation in order to maintain our brand loyalty and share.

See also "Item 1A. Risk Factors" in Part I of this report for additional information about risks and uncertainties facing our Company.

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

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, which require management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We believe that our most critical accounting policies and estimates relate to the following:

- Basis of Presentation and Consolidation
- Recoverability of Noncurrent Assets
- Revenue Recognition
- Income Taxes
- Contingencies

Management has discussed the development, selection and disclosure of critical accounting policies and estimates with the Audit Committee of the Company's Board of Directors. While our estimates and assumptions are based on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from these estimates and assumptions. For a discussion of the Company's significant accounting policies, refer to Note 1 of Notes to Consolidated Financial Statements.

Basis of Presentation and Consolidation

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("Interpretation 46(R)"). We adopted Interpretation 46(R) effective April 2, 2004. Refer to Note 1 of Notes to Consolidated Financial Statements.

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. Our judgment in determining if we are the primary beneficiary of the variable interest entities includes assessing our Company's level of involvement in setting up the entity, determining if the activities of the entity are substantially conducted on behalf of our Company, determining whether the Company provides more than half of the subordinated financial support to the entity, and determining if we absorb the majority of the entity's expected losses or returns.

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. Our judgment regarding the level of influence over each equity method investment includes 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.

Recoverability of Noncurrent Assets

Management's assessments of the recoverability of noncurrent assets involve critical accounting estimates. These assessments reflect management's best assumptions, which, when appropriate, are consistent with the assumptions that we believe hypothetical marketplace participants would use. Factors that management must

estimate when performing recoverability and 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. These factors include inherent uncertainties, and significant management judgment is involved in estimating their impact. However, when appropriate, the assumptions we use for financial reporting purposes are consistent with those we use in our internal planning and we believe are consistent with those that a hypothetical marketplace participant would use. 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 and Risks" above and "Item 1A. Risk Factors" in Part I of this report. As a result, management must make numerous assumptions which involve a significant amount of judgment when determining the recoverability of noncurrent assets in various regions around the world.

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 indicate the carrying value may not be recoverable. For certain assets, we perform tests at least annually or more frequently if events or circumstances indicate that an asset may be impaired:

December 31, 2005	Carrying Value	Percentage of Total Assets
(In millions except percentages)		
Tested for impairment when conditions exist that indicate carrying value may be impaired:		
Equity method investments	$ 6,562	22%
Cost method investments, principally bottling companies	360	1
Other assets	2,648	9
Property, plant and equipment, net	5,786	20
Amortized intangible assets, net (various, principally trademarks)	146	1
Total	$15,502	53%
Tested for impairment at least annually or when events indicate that an asset may be impaired:		
Trademarks with indefinite lives	$ 1,946	6%
Goodwill	1,047	3
Bottlers' franchise rights	521	2
Other intangible assets not subject to amortization	161	1
Total	$ 3,675	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, but are not limited to, Germany, where the nonrefillable deposit law creates uncertainty; the Middle East and Egypt, where political and civil unrest continues; the Philippines, where affordable packaging and availability of beverages in the marketplace continue to impact operating results; India, where affordability and bottler execution issues remain; and certain markets in Latin America, Asia and Africa, where local economic and political conditions are unstable. We have bottling

assets and investments in many of these markets. The list in the table below reflects the Company's carrying value of noncurrent assets in these markets.

December 31, 2005	Carrying Value	Percentage of Applicable Line Item Above
(In millions except percentages)		
Tested for impairment when conditions exist that indicate carrying value may be impaired:		
Equity method investments	$ 363	6%
Cost method investments, principally bottling companies	36	10
Other assets	31	1
Property, plant and equipment, net	1,663	29
Amortized intangible assets, net (various, principally trademarks)	33	23
Total	$ 2,126	14
Tested for impairment at least annually or when events indicate that an asset may be impaired:		
Trademarks with indefinite lives	$ 411	21%
Goodwill	165	16
Bottlers' franchise rights	49	9
Other intangible assets not subject to amortization	42	26
Total	$ 667	18

Equity Method and Cost Method Investments

We review our equity and cost method investments in every reporting period 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, we evaluate the fair value compared to the carrying value of the related investments. We also perform this evaluation every reporting period for each investment for which the carrying value has exceeded the fair value in the prior period. The fair values of most of our Company's investments in publicly traded companies are often readily available based on quoted market prices. For investments in nonpublicly traded companies, management's assessment of fair value is based on valuation methodologies including discounted cash flows, estimates of sales proceeds and external appraisals, as appropriate. We consider the assumptions that we believe hypothetical marketplace participants would use in evaluating estimated future cash flows when employing the discounted cash flows or estimates of sales proceeds valuation methodologies. 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 fair 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 most of our equity method investees to be strategic long-term investments. If the fair value of an investment is less than its carrying value and the decline in value is considered to be other than temporary, a write-down is recorded. Management's assessments of fair value represent our best estimates as of the time of the impairment review and are consistent with the assumptions that we believe hypothetical marketplace participants would use. 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 investments in publicly traded bottlers accounted for as equity method investees (in millions):

December 31, 2005	Fair Value	Carrying Value	Difference
Coca-Cola Enterprises Inc.	$ 3,239	$ 1,731	**$ 1,508**
Coca-Cola Hellenic Bottling Company S.A.	1,645	1,039	**606**
Coca-Cola FEMSA, S.A. de C.V.	2,016	982	**1,034**
Coca-Cola Amatil Limited	1,367	748	**619**
Grupo Continental, S.A.	262	160	**102**
Coca-Cola Embonor S.A.	164	186	**(22)**[1]
Coca-Cola Bottling Company Consolidated	107	66	**41**
Coca-Cola West Japan Company Ltd.	94	116	**(22)**[1]
Embotelladoras Polar S.A.	85	56	**29**
	$ 8,979	$ 5,084	**$ 3,895**

[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 period benefited. 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 evaluates the recoverability of the carrying value of these assets when facts and circumstances indicate that the carrying value of these assets may not be recoverable by preparing estimates of sales volume and the resulting gross profit and cash flows. If the carrying value of the assets is assessed to be recoverable, it is amortized over the periods benefited. If the carrying value of these assets is considered to be not recoverable, an impairment is recognized, resulting in a write-down of assets.

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. Our equity method investees also perform such tests for impairment for intangible assets and/or goodwill. If an impairment

charge was recorded by one of our equity method investees the Company would record its proportionate share of such charge.

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 also perform tests for impairment of goodwill annually, or more frequently if events or circumstances indicate it might be impaired. All goodwill is assigned to reporting units, which are one level below our operating segments. Goodwill is assigned to the reporting unit that benefits from the synergies arising from each business combination. We perform our impairment tests of goodwill at our reporting unit level. Impairment tests for goodwill include comparing the fair value of the respective reporting unit with its carrying value, including goodwill. We use a variety of methodologies in conducting these impairment assessments, including cash flow analyses that, when appropriate, are consistent with the assumptions we believe hypothetical marketplace participants would use, 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 2005, our Company recorded impairment charges of approximately $84 million related to intangible assets. These intangible assets relate to trademarks for beverages sold in the Philippines. The Philippines is a component of our East, South Asia and Pacific Rim operating segment. The carrying value of our trademarks in the Philippines, prior to the recording of the impairment charges in 2005, was approximately $268 million. The impairment was the result of our revised outlook of the Philippines, which has been unfavorably impacted by declines in volume and income before income taxes resulting from the continued lack of an affordable package offering and the continued limited availability of these trademark beverages in the marketplace. 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 values were less than the carrying values of the assets, we recorded impairment charges to reduce the carrying values of the assets to fair values. In addition, in 2005, we recorded an impairment charge of approximately $4 million in the line item equity income—net related to our proportionate share of a write-down of intangible assets recorded by our equity method investee bottler in the Philippines. Our Company is evaluating and implementing new strategies for the Philippines to address structural issues with the bottling system and product affordability and availability issues. If the results of these strategies do not achieve our current expectations, future charges could result related to both our remaining intangible assets as well as our equity method investment in the Philippines bottling operation. Management will continue to monitor the Philippines and conduct impairment reviews as required.

In 2004, our Company recorded impairment charges related to intangible assets of approximately $374 million, primarily related to franchise rights at CCEAG in the European Union operating segment. The CCEAG impairment was the result of our revised outlook for the German market, which was unfavorably impacted by volume declines resulting from market shifts related to the deposit law on nonrefillable beverage packages and the corresponding lack of availability of our products in the discount retail channel. The deposit law in Germany had led to discount chains creating proprietary nonrefillable packages that could only be returned to their own stores. 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 were recorded in the line item other operating charges in our

consolidated statement of income for 2004. At the end of 2004, the German government passed an amendment to the mandatory deposit legislation that requires retailers, including discount chains, to accept returns of each type of nonrefillable beverage packages they sell, regardless of where the beverage package 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 nonrefillable containers by mid-2006. In the second half of 2005, the Company achieved a limited range of availability of our products in most discounters. As a result, the business in Germany stabilized in the second half of 2005. We currently expect that the national take-back system, when fully implemented, will create an opportunity to improve package choice and differentiation for nonrefillable packages. We expect the German business to continue to stabilize in 2006.

Our Company evaluated 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, by assessing market changes and determining our expectations related to the political environment. We 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 informed our independent bottling partners in Germany that their Bottlers' Agreements will not be renewed when they expire, from 2007 through 2011. The independent bottling partners in Germany and our Company signed a letter of understanding with respect to the formation of a single bottler system and are working to agree to an approach.

If the results of our strategies in Germany do not achieve our current expectations, or delays and changes occur in the establishment of the national take-back system for nonrefillable packages, future impairment charges could result. Management will continue to monitor these factors.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery of products has occurred, the sales price is fixed or determinable, and collectibility is reasonably assured. For our Company, this generally means that we recognize revenue when title to our products is transferred to our bottling partners, resellers or other customers. In particular, title usually transfers upon shipment to or receipt at our customers' locations, as determined by the specific sales terms of the transaction.

In addition, our customers can earn certain incentives, which are included in deductions from revenue, a component of net operating revenues in the consolidated statements of income. These incentives include, but are not limited to, cash discounts, funds for promotional and marketing activities, volume-based incentive programs, and support for infrastructure programs. Refer to Note 1 of Notes to Consolidated Financial Statements. The aggregate deductions from revenue recorded by the Company in relation to these programs, including amortization expense on infrastructure programs, was approximately $3.7 billion, $3.6 billion and $3.6 billion for the years ended December 31, 2005, 2004 and 2003, respectively.

Income Taxes

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 expense and in evaluating our tax positions. We establish reserves at the time we determine it is probable 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 carryback 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.

The American Jobs Creation Act of 2004 (the "Jobs Creation Act") was enacted in October 2004. Among other things, it provided a one-time benefit related to foreign tax credits generated by equity investments in prior years. In 2004, the Company recorded an income tax benefit of approximately $50 million as a result of this new law. The Jobs Creation Act also included a temporary incentive for U.S. multinationals to repatriate foreign earnings at an approximate 5.25 percent effective tax rate. During 2005, the Company repatriated approximately $6.1 billion in previously unremitted foreign earnings, with an associated tax liability of approximately $315 million. The reinvestment requirements of this repatriation are expected to be fulfilled by 2008 and are not expected to require any material change in the nature, amount or timing of future expenditures from what was otherwise expected. Refer to Note 1 and Note 16 of Notes to Consolidated Financial Statements.

The Company's effective tax rate is expected to be approximately 24 percent in 2006. This estimated tax rate does not reflect the impact of any unusual or special items that may affect our tax rate in 2006.

Contingencies

Our Company is subject to various claims and contingencies, mostly related to legal proceedings. 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 or other contingencies will not have a material adverse effect on the financial condition of the Company taken as a whole. Refer to Note 12 of Notes to Consolidated Financial Statements.

Recent Accounting Standards and Pronouncements

Refer to Note 1 of Notes to Consolidated Financial Statements for a discussion of recent accounting standards and pronouncements.

Operations Review

We manufacture, distribute and market nonalcoholic beverage concentrates and syrups in more than 200 countries around the world. We also manufacture, distribute and market some finished beverages. Due to our global presence, we are primarily managed by geographic regions. Our organizational structure as of December 31, 2005 consisted of 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; and Corporate. For further information regarding our operating segments, including a discussion of changes made to our operating segments during 2005, refer to Note 20 of Notes to Consolidated Financial Statements.

Volume

We measure our sales volume in two ways: (1) unit cases of finished products and (2) gallons. A "unit case" 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 Company beverage products directly or indirectly sold by the Coca-Cola 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. Unit case volume is derived based on estimates supplied by our bottling partners and distributors. A "gallon" is a unit of measurement for concentrates, syrups, beverage bases, finished beverages and powders (in all cases expressed in equivalent gallons of syrup) sold by the Company to its bottling partners or other customers. Most of our revenues are based on gallon sales, a primarily wholesale activity, as discussed under "Item 1. Business" in Part I of this report and the heading "Operations Review—Net Operating Revenues," below. 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 and 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.

Information about our volume growth by operating segment is as follows:

	Percentage Change			
	2005 vs. 2004		2004 vs. 2003	
Year Ended December 31,	Unit Cases	Gallons	Unit Cases	Gallons
Worldwide	4%	3%	2%	2%
North America operations	2	1	0	2
International operations—total	5	4	3	2
Africa	6	7	3	4
East, South Asia and Pacific Rim	(4)	(6)	1	(2)
European Union	0	(1)	(3)	(3)
Latin America	6	6	3	3
North Asia, Eurasia and Middle East	15	12	12	12

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 20.6 billion unit cases of our products in 2005, approximately 19.8 billion unit cases in 2004, and approximately 19.4 billion unit cases in 2003.

In the North America operating segment, unit case volume in the Retail Division increased 2 percent in 2005 versus 2004, reflecting improved performance in the bottle-delivered business primarily related to Dasani, Coca-Cola Zero and noncarbonated beverages, along with growth in the warehouse juice and warehouse water operations. The Foodservice and Hospitality Division had a 1 percent increase in 2005 compared to 2004, reflecting improved trends in restaurant traffic and the impact of new customer conversion partially offset by the impact of higher fuel costs and Hurricane Katrina on consumer restaurant spending.

In the Africa operating segment, unit case volume increased 6 percent in 2005 compared to 2004. This increase was driven by growth in core carbonated soft drinks as well as noncarbonated beverages across all divisions in this operating segment.

In the East, South Asia and Pacific Rim operating segment, unit case volume decreased 4 percent in 2005 compared to 2004, primarily due to declines in India and the Philippines. The decline in India was related to the impact of price increases to cover rising raw material and distribution costs and the lingering effects of the 2003 pesticide allegations. The decline in the Philippines was primarily related to affordability and availability issues. Both markets are expected to remain challenging in 2006.

Unit case volume in the European Union operating segment was even in 2005 versus 2004, primarily due to strong growth in Spain and Central Europe partially offset by declines primarily in Germany and Northwest Europe. Unit case volume in Germany declined 2 percent in 2005 due to the continued impact of the mandatory deposit legislation on the availability of nonrefillable packages and the corresponding limited availability of our products in the discount retail channel, along with overall industry weakness. In the second half of 2005, the Company achieved a limited range of availability of its products in most discounters. Results in Germany stabilized in the second half of 2005, and we expect this to continue into 2006. Unit case volume in Northwest Europe declined 3 percent in 2005, primarily due to the soft economic environment and declines in the carbonated soft drink category, which is associated with a decrease in prices at retailers, and the discount channel becoming a larger part of the retail market, together with a shift in consumer preferences away from regular carbonated soft drinks driven by health and wellness trends and the associated public opinion, media and government attention.

Unit case volume for the Latin America operating segment increased 6 percent in 2005 versus 2004, reflecting strong growth in Brazil, Argentina and Mexico, primarily due to growth in carbonated soft drinks. The increase in Brazil and Mexico was primarily due to strong marketing, execution and package innovation.

In the North Asia, Eurasia and Middle East operating segment, unit case volume grew 15 percent in 2005 versus 2004, led by 22 percent growth in China, 2 percent growth in Japan, 54 percent growth in Russia and 14 percent growth in Turkey. The increase in unit case volume in China was led by significant growth in both carbonated soft drinks and noncarbonated beverages. Japan's growth was primarily due to new product introductions. The unit case volume growth in Turkey was largely due to improving macroeconomic trends, strong bottler execution and successful marketing programs. The unit case volume growth in Russia was the result of the joint acquisition of Multon as well as improving macroeconomic trends, strong bottler execution and successful marketing programs.

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

In the East, South Asia and Pacific Rim operating segment, unit case volume increased 1 percent in 2004 versus 2003, primarily as a result of the growth in the South East and West Asia Division, partially offset by an 8 percent decline in the Philippines due to affordability and availability issues.

Unit case volume in the European Union operating segment decreased 3 percent in 2004 versus 2003, primarily due to limited brand and package availability in the discount retail channel in Germany resulting from the mandatory deposit legislation and poor weather conditions in northern Europe.

Unit case volume for the Latin America operating segment increased 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 a de-emphasis on large-format water and powdered drinks in Mexico.

The North Asia, Eurasia and Middle East operating segment's unit case volume increased 12 percent in 2004 compared to 2003, primarily led by 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's growth of 4 percent was driven by Trademark Coca-Cola unit case volume growth of 3 percent and Trademark Fanta growth of 17 percent. Unit case volume growth in Turkey, Russia and the Middle East was mainly due to successful promotions and continued positive economic trends.

Gallon Sales

In 2005, the 1 percent increase in gallon sales in the North America operating segment was primarily related to the Retail Division. In Africa, the 7 percent gallon sales growth was led by South Africa, Nigeria and Egypt. In Latin America, the 6 percent gallon sales increase was led by growth in Brazil, Mexico and Argentina. The 12 percent increase in gallon sales in the North Asia, Eurasia and Middle East operating segment was primarily due to growth in China, Russia and Turkey. Japan gallon sales were slightly higher in 2005 compared to 2004. The increases in gallon sales in the North America; the Africa; the Latin America; and the North Asia, Eurasia and Middle East operating segments were offset by a 1 percent decrease in the European Union operating segment and a 6 percent decrease in the East, South Asia and Pacific Rim operating segment. In the European Union operating segment, gallon sales decreased 1 percent, with the largest declines occurring in Germany and Northwest Europe, partially offset by growth in Spain and Central Europe. In the East, South Asia and Pacific Rim operating segment, gallon sales decreased 6 percent, primarily due to the continuing challenging conditions in India and the Philippines.

The decrease in gallon sales in Germany was primarily due to the continuing impact of the mandatory deposit legislation on nonrefillable beverage packages and the corresponding limited availability of our products in the discount retail channel, along with overall industry weakness. In the second half of 2005, the Company achieved a limited range of availability of its products in most discounters. Results in Germany stabilized in the second half of 2005. The German legislature passed an amendment to the mandatory deposit legislation that will require retailers, including discounters, to accept returns of each type of nonrefillable beverage containers they sell, regardless of where the beverage package type was purchased, the amendment allows for a transition period until mid-2006. We expect the German business to continue to stabilize during 2006. For a discussion of the operating environment in Germany, refer to the heading "Critical Accounting Policies and Estimates—

Goodwill, Trademarks and Other Intangible Assets.” We will continue to focus on improving our short-term performance and strengthening our system’s long-term capabilities in Germany. The decrease in gallon sales in Northwest Europe was primarily due to the soft economic environment and declines in the carbonated soft drink category, which is associated with a decrease in prices at retailers, and the discount channel becoming a larger part of the retail market, together with a shift in consumer preferences away from regular carbonated soft drinks driven by health and wellness trends and the associated public opinion, media and government attention.

The decrease in gallon sales in India was primarily due to the impact of price increases to cover rising raw material and distribution costs and the lingering effects of the 2003 pesticide allegations. The decline in gallon sales in the Philippines was primarily due to continued affordability and availability issues. The Company is continuing to focus on improving our performance in these markets; however, India and the Philippines will remain difficult during 2006.

Company-wide gallon sales grew 3 percent while unit case volume grew 4 percent in 2005 compared to 2004. In the North America operating segment, gallon sales increased 1 percent while unit case volume increased 2 percent in 2005 compared to 2004, primarily due to the impact of higher gallon sales in 2004 related to the launch of Coca-Cola C2 and a change in shipping routes in 2004. In the Africa operating segment, gallon sales growth of 7 percent exceeded unit case volume growth of 6 percent, primarily due to timing of gallon shipments. In the European Union operating segment, gallon sales declined by 1 percent while unit case volume was even in 2005, mostly due to the timing of 2004 gallon sales throughout most of the operating segment and planned inventory reductions primarily in Spain, Greece and Israel. In the East, South Asia and Pacific Rim operating segment, gallon sales declines were ahead of unit case volume declines primarily due to timing of gallon sales in India and the Philippines and planned inventory reductions in Australia. In the North Asia, Eurasia and Middle East operating segment, unit case volume increased ahead of gallon sales volume due to the joint acquisition of Multon, which contributed to unit case volume in 2005, along with timing of 2004 gallon sales impacting most of the remaining divisions in the operating segment. Multon had full year unit case volume of approximately 80 million unit cases in 2004. The Company reports only unit case volume related to Multon, as the Company does not sell concentrate to Multon. In the Latin America operating segment, gallon sales growth and unit case volume growth were approximately equal in 2005 compared to 2004.

The 2 percent increase in gallon sales in the North America operating segment in 2004 compared to 2003 was primarily related to 4 percent growth in the Foodservice and Hospitality Division and 1 percent growth in the Retail Division. The 4 percent growth in the Africa operating segment was led mainly by South Africa. The 3 percent increase in the Latin America operating segment was primarily driven by growth in Brazil, Mexico and Argentina. The North Asia, Eurasia and Middle East operating segment’s growth of 12 percent was driven by gallon sales growth in China, Turkey and Russia. The 3 percent decrease in gallon sales in the European Union resulted primarily from the decline in Germany primarily due to market shifts related to the deposit law on nonrefillable beverage packages and the corresponding lack of availability of our products in the discount retail channel. The East, South Asia and Pacific Rim operating segment’s gallon sales decreased 2 percent in 2004 compared to 2003 primarily due to inventory reductions in India and challenging conditions in the Philippines.

Company-wide gallon sales growth of 2 percent was in line with unit case volume growth in 2004 compared to 2003. However, in the North America operating segment, gallon sales increased 2 percent while unit case volume was even 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. In the East, South Asia and Pacific Rim operating segment, gallon sales declined 2 percent while unit case sales increased 1 percent primarily due to timing of gallon sales.

Analysis of Consolidated Statements of Income

Year Ended December 31,	**2005**	2004	2003	Percent Change 05 vs. 04	Percent Change 04 vs. 03
(In millions except per share data and percentages)					
NET OPERATING REVENUES	**$ 23,104**	$ 21,742	$ 20,857	6%	4%
Cost of goods sold	**8,195**	7,674	7,776	7	(1)
GROSS PROFIT	**14,909**	14,068	13,081	6	8
GROSS PROFIT MARGIN	**64.5%**	64.7%	62.7%		
Selling, general and administrative expenses	**8,739**	7,890	7,287	11	8
Other operating charges	**85**	480	573	*	*
OPERATING INCOME	**6,085**	5,698	5,221	7	9
OPERATING MARGIN	**26.3%**	26.2%	25.0%		
Interest income	**235**	157	176	50	(11)
Interest expense	**240**	196	178	22	10
Equity income — net	**680**	621	406	10	53
Other loss — net	**(93)**	(82)	(138)	*	*
Gains on issuances of stock by equity investees	**23**	24	8	*	*
INCOME BEFORE INCOME TAXES	**6,690**	6,222	5,495	8	13
Income taxes	**1,818**	1,375	1,148	32	20
Effective tax rate	**27.2%**	22.1%	20.9%		
NET INCOME	**$ 4,872**	$ 4,847	$ 4,347	1%	12%
PERCENTAGE OF NET OPERATING REVENUES	**21.1%**	22.3%	20.8%		
NET INCOME PER SHARE:					
Basic	**$ 2.04**	$ 2.00	$ 1.77	2%	13%
Diluted	**$ 2.04**	$ 2.00	$ 1.77	2%	13%

* Calculation is not meaningful.

Net Operating Revenues

Net operating revenues increased by $1,362 million or 6 percent in 2005 versus 2004. Net operating revenues increased by $885 million or 4 percent in 2004 versus 2003.

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	
	2005 vs. 2004	2004 vs. 2003
Increase in gallon sales	3%	2%
Structural changes	0	(3)
Price and product/geographic mix	1	0
Impact of currency fluctuations versus the U.S. dollar	2	5
Total percentage increase	6%	4%

Refer to the heading "Volume" for a detailed discussion on gallon sales.

Structural changes refers to acquisitions or dispositions of bottling or canning operations and consolidation or deconsolidation of entities for accounting purposes. During the third quarter of 2005, our Company acquired the German soft drink bottling company Bremer Erfrischungsgetraenke GmbH ("Bremer"). Refer to Note 19 of Notes to Consolidated Financial Statements. Structural changes also reflect the impact of a full year of revenue in 2005 for variable interest entities compared to a partial year in 2004. Under Interpretation 46(R), the results of operations of variable interest entities in which the Company was determined to be the primary beneficiary were included in our consolidated results beginning April 2, 2004. Refer to Note 1 of Notes to Consolidated Financial Statements.

The favorable impact of foreign currency fluctuations in 2005 versus 2004 resulted from the strength of most key foreign currencies versus the U.S. dollar, especially a stronger euro that favorably impacted the European Union operating segment, and a stronger Brazilian real and Mexican peso that favorably impacted our Latin America operating segment. The favorable impact of fluctuation in these currencies was offset by a weaker Japanese yen that unfavorably impacted the North Asia, Eurasia and Middle East operating segment. Refer to the heading "Liquidity, Capital Resources and Financial Position—Foreign Exchange."

Structural changes resulted in a decrease in net operating revenues in 2004 compared to 2003, primarily due to the creation of a national supply chain company in Japan in 2003. 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 was essentially 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 April 2, 2004 of certain bottling operations that are considered variable interest entities under Interpretation 46(R). Refer to Note 1 of Notes to Consolidated Financial Statements.

The impact of foreign currency fluctuations versus the U.S. dollar in 2004 versus 2003 was driven primarily by the stronger euro, which favorably impacted the European Union operating segment, and the stronger Japanese yen, which favorably impacted the North Asia, Eurasia and Middle East operating segment.

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

Year Ended December 31,	**2005**	2004	2003
North America	**28.9%**	29.5%	29.5%
Africa	**5.5**	4.9	4.0
East, South Asia and Pacific Rim	**5.4**	5.9	6.4
European Union	**29.4**	30.2	29.2
Latin America	**10.9**	9.8	9.8
North Asia, Eurasia and Middle East	**19.5**	19.2	20.7
Corporate	**0.4**	0.5	0.4
	100.0%	100.0%	100.0%

The percentage contribution of each operating segment has changed due to net operating revenues in certain segments growing at a faster rate compared to the other operating segments and the impact of foreign currency fluctuations.

Effective January 1, 2006, the Company granted our bottling partners in Spain the rights to manufacture and distribute Company trademarked products in can packages. Prior to granting these rights to our bottling partners, the Company held the manufacturing and distribution rights for these can packages in Spain. As a result of granting these rights, the Company will reduce our planned future annual marketing support payments made to our bottling partners in Spain. 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 to a concentrate business model will result in an annual reduction to net revenues. The Company estimates the decrease in annual net revenues from this structural change to be approximately $775 million. We do not believe this change in business model will have a significant impact on gross profit.

The size and timing of structural changes, including acquisitions or dispositions 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.

Gross Profit

Our gross profit margin decreased to 64.5 percent in 2005 from 64.7 percent in 2004, primarily due to higher raw material and freight costs driven by rising oil prices. This decrease was partially offset by the receipt of settlement proceeds of approximately $109 million related to a class action lawsuit settlement concerning price-fixing in the sale of high fructose corn syrup purchased by the Company during the years 1991 to 1995. Subsequent to the receipt of this settlement, the Company distributed approximately $62 million to certain bottlers in North America. From 1991 to 1995, the Company purchased high fructose corn syrup on behalf of these bottlers; therefore, these bottlers were ultimately entitled to the proceeds of the settlement. The Company's portion of the settlement was approximately $47 million, which was recorded as a reduction of cost of goods sold and impacted the Corporate operating segment. Refer to Note 17 of Notes to Consolidated Financial Statements. Our gross margin was also impacted by the consolidation of certain bottling operations under Interpretation 46(R) as of April 2, 2004. Refer to Note 1 of Notes to Consolidated Financial Statements. Generally, bottling and finished product operations produce higher net revenues but lower gross profit margins compared to concentrate and syrup operations.

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 (refer to the heading "Net Operating Revenues," above), partially offset by the consolidation as of

April 2, 2004, of variable interest entities under Interpretation 46(R). Generally, bottling and finished product operations, such as our Japan tea business, which was integrated into the supply chain company, produce higher net revenues but lower gross profit margins compared to concentrate and syrup operations.

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,	**2005**	2004	2003
Selling expenses	**$ 3,453**	$ 3,031	$ 2,937
Advertising expenses	**2,475**	2,165	1,822
General and administrative expenses	**2,487**	2,349	2,121
Stock-based compensation expense	**324**	345	407
Selling, general and administrative expenses	**$ 8,739**	$ 7,890	$ 7,287

Selling, general and administrative expenses were approximately 11 percent higher in 2005 versus 2004. Approximately 1 percentage point of this increase was due to an overall weaker U.S. dollar (especially compared to the Brazilian real, the Mexican peso and the euro). The increase in selling, advertising and general and administrative expenses is primarily related to increased marketing and innovation expenses and the full-year impact of the consolidation of certain bottling operations under Interpretation 46(R). Our Company intends to maintain the increased level in marketing and innovation spending for the foreseeable future. The decrease in stock-based compensation expense is primarily related to the lower average fair value per share of stock options expensed in the current year compared to the average fair value per share expensed in 2004. This decrease was partially offset by approximately $50 million of accelerated amortization of compensation expense related to a change in our estimated service period for retirement-eligible participants when the terms of their stock-based compensation awards provided for accelerated vesting upon early retirement. Refer to Note 14 of Notes to Consolidated Financial Statements.

Selling, general and administrative expenses were approximately 8 percent higher in 2004 versus 2003. Approximately 3 percentage points of this increase was 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.

Other Operating Charges

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

Year Ended December 31,	**2005**	2004	2003
North America	**$ —**	$ 18	$ 273
Africa	**—**	—	12
East, South Asia and Pacific Rim	**85**	15	11
European Union	**—**	368	157
Latin America	**—**	6	20
North Asia, Eurasia and Middle East	**—**	9	33
Corporate	**—**	64	67
Total	**$ 85**	$ 480	$ 573

Other operating charges in 2005 reflected the impact of approximately $84 million of expenses related to impairment charges for intangible assets and approximately $1 million related to an impairment of other assets. These intangible assets primarily relate to trademark beverages sold in the Philippines, which is part of the East, South Asia and Pacific Rim operating segment. Refer to the heading "Critical Accounting Policies and Estimates—Goodwill, Trademarks and Other Intangible Assets."

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 European Union operating segment accounted for approximately $368 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 "Critical Accounting Policies and Estimates—Goodwill, Trademarks and Other Intangible Assets." The Corporate operating segment accounted for approximately $64 million of impairment charges, which were primarily related to the impairment of certain manufacturing assets.

Other operating charges in 2003 included 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 locations 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 and Germany, and certain countries in the East, South Asia and Pacific Rim operating segment. Refer to Note 18 of Notes to Consolidated Financial Statements.

Operating Income and Operating Margin

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

Year Ended December 31,	**2005**	2004	2003
North America	**25.6%**	28.2%	24.6%
Africa	**6.8**	6.0	4.8
East, South Asia and Pacific Rim	**3.3**	6.0	7.0
European Union	**36.9**	31.8	36.3
Latin America	**19.8**	18.8	18.6
North Asia, Eurasia and Middle East	**28.1**	28.6	28.5
Corporate	**(20.5)**	(19.4)	(19.8)
	100.0%	100.0%	100.0%

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

Year Ended December 31,	**2005**	2004	2003
Consolidated	**26.3%**	26.2%	25.0%
North America	**23.3%**	25.0%	20.8%
Africa	**32.9**	31.9	30.1
East, South Asia and Pacific Rim	**16.0**	27.0	27.6
European Union	**33.0**	27.6	31.2
Latin America	**47.8**	50.4	47.5
North Asia, Eurasia and Middle East	**38.0**	39.0	34.4
Corporate	*****	*	*

* Calculation is not meaningful.

As demonstrated by the tables 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 were influenced by a variety of factors and events, primarily the following:

- In 2005, operating income increased approximately 7 percent. Of this amount, 4 percent was due to favorable foreign currency exchange primarily related to the Brazilian real and the Mexican peso, which impacted the Latin America operating segment, and the euro, which impacted the European Union operating segment.
- In 2005, the increase in net operating revenues and gross profit was partially offset by increased spending on marketing and innovation activities in each operating segment. Refer to the headings "Net Operating Revenues" and "Selling, General and Administrative Expenses."
- In 2005, as a result of impairment charges totaling approximately $85 million related to the Philippines, operating margins in the East, South Asia and Pacific Rim operating segment decreased. Refer to the heading "Other Operating Charges."
- In 2005, operating income in the Corporate operating segment decreased $146 million, primarily due to increased marketing and innovation expenses, which were partially offset by our receipt of a net settlement of approximately $47 million related to a class action lawsuit concerning the purchase of high fructose corn syrup. Refer to the headings "Gross Profit" and "Selling, General and Administrative Expenses."
- In 2004, operating income was reduced by approximately $18 million for the North America operating segment; $15 million for the East, South Asia and Pacific Rim operating segment; $368 million for the European Union operating segment; $6 million for the Latin America operating segment; $9 million for the North Asia, Eurasia and Middle East operating segment and $64 million for Corporate as a result of impairment charges. Refer to the heading "Other Operating Charges."
- In 2004, operating income increased approximately 9 percent. Of this amount, 8 percent was due to favorable foreign currency exchange primarily related to the euro, which impacted the European Union operating segment, and the Japanese yen, which impacted the North Asia, Eurasia and Middle East operating segment.
- In 2004, as a result of the creation of a nationally integrated supply chain management company in Japan, operating margins in the North Asia, Eurasia and Middle East 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 "Net Operating Revenues."
- In 2004, operating income in the Corporate operating segment increased $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 $75 million due to a donation to The Coca-Cola Foundation.
- In 2004, as a result of the consolidation of certain bottling operations that are considered variable interest entities under Interpretation 46(R), operating margins for the Africa; East, South Asia and Pacific Rim; European Union; and North Asia, 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 the North America operating segment, $12 million for the Africa operating segment, $11 million for the East, South Asia and Pacific Rim operating segments, $157 million for the European Union operating segment, $8 million for the Latin America operating segment, $33 million for North Asia, Eurasia and

Middle East operating segment and $67 million for the Corporate operating segment. Refer to Note 18 of Notes to Consolidated Financial Statements.

• In 2003, operating income of the European Union operating segment significantly increased due to innovation and 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 17 of Notes to Consolidated Financial Statements.

Interest Income and Interest Expense

We monitor our mix of fixed-rate and variable-rate debt as well as our mix of term debt versus non-term debt. From time to time we enter into interest rate swap agreements to manage our mix of fixed-rate and variable-rate debt.

In 2005, interest income increased by $78 million compared to 2004, primarily due to higher average short-term investment balances and higher average interest rates on U.S. dollar denominated deposits. Interest expense in 2005 increased by $44 million compared to 2004, primarily due to higher average interest rates on commercial paper borrowings in the United States, partially offset by lower interest expense at CCEAG due to the repayment of current maturities of long-term debt in 2005.

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 compared to 2003, primarily as a result of higher average interest rates and higher average balances on commercial paper borrowings in the United States.

Equity Income—Net

Our Company's share of income from equity method investments for 2005 totaled $680 million compared to $621 million in 2004, an increase of approximately $59 million or 10 percent, primarily due to the overall improving health of the Coca-Cola bottling system in most of the world and the joint acquisition of Multon in April 2005. The increase was offset by approximately $33 million related to our proportionate share of certain charges recorded by CCE. These charges included approximately $51 million, primarily related to the tax liability resulting from the repatriation of previously unremitted foreign earnings under the Jobs Creation Act, and approximately $18 million due to restructuring charges recorded by CCE. These charges were offset by approximately $37 million from CCE's high fructose corn syrup lawsuit settlement and changes in certain of CCE's state and provincial tax rates.

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.

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 Loss—Net

Other loss—net amounted to a net loss of $93 million for 2005 compared to a net loss of $82 million for 2004. This line item in 2005 primarily consisted of $23 million in foreign currency exchange losses, the accretion of $60 million for the discounted value of our liability to purchase CCEAG shares (refer to Note 7 of Notes to Consolidated Financial Statements) and the minority shareowners' proportional share of net income of certain consolidated subsidiaries.

Other 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, the accretion of $58 million for the discounted value of our liability to purchase CCEAG shares (refer to Note 7 of Notes to Consolidated Financial Statements) and the minority shareowners' proportional share of net income on certain consolidated subsidiaries.

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, when appropriate. This noncash gain or loss, net of any deferred taxes, is recognized in our net income in the period the change of ownership interest occurs.

In 2005, our Company recorded approximately $23 million of noncash pretax gains on the issuances of stock by equity method investees. The issuances primarily related to Coca-Cola Amatil's issuance of common stock in connection with the acquisition of SPC Ardmona Pty. Ltd., an Australian packaged fruit company. These issuances of common stock reduced our ownership interest in the total outstanding shares of Coca-Cola Amatil from approximately 34 percent to approximately 32 percent.

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 from approximately 37 percent to approximately 36 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.

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 27.2 percent for the year ended December 31, 2005, included the following:

- an income tax benefit primarily related to the Philippines impairment charges at a rate of approximately 4 percent;
- an income tax benefit of approximately $101 million related to the reversal of previously accrued taxes resulting from the favorable resolution of various tax matters; and
- a tax provision of approximately $315 million related to repatriation of previously unremitted foreign earnings under the Jobs Creation Act.

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 provision 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:

- an income tax benefit of approximately $50 million related to the reversal of previously accrued taxes resulting from the favorable resolution of various tax matters 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 (refer to Note 17 of Notes to Consolidated Financial Statements); and
- the effective tax rate for the charge related to a Latin American equity method investee of approximately 3 percent.

Based on current tax laws, the Company's effective tax rate in 2006 is expected to be approximately 24 percent before considering the effect of any unusual or special items that may affect our tax rate in future years.

Liquidity, Capital Resources and Financial Position

We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. We expect cash flows from operating activities to be strong in 2006 and in future years. For the five-year period from 2006 through 2010, we currently estimate that cumulative net cash provided by operating activities will be at least $30 billion. Accordingly, our Company expects to meet all of 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

Net cash provided by operating activities for the years ended December 31, 2005, 2004 and 2003 was approximately $6.4 billion, $6.0 billion and $5.5 billion, respectively.

Cash flows from operating activities increased by 8 percent for 2005 compared to 2004. The increase was primarily related to an increase in cash receipts from customers, which was driven by a 6 percent growth in net operating revenues. These higher cash collections were offset by increased payments to suppliers and vendors, including payments related to our increased marketing spending. Our cash flows from operating activities in 2005 also improved versus 2004 as a result of a $137 million reduction in payments related to our 2003 streamlining initiatives. Refer to Note 18 of Notes to Consolidated Financial Statements. Cash flows from operating activities in the current year were unfavorably impacted by a $176 million increase in income tax payments primarily related to payment of a portion of the tax provision associated with the repatriation of previously unremitted foreign earnings under the Jobs Creation Act.

Cash flows from operating activities increased by 9 percent for 2004 compared to 2003. The increase was primarily related to an increase in cash receipts from customers, which was driven by a 4 percent growth in net operating revenues. Our cash flows from operating activities in 2004 also improved versus 2003 due to a $62 million reduction in payments related to our 2003 streamlining initiatives. Refer to Note 18 of Notes to Consolidated Financial Statements. Cash flows from operating activities in 2004 were unfavorably impacted by a $175 million increase in income tax payments.

Cash Flows from Investing Activities

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

Year Ended December 31,	**2005**	2004	2003
Cash flows (used in) provided by investing activities:			
Acquisitions and investments, principally trademarks and bottling companies	**$ (637)**	$ (267)	$ (359)
Purchases of investments and other assets	**(53)**	(46)	(177)
Proceeds from disposals of investments and other assets	**33**	161	147
Purchases of property, plant and equipment	**(899)**	(755)	(812)
Proceeds from disposals of property, plant and equipment	**88**	341	87
Other investing activities	**(28)**	63	178
Net cash used in investing activities	**$ (1,496)**	$ (503)	$ (936)

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, 2005. Our Company currently estimates that purchases of property, plant and equipment in 2006 will be approximately $1.3 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 2005, 2004 and 2003 were as follows:

Year Ended December 31,	**2005**	2004	2003
Capital expenditures (in millions)	**$ 899**	$ 755	$ 812
North America	**29.5%**	32.7%	38.1%
Africa	**4.5**	3.7	1.6
East, South Asia and Pacific Rim	**5.0**	5.4	11.2
European Union	**24.1**	29.8	23.2
Latin America	**6.3**	5.0	4.3
North Asia, Eurasia and Middle East	**14.0**	7.9	8.2
Corporate	**16.6**	15.5	13.4

Acquisitions and investments represented the next most significant investing activity, accounting for $637 million in 2005, $267 million in 2004 and $359 million in 2003.

On April 20, 2005, our Company and Coca-Cola HBC jointly acquired Multon for a total purchase price of approximately $501 million, split equally between the Company and Coca-Cola HBC. During the third quarter of 2005, our Company acquired the German soft drink bottling company Bremer for approximately $160 million from InBev SA. Also in 2005, the Company acquired Sucos Mais, a Brazilian juice company, and completed the acquisition of the remaining 49 percent interest in the business of CCDA Waters L.L.C. ("CCDA") not previously owned by our Company. Refer to Note 19 of Notes to Consolidated Financial Statements.

In 2004, proceeds from disposals of property, plant and equipment of approximately $341 million related primarily to the sale of production assets in Japan. Refer to Note 2 of Notes to Consolidated Financial Statements. In 2004, cash payments for acquisitions and investments were primarily related 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 our equity method investee CCE for 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 was 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 were considered individually significant. Additionally, the Company acquired certain indefinite-lived brands and related definite-lived contractual rights, with an estimated useful life of 10 years, from Panamco valued at $54 million in the Latin America operating segment.

In July 2003, we made a convertible loan of approximately $133 million to The Coca-Cola Bottling Company of Egypt ("TCCBCE") which is included in the line item purchases of investments and other assets in our consolidated statement of cash flows. 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(R) effective April 2, 2004. Refer to Note 1 and Note 2 of Notes to Consolidated Financial Statements.

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 which is included in the line item other investing activities in our consolidated statement of cash flows. Refer to Note 2 of Notes to Consolidated Financial Statements.

Cash Flows from Financing Activities

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

Year Ended December 31,	**2005**	2004	2003
Cash flows provided by (used in) financing activities:			
Issuances of debt	**$ 178**	$ 3,030	$ 1,026
Payments of debt	**(2,460)**	(1,316)	(1,119)
Issuances of stock	**230**	193	98
Purchases of stock for treasury	**(2,055)**	(1,739)	(1,440)
Dividends	**(2,678)**	(2,429)	(2,166)
Net cash used in financing activities	**$ (6,785)**	$ (2,261)	$ (3,601)

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, 2005, 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 the 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.

We monitor our interest coverage ratio and, as indicated above, the rating agencies consider our ratio in assessing our credit ratings. However, the rating agencies aggregate financial data for certain bottlers along 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 at a low effective cost. This posture, coupled with active management of our mix of short-term and long-term debt and our mix of fixed-rate and variable-rate 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.

Issuances and payments of debt included both short-term and long-term financing activities. On December 31, 2005, we had $1,794 million in lines of credit and other short-term credit facilities available, of which approximately $266 million was outstanding. This entire $266 million related to our international operations.

The issuances of debt in 2005 primarily included approximately $144 million of issuances of commercial paper with maturities of 90 days or more. The payments of debt primarily included approximately $1,037 million related to net repayments of commercial paper with maturities of less than 90 days, repayments of commercial paper with maturities greater than 90 days of approximately $32 million and repayment of approximately $1,363 million of long-term debt.

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.

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.

Share Repurchases

In October 1996, our Board of Directors authorized 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,	**2005**	2004	2003
Number of shares repurchased (in millions)	**46**	38	33
Average price per share	**$ 43.26**	$ 46.33	$ 44.33

Since the inception of our initial share repurchase program in 1984 through our current program as of December 31, 2005, we have purchased more than 1.1 billion shares of our Company's common stock at an average price per share of $16.24. This represents approximately 36 percent of the shares outstanding as of January 1, 1984.

During 2005, 2004 and 2003, the Company repurchased common stock under the 1996 Plan. As strong cash flows are expected to continue in the future, the Company currently expects 2006 share repurchases to be in the range of $2.0 billion to $2.5 billion.

Dividends

At its February 2006 meeting, our Board of Directors increased our quarterly dividend by 11 percent, raising it to $0.31 per share, equivalent to a full-year dividend of $1.24 per share in 2006. This is our 44th consecutive annual increase. Our annual common stock dividend was $1.12 per share, $1.00 per share and $0.88 per share in 2005, 2004 and 2003, respectively. The 2005 dividend represented a 12 percent increase from 2004, and the 2004 dividend represented a 14 percent increase from 2003.

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 guarantee contracts;
- a retained or contingent interest in assets transferred to an unconsolidated 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 arising out of 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 discusses certain obligations and arrangements involving our Company.

On December 31, 2005, our Company was contingently liable for guarantees of indebtedness owed by third parties in the amount of approximately $248 million. Management concluded that the likelihood of any material amounts being paid by our Company is not probable. As of December 31, 2005, 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.

Our Company recognizes all derivative instruments as either assets or liabilities at fair value in our consolidated balance sheets. Refer to Note 11 and Note 12 of Notes to Consolidated Financial Statements.

In December 2003, we granted a $250 million standby line of credit to Coca-Cola FEMSA with normal market terms. As of December 31, 2005, no amounts have been drawn against this line of credit. This standby line of credit expires in December 2006.

Aggregate Contractual Obligations

As of December 31, 2005, the Company's contractual obligations, including payments due by period, were as follows (in millions):

	Payments Due by Period				
	Total	2006	2007-2008	2009-2010	2011 and Thereafter
Short-term loans and notes payable[1]:					
Commercial paper borrowings	$ 3,311	$ 3,311	$ —	$ —	$ —
Lines of credit and other short-term borrowings	266	266	—	—	—
Current maturities of long-term debt[2]	28	28	—	—	—
Long-term debt, net of current maturities[2]	1,154	—	99	418	637
Estimated interest payments[3]	1,033	70	135	130	698
Marketing and other commitments[4]	4,022	1,437	870	611	1,104
Purchase commitments[5]	6,173	2,620	930	548	2,075
Liability to CCEAG shareowners[6]	1,022	1,022	—	—	—
Other contractual obligations[7]	448	144	145	83	76
Total contractual obligations	$ 17,457	$ 8,898	$ 2,179	$ 1,790	$ 4,590

[1] Refer to Note 7 of Notes to Consolidated Financial Statements for information regarding short-term loans and notes payable. Upon payment of commercial paper borrowings, we typically 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 8 of Notes to Consolidated Financial Statements for information regarding long-term debt. We will consider several alternatives to settle this long-term debt, including the use of cash flows from operating activities, issuance of commercial paper or issuance of other long-term debt.

[3] We calculated estimated interest payments for 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 non-term 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 operating activities and/or short-term borrowings.

[4] We expect to fund these marketing and other commitments with cash flows from operating activities. We have excluded expected payments for marketing programs 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 operating activities.

[6] The amount represents the estimated cash to be paid to CCEAG shareowners. Refer to Note 7 of Notes to Consolidated Financial Statements for a discussion of the present value of our liability to CCEAG shareowners. We will consider several alternatives to settle this liability, including the use of cash flows from operating activities, issuance of commercial paper or issuance of other long-term debt.

[7] Other contractual obligations consist primarily of future minimum lease payments under our non-cancelable leasing arrangements, with an initial term in excess of one year.

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, 2005, was $1,221 million. Refer to Note 15 of Notes to Consolidated Financial Statements. 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 of 1974 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 2006 plan year is $0 and is anticipated to remain $0 for at least the next several years due to contributions made to the plan between 2001 and 2005. 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 2006, which is estimated to be approximately $60 million. Furthermore, we expect to contribute up to $9 million to the U.S. postretirement health care benefit plan during 2006. We generally expect to fund all future contributions with cash flows from operating activities.

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 2006 or thereafter. Therefore, no amounts have been included in the table above.

As of December 31, 2005, the projected benefit obligation of the U.S. qualified pension plans was $1,626 million, and the fair value of plan assets was $1,881 million. As of December 31, 2005, the projected benefit obligation of all pension plans other than the U.S. qualified pension plans was $1,415 million, and the fair value of all other pension plan assets was $756 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 associates, benefits that are not permitted to be funded through a qualified plan because of limits imposed by the Internal Revenue Code of 1986. 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 2011 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 unfunded plans over the next several years, we anticipate annual benefit payments to be in the range of approximately $50 million to $60 million in 2006 and remain at or near this annual level for the next several years.

Deferred income tax liabilities as of December 31, 2005, were $511 million. Refer to Note 16 of Notes to Consolidated Financial Statements. 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 a direct 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 $151 million as of December 31, 2005, 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.

Foreign Exchange

Our international operations are subject to opportunities and risks relating to foreign currency fluctuations. We closely monitor our operations in each country and seek to adopt appropriate strategies that are responsive to fluctuations in foreign currency exchange rates.

We use 46 functional currencies. Due to our global operations, weaknesses in some of these currencies might be offset by strengths in others. In 2005, 2004 and 2003, the weighted-average exchange rates for foreign currencies in which the Company conducted operations (all operating currencies), and for certain individual currencies, strengthened (weakened) against the U.S. dollar as follows:

Year Ended December 31,	**2005**	2004	2003
All operating currencies	**2 %**	6 %	8 %
Brazilian real	**21 %**	5 %	(11)%
Mexican peso	**4 %**	(5)%	(11)%
Australian dollar	**3 %**	13 %	20 %
Euro	**1 %**	9 %	21 %
South African rand	**1 %**	18 %	41 %
British pound	**0 %**	12 %	8 %
Japanese yen	**(1)%**	7 %	8 %

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 4 percent, 8 percent and 2 percent in 2005, 2004 and 2003, respectively. In 2006, the Company expects a negative impact on operating income from currencies.

Exchange losses—net amounted to approximately $23 million in 2005, $39 million in 2004 and $76 million in 2003 and were recorded in other loss—net in our consolidated statements of income. Exchange 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 11 of Notes to Consolidated Financial Statements.

The Company will continue to manage its foreign currency exposure to mitigate, over time, a portion of the impact of exchange rate changes on net income and earnings per share.

Overview of Financial Position

Our consolidated balance sheet as of December 31, 2005, compared to our consolidated balance sheet as of December 31, 2004, was impacted by the following:

- The decrease in loans and notes payable of $13 million was primarily due to the decrease of commercial paper borrowings during 2005 of $924 million and was offset by the reclassification of the payment to be made to CCEAG shareholders from other liabilities to loans and notes payable. Refer to Note 7 of Notes to Consolidated Financial Statements.
- The increase in our equity method investments in 2005 of $665 million was primarily due to the payment of approximately $250 million for our share of the joint acquisition of Multon. The increase also includes the impact of the strength in most key currencies versus the U.S. dollar and equity income, net of dividends. Refer to Note 2 of Notes to Consolidated Financial Statements.
- The overall decrease in total assets of $2,014 million as of December 31, 2005, compared to December 31, 2004, was primarily related to the decrease in cash and cash equivalents, which impacted the Corporate operating segment. The decrease was also due to impairment charges primarily for trademarks amounting to approximately $85 million. The decrease was partially offset by the impact of the strength in most key currencies versus the U.S. dollar, especially a stronger Brazilian real and Mexican peso (which impacted the Latin America operating segment) and a stronger euro (which

impacted the European Union operating segment). Refer to the heading "Operations Review—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.

Additional Information

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.

For additional information concerning our operating segments as of December 31, 2005, refer to Note 20 of Notes to Consolidated Financial Statements.