

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

**Listed and Traded:** New York Stock Exchange

**Traded:** Boston, Chicago, National, Pacific, and  
Philadelphia Exchanges

Common shareowners of record as of  
January 27, 2006: 14,198

#### Dividends

Regular quarterly dividends have been paid in the amount of \$0.04 per share since July 1, 1998. A quarterly dividend of \$0.06 per share has been declared by the directors, to be payable March 30, 2006 to holders of record on March 17, 2006.

#### Stock Prices

| 2005           | High    | Low     |
|----------------|---------|---------|
| Fourth Quarter | \$20.53 | \$18.52 |
| Third Quarter  | 23.92   | 19.01   |
| Second Quarter | 22.81   | 19.10   |
| First Quarter  | 23.36   | 20.22   |

| 2004           | High    | Low     |
|----------------|---------|---------|
| Fourth Quarter | \$22.23 | \$18.46 |
| Third Quarter  | 28.76   | 18.45   |
| Second Quarter | 29.34   | 23.95   |
| First Quarter  | 24.50   | 20.90   |

#### Share Repurchases

The following table presents information with respect to our repurchases of common stock of the Company made during the fourth quarter of 2005:

| Period                                      | Total Number of<br>Shares Purchased <sup>(A)</sup> | Average Price<br>Paid per Share | Total Number of Shares<br>Purchased As Part of Publicly<br>Announced Plans or Programs | Maximum Number of Shares<br>that May Yet Be Purchased<br>Under the Plans or Programs |
|---|--|---------------------------------|--|--|
| October 1, 2005 through October 28, 2005    | —  | —                               | None   | 33,283,579   |
| October 29, 2005 through November 25, 2005  | 4,359  | \$18.80                         | None   | 33,283,579   |
| November 26, 2005 through December 31, 2005 | 187,762  | 19.67                           | None   | 33,283,579   |
| Total                                       | 192,121  | \$19.65                         | None   | 33,283,579   |

<sup>(A)</sup>The number of shares reported as repurchased are attributable to shares surrendered to Coca-Cola Enterprises Inc. by employees in payment of tax obligations related to the vesting of restricted shares or distributions from our Stock Deferral Plan.

## ITEM 6. SELECTED FINANCIAL DATA

| (in millions, except per share data)   | Fiscal Year |          |          |          |           |
|--|-------------|----------|----------|----------|-----------|
|  | 2005        | 2004     | 2003     | 2002     | 2001      |
| <b>Operations Summary</b>  |             |          |          |          |           |
| Net operating revenues <sup>(A)(B)</sup>   | \$18,706    | \$18,158 | \$17,330 | \$16,058 | \$14,999  |
| Cost of sales <sup>(A)</sup>   | 11,185      | 10,771   | 10,165   | 9,458    | 9,015     |
| Gross profit   | 7,521       | 7,387    | 7,165    | 6,600    | 5,984     |
| Selling, delivery and administrative expenses <sup>(A)(B)</sup>  | 6,090       | 5,951    | 5,588    | 5,236    | 5,383     |
| Operating income   | 1,431       | 1,436    | 1,577    | 1,364    | 601       |
| Interest expense, net  | 633         | 619      | 607      | 662      | 753       |
| Other nonoperating (expense) income, net   | (8)         | 1        | 2        | 3        | 2         |
| Income (loss) before income taxes and cumulative effect of change in accounting  | 790         | 818      | 972      | 705      | (150)     |
| Income tax expense (benefit) <sup>(C)</sup>  | 276         | 222      | 296      | 211      | (131)     |
| Net income (loss) before cumulative effect of change in accounting   | 514         | 596      | 676      | 494      | (19)      |
| Cumulative effect of change in accounting  | —           | —        | —        | —        | (302)     |
| Net income (loss)  | 514         | 596      | 676      | 494      | (321)     |
| Preferred stock dividends  | —           | —        | 2        | 3        | 3         |
| Net income (loss) applicable to common shareowners   | \$ 514      | \$ 596   | \$ 674   | \$ 491   | \$ (324)  |
| <b>Other Operating Data</b>  |             |          |          |          |           |
| Depreciation and amortization  | \$ 1,044    | \$ 1,068 | \$ 1,022 | \$ 965   | \$ 901    |
| Capital asset investments  | 914         | 946      | 1,099    | 1,029    | 972       |
| <b>Average Common Shares Outstanding</b>   |             |          |          |          |           |
| Basic  | 471         | 465      | 454      | 449      | 432       |
| Diluted  | 476         | 473      | 461      | 458      | 432       |
| <b>Per Share Data</b>  |             |          |          |          |           |
| Basic net income (loss) per common share before cumulative effect of change in accounting  | \$ 1.09     | \$ 1.28  | \$ 1.48  | \$ 1.09  | \$ (0.05) |
| Diluted net income (loss) per common share before cumulative effect of change in accounting                                      | 1.08        | 1.26     | 1.46     | 1.07     | (0.05)    |
| Basic net income (loss) per share applicable to common shareowners   | 1.09        | 1.28     | 1.48     | 1.09     | (0.75)    |
| Diluted net income (loss) per share applicable to common shareowners   | 1.08        | 1.26     | 1.46     | 1.07     | (0.75)    |
| Dividends declared per share applicable to common shareowners  | 0.22        | 0.16     | 0.16     | 0.16     | 0.16      |
| Closing stock price  | 19.17       | 20.85    | 21.87    | 21.72    | 18.94     |
| <b>Year-End Financial Position</b>   |             |          |          |          |           |
| Property, plant and equipment, net   | \$ 6,560    | \$ 6,913 | \$ 6,794 | \$ 6,393 | \$ 6,206  |
| Franchise license intangible assets, net   | 13,832      | 14,517   | 14,171   | 13,450   | 13,125    |
| Total assets   | 25,357      | 26,461   | 25,700   | 24,375   | 23,719    |
| Total debt   | 10,109      | 11,130   | 11,646   | 12,023   | 12,169    |
| Shareowners' equity  | 5,643       | 5,378    | 4,365    | 3,347    | 2,820     |
| Pro Forma Amounts Applying the Accounting Change to Prior Periods and the Adoption of SFAS 142 to Prior Periods <sup>(D)</sup> : |             |          |          |          |           |
| Net income applicable to common shareowners  | \$ 514      | \$ 596   | \$ 674   | \$ 491   | \$ 227    |
| Basic net income per share applicable to common shareowners  | 1.09        | 1.28     | 1.48     | 1.09     | 0.53      |
| Diluted net income per share applicable to common shareowners  | 1.08        | 1.26     | 1.46     | 1.07     | 0.52      |

We made acquisitions in each year presented, except 2005 and 2004. These acquisitions did not significantly affect our operating results in any one fiscal period. All acquisitions are included in our Consolidated Financial Statements from the respective acquisition date.

<sup>(A)</sup> Balances reflect the adoption of Emerging Issues Task Force ("EITF") No. 02-16, "Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor" ("EITF 02-16"). Upon adoption of EITF 02-16 in the first quarter of 2003, we classified the following amounts in the 2002 and 2001 income statements as reductions in cost of sales: approximately \$882 million and \$651 million, respectively, of direct marketing support from The Coca-Cola Company ("TCCC") and other licensors previously included in net operating revenues, and approximately \$77 million and \$74 million, respectively, of cold drink equipment placement funding from TCCC previously included as a reduction in selling, delivery and administrative expenses for the years ended December 31, 2002 and 2001. We also classified in net operating revenues \$51 million and \$45 million, respectively, of net payments for dispensing equipment repair services received from TCCC, previously included in selling, delivery and administrative expenses for the years ended December 31, 2002 and 2001.

<sup>(B)</sup> Balances reflect the adoption of EITF No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," effective January 1, 2002. The adoption of this EITF resulted in a reclassification of \$95 million previously classified as selling expenses to deductions from net operating revenues in 2001.

<sup>(C)</sup> Income tax expense (benefit) in 2005 includes a \$128 million income tax provision related to the repatriation of foreign earnings. Income tax expense (benefit) also includes the impact of favorable tax rate changes of \$40 million in 2005, \$20 million in 2004, \$16 million in 2002, \$56 million in 2001 and unfavorable tax rate changes of \$23 million in 2003. Additionally, income tax expense (benefit) includes benefits related to the revaluation of various income tax obligations of approximately \$27 million in 2005, \$25 million in 2003 and \$4 million in 2002. Our 2003 income tax expense (benefit) also includes a \$6 million benefit related to other tax adjustments.

<sup>(D)</sup> Pro forma amounts (1) assume the accounting change for Jumpstart payments received from TCCC, adopted as of January 1, 2001, was applied retroactively without regard to any changes in the business that could have resulted had the accounting been different in these periods and (2) illustrate the impact of adopting the non-amortization provisions of SFAS 142 for all periods presented.

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

### Management's Financial Review

#### Overview

##### BUSINESS

Coca-Cola Enterprises Inc. ("we," "our," or "us") is the world's largest marketer, producer and distributor of bottle and can nonalcoholic beverages. We market, produce and distribute our bottle and can products to customers and consumers through license territories in 46 states in the United States, the District of Columbia, the United States Virgin Islands and the 10 provinces of Canada (collectively referred to as "North America"). We are also the sole licensed bottler for products of The Coca-Cola Company ("TCCC") in Belgium, continental France, Great Britain, Luxembourg, Monaco and the Netherlands (collectively referred to as "Europe").

##### LICENSEE OF THE COCA-COLA COMPANY

Our relationship with TCCC has a great impact on our success. Our collaborative efforts will continue to be beneficial to us as we work to create new brands, to market our products more effectively, to find ways to profitably grow the entire Coca-Cola business on a sustainable basis and to make our system more efficient.

##### FINANCIAL RESULTS

Our net income applicable to common shareowners decreased to \$514 million or \$1.08 per diluted common share in 2005, compared to net income applicable to common shareowners of \$596 million or \$1.26 per diluted common share in 2004.

Our 2005 results included the following items of significance:

- a \$53 million (\$33 million net of tax, or \$0.07 per diluted common share) decrease in our cost of sales from the receipt of proceeds related to the settlement of litigation against suppliers of high fructose corn syrup ("HFCS");
- charges totaling \$80 million (\$50 million net of tax, or \$0.11 per diluted common share) related to restructuring activities, primarily in North America;
- charges totaling \$28 million (\$17 million net of tax, or \$0.03 per diluted common share) primarily related to asset write-offs, which were associated with damage caused by Hurricanes Katrina, Rita and Wilma;
- an \$8 million (\$5 million net of tax, or \$0.01 per diluted common share) net loss resulting from the early extinguishment of certain debt obligations in conjunction with the repatriation of foreign earnings;
- a \$128 million (\$0.27 per diluted common share) income tax provision related to the repatriation of foreign earnings; and
- a \$67 million (\$0.14 per diluted share) tax benefit as a result of net favorable tax items, primarily for state tax rate changes and for the revaluation of various income tax obligations.

Our 2004 results included the following items of significance:

- a \$41 million (\$26 million net of tax, or \$0.05 per diluted common share) increase in our cost of sales related to the transition to a new concentrate pricing structure in North America; and
- a \$20 million (\$0.04 per diluted common share) tax benefit from tax rate reductions.

##### NORTH AMERICAN REORGANIZATION

The markets in which we operate have become increasingly complex, thus requiring us to respond to the needs of our customers both at a national and local level with greater organizational agility. In an effort to redesign and improve our North American business model to allow us to continue to deliver balanced volume and pricing growth on a consistent basis, we reorganized our North American operations into six United States business units and Canada. These actions (1) have resulted in a simplified and flatter organizational structure; (2) have helped facilitate a closer interaction between our front-line employees and our customers; and (3) will provide long-term cost savings through improved administrative and operating efficiencies.

##### IMPACT OF HURRICANES

During the latter part of 2005, Hurricanes Katrina, Rita and Wilma negatively impacted our operations in certain areas. We sustained damage to several of our production and distribution facilities, had large quantities of vending equipment and inventory damaged or destroyed and suffered lost sales in several key markets. We also experienced increased costs in the aftermath of the hurricanes, including higher fuel prices, nonproductive labor expenses, outsourced services and extra storage space.

##### REPATRIATION OF FOREIGN EARNINGS

In December 2005, we repatriated a total of \$1.6 billion in previously undistributed foreign earnings and basis. This repatriation was completed in connection with the American Jobs Creation Act of 2004 ("Tax Act"), which contained, among other things, a repatriation provision that provided a special, one-time tax deduction of 85 percent of certain foreign earnings that were repatriated prior to December 31, 2005, provided certain criteria were met. In order to accommodate the efficient repayment of debt in conjunction with the repatriation, we restructured a portion of our debt portfolio in December 2005.

##### REVENUE AND VOLUME GROWTH

During 2005, our consolidated bottle and can net price per case grew 2.0 percent, while our volume increased 0.5 percent. In North America, we were able to achieve a balance of volume and pricing growth, as our bottle and can net price per case increased 3.0 percent and our volume grew 1.0 percent. These results demonstrate the progress we are making in improving our North American business model. Our volume results were once again impacted by a growing consumer preference for diet and lower-calorie beverages. Our diet soft drinks increased 2.5 percent for the year, while our sugared soft drinks decreased 3.0 percent. We also experienced increased volume in several high-growth and high-margin categories, including sports drinks, energy drinks and water. Consumers are continuing to demand more beverage choices, including the desire for new brands, brand extensions, new packaging and new categories. During 2005, we benefited from significant product innovation, which included the introduction of Coca-Cola Zero, Diet Coke Sweetened with Splenda, Dasani flavored waters, Powerade Option, Fresca flavors and two new energy drinks, Full Throttle and Rockstar.

In Europe, our net price per case grew 1.0 percent, while our volume declined 2.0 percent. This performance was below our targets and reflects the significant marketplace challenges that have evolved across our European territories. Our results for the year were negatively impacted by a continuing shift in consumer preference toward zero and lower-calorie products, weak retail trends in certain markets and the growth of deep discounters. We have a number of operating and sales initiatives in place that are designed to address these challenges, including country-specific brand and package innovation plans, organizational initiatives that will strengthen our ability to serve our customers and new marketing approaches for deep discounters.

**EXPENSE MANAGEMENT**

The benefit of our ongoing operating expense initiatives allowed us to successfully control the growth of our underlying operating expenses during 2005. Our continued focus on managing the growth of our operating expenses created the flexibility that was needed to deal with a challenging cost environment, particularly in North America, where our bottle and can cost of sales per case increased 5.0 percent. We intend to remain diligent in our effort to manage our operating expenses and expect to realize the effectiveness and efficiency improvements of our reorganized North American operations during 2006.

Our multi-year project to redesign our business processes and implement the SAP software platform continued to progress toward our stated objectives of (1) developing standard global processes; (2) increasing information capabilities; and (3) providing system flexibility. We completed the implementation of SAP financial systems and processes in Europe during July 2005 and also implemented SAP human resources and payroll systems in North America and most of Europe during the year. During 2006, our main focus will be starting the implementation of supply chain modules and completing the implementation of human resources and payroll systems in Europe. Including the costs of our internal resources assigned to the project, we incurred \$58 million in implementation costs during 2005, \$35 million of which were capital costs. We expect to spend up to approximately \$22 million during 2006 on this project.

**2006 Outlook**

During 2006, we expect to benefit from (1) another aggressive calendar of solid brand, package and category innovation; (2) balanced volume and pricing growth, particularly in North America; (3) operating improvements that have strengthened our ability to focus on our customers and the marketplace; and (4) a more moderate increase in our cost of goods. The following is a summary of the key areas of emphasis that we believe are essential to our 2006 performance:

- First, we will continue to develop our brand portfolio in both North America and Europe. We intend to introduce a number of new brands and brand extensions that are designed to meet consumer tastes and preferences. In addition, we will have the full-year benefit of our significant 2005 product innovation. In North America, our 2006 product introductions include Black Cherry Vanilla Coca-Cola in both regular and diet; Coke Blak, a premium, coffee-flavored beverage; Dasani Sensations, a line of flavored sparkling waters; Vault, a new energy soda; and two new energy drinks, Tab Energy and Full Throttle Fury.

In Europe, we will continue to focus our marketing efforts on diet and light brands, with brand extensions such as Diet Cherry Coke, Coke light with Lime and Coke light Sango. We also have an aggressive market strategy in our sports and energy drink categories, with Sprite 3G, Burn, Aquarius Perform, Powerade Aqua Plus and Relentless.

- Secondly, we will strive to achieve balanced volume and pricing growth. Our targeted brand, channel and package plans, coupled with the benefits of product innovation and immediate consumption growth, are the keys to achieving the balanced volume and pricing growth we are targeting.
- Thirdly, we will strengthen our marketplace execution and customer focus. Our improved North American business model gives our field level operators the ability to focus on local marketplace execution and customer needs, while improving administrative efficiencies. During 2006, we intend to begin the process of reorganizing certain aspects of our operations in Europe in order to obtain the same improved operating effectiveness and efficiency.

We expect our overall capital spending to be approximately \$1.0 billion during 2006. For North America, our goal is to achieve volume growth of approximately 1.0 to 2.0 percent and net price per case growth of approximately 2.0 to 3.0 percent. For Europe, our goals include volume growth of approximately 1.0 to 2.0 percent and net price per case growth of approximately 2.0 percent. We expect our consolidated cost of goods per case to increase approximately 2.0 to 3.0 percent during 2006, which includes (1) the impact of package mix shifts; (2) an expected decrease in PET (plastic) prices; and (3) a moderate increase in the cost of concentrate and other ingredient and packaging materials.

**Operations Review**

The following table presents our Consolidated Statements of Income data as a percentage of net operating revenues for the years ended December 31, 2005, 2004 and 2003:

|   | 2005   | 2004   | 2003   |
|---|--------|--------|--------|
| Net operating revenues                        | 100.0% | 100.0% | 100.0% |
| Cost of sales                                 | 59.8   | 59.3   | 58.7   |
| Gross profit                                  | 40.2   | 40.7   | 41.3   |
| Selling, delivery and administrative expenses | 32.6   | 32.8   | 32.2   |
| Operating income                              | 7.6    | 7.9    | 9.1    |
| Interest expense, net                         | 3.4    | 3.4    | 3.5    |
| Other nonoperating (expense) income, net      | 0.0    | 0.0    | 0.0    |
| Income before income taxes                    | 4.2    | 4.5    | 5.6    |
| Income tax expense                            | 1.5    | 1.2    | 1.7    |
| Net income                                    | 2.7    | 3.3    | 3.9    |
| Preferred stock dividends                     | 0.0    | 0.0    | 0.0    |
| Net income applicable to common shareowners   | 2.7%   | 3.3%   | 3.9%   |

**OPERATING INCOME****2005**

Operating income decreased \$5 million, or 0.5 percent, in 2005 to \$1.4 billion. Below are the significant components of the change in our 2005 operating income (in millions; percentages rounded to the nearest ½ percent):

|  | Amount        | Change<br>Percent<br>of Total |
|--|---------------|-------------------------------|
| Changes in operating income:                                 |               |                               |
| Impact of bottle and can price, cost and mix on gross profit | \$ 28         | 2.0%                          |
| Impact of bottle and can volume on gross profit              | 35            | 2.5                           |
| Impact of bottle and can selling day shift on gross profit   | (44)          | (3.0)                         |
| Impact of post mix, agency and other on gross profit         | (2)           | (0.5)                         |
| Impact of selling, delivery and administrative expenses      | (17)          | (1.0)                         |
| Restructuring charges in 2005                                | (80)          | (5.5)                         |
| Hurricane related asset write-offs in 2005                   | (28)          | (2.0)                         |
| HFCS litigation settlement proceeds in 2005                  | 53            | 3.5                           |
| Asset sale in 2005   | 8             | 0.5                           |
| New concentrate pricing structure in 2004                    | 41            | 3.0                           |
| Currency exchange rate changes                               | —             | 0.0                           |
| Other changes in operating income                            | 1             | 0.0                           |
| <b>Change in operating income</b>                            | <b>\$ (5)</b> | <b>(0.5)%</b>                 |

**2004**

Operating income decreased \$141 million, or 9.0 percent, in 2004 to \$1.4 billion. Below are the significant components of the change in our 2004 operating income (in millions; percentages rounded to the nearest ½ percent):

|   | Amount         | Change<br>Percent<br>of Total |
|---|----------------|-------------------------------|
| Changes in operating income:  |                |                               |
| Impact of bottle and can price, cost and mix on gross profit  | \$170          | 10.5%                         |
| Impact of bottle and can volume on gross profit   | (122)          | (7.5)                         |
| Impact of bottle and can selling day shift on gross profit  | 17             | 1.0                           |
| Impact of post mix, agency and other on gross profit  | (20)           | (1.5)                         |
| Impact of selling, delivery and administrative expenses   | (126)          | (8.0)                         |
| New concentrate pricing structure in 2004   | (41)           | (2.5)                         |
| Net insurance proceeds, settlement of pre-acquisition contingencies and gain on hot-fill facility in 2003 | (90)           | (5.5)                         |
| Currency exchange rate changes  | 72             | 4.5                           |
| Other changes in operating income   | (1)            | 0.0                           |
| <b>Change in operating income</b>   | <b>\$(141)</b> | <b>(9.0)%</b>                 |

**NET OPERATING REVENUES****2005**

Net operating revenues increased 3.0 percent in 2005 to \$18.7 billion from \$18.2 billion in 2004. Our net operating revenues in 2005 were impacted by strong pricing growth in North America and increased sales of our lower-calorie beverages, water brands and energy drinks. These positive factors

were offset by a continuing decline in the sale of regular soft drinks across all our territories and by significant marketplace challenges in Europe, including changing consumer preferences and the growth of deep discounters. The percentage of our 2005 net operating revenues derived from North America and Europe was 72 percent and 28 percent, respectively. Great Britain contributed approximately 46 percent and 47 percent of Europe's net operating revenues in 2005 and 2004, respectively.

Net operating revenue per case increased 3.0 percent in 2005 versus 2004. The following table summarizes the significant components of the change in our 2005 net operating revenue per case (rounded to the nearest ½ percent and based on wholesale physical case volume):

|   | Consolidated | North<br>America | Europe      |
|---|--------------|------------------|-------------|
| Changes in net operating revenue per case:            |              |                  |             |
| Bottle and can net price per case                     | 2.0%         | 3.0%             | 1.0%        |
| Belgium excise tax and VAT                            | 0.0          | 0.0              | 0.5         |
| Customer marketing and other promotional adjustments  | 0.0          | (0.5)            | 0.5         |
| Post mix revenues, agency revenues and other revenues | 0.5          | 1.0              | 0.0         |
| Currency exchange rate changes                        | 0.5          | 0.5              | 0.0         |
| <b>Change in net operating revenue per case</b>       | <b>3.0%</b>  | <b>4.0%</b>      | <b>2.0%</b> |

Our bottle and can sales accounted for 90 percent of our net operating revenues during 2005. Bottle and can net pricing is based on the invoice price charged to customers reduced by promotional allowances. Bottle and can net pricing per case is impacted by the price charged per package, the volume generated in each package and the channels in which those packages are sold. To the extent we are able to increase volume in higher margin packages that are sold through higher margin channels, our bottle and can net pricing per case will increase without an actual increase in wholesale pricing. The increase in our 2005 bottle and can net pricing per case was primarily achieved with rate increases, but also reflects additional mix benefit associated with the growth of our immediate consumption business and increased sales of higher margin products, such as energy drinks.

We participate in various programs and arrangements with customers designed to increase the sale of our products by these customers. Among the programs negotiated are arrangements under which allowances can be earned by customers for attaining agreed-upon sales levels or for participating in specific marketing programs. In the United States, we participate in cooperative trade marketing ("CTM") programs, which are typically developed by us but are administered by TCCC. We are responsible for all costs of these programs in our territories, except for some costs related to a limited number of specific customers. Under these programs, we pay TCCC and TCCC pays our customers as a representative for the North American bottling system. Coupon programs are also developed on a territory-specific basis with the intent of increasing sales by all customers. We believe our participation in these programs is essential to ensuring continued volume and revenue growth in the competitive marketplace. The cost of all of these various programs, included as a reduction in net

operating revenues, totaled approximately \$2.2 billion and \$1.9 billion in 2005 and 2004, respectively. These amounts are net of customer marketing accrual reductions related to prior year programs of \$75 million and \$71 million in 2005 and 2004, respectively. The cost of these various programs as a percentage of gross revenues was approximately 6.8 percent and 6.2 percent in 2005 and 2004, respectively. The increase in the cost of these various programs as a percentage of gross revenues was the result of increased promotional activity to help boost the sale of our products.

We frequently participate with TCCC in contractual arrangements at specific athletic venues, school districts, colleges and universities and other locations, whereby we obtain exclusive pouring or vending rights at a specific location in exchange for cash payments. We record our obligation under each contract at inception and defer and amortize the total required payments using the straight-line method over the term of the contract. At December 31, 2005, the net unamortized balance of these arrangements, included in customer distribution rights and other noncurrent assets, net on our Consolidated Balance Sheet, totaled \$491 million (\$1,045 million capitalized, net of \$554 million in accumulated amortization). Amortization expense on these assets, included as a reduction in net operating revenues, totaled \$145 million and \$150 million in 2005 and 2004, respectively.

#### 2004

Net operating revenues increased 5.0 percent in 2004 to \$18.2 billion from \$17.3 billion in 2003. Our 2004 net operating revenues were significantly impacted by a slow retail environment during our peak summer selling season, cool weather across our territories and a continuing decline in regular soft drink sales. These negative factors were offset by favorable currency exchange rate changes, moderate pricing increases and an increase in the demand for lower-calorie beverages. The percentage of our 2004 net operating revenues derived from North America and Europe was 71 percent and 29 percent, respectively. Great Britain contributed approximately 47 percent of Europe's net operating revenues in 2004.

Net operating revenue per case increased 6.5 percent in 2004 versus 2003. The following table summarizes the significant components of the change in our 2004 net operating revenue per case (rounded to the nearest ½ percent and based on wholesale physical case volume):

|  | Consolidated | North<br>America | Europe |
|--|--------------|------------------|--------|
| Changes in net operating revenue per case:               |              |                  |        |
| Bottle and can net price per case                        | 2.5%         | 3.0%             | 1.5%   |
| Belgium excise tax and VAT                               | 0.0          | 0.0              | 1.0    |
| Post mix revenues, agency revenues<br>and other revenues | 0.5          | 0.0              | 1.0    |
| Currency exchange rate changes                           | 3.5          | 0.5              | 11.5   |
| Change in net operating revenue per case                 | 6.5%         | 3.5%             | 15.0%  |

Our bottle and can sales accounted for 92 percent of our net operating revenues during 2004. The increase in our 2004 bottle and can net pricing per case was the result of strong execution of revenue enhancing pricing strategies throughout North America and Europe.

The cost of various customer programs and arrangements designed to increase the sale of our products by these customers totaled approximately \$1.9 billion and \$1.7 billion in 2004 and 2003, respectively. These amounts were included as reductions in net operating revenues. The cost of these various programs as a percentage of gross revenues was approximately 6.2 percent in both 2004 and 2003.

#### COST OF SALES 2005

Cost of sales increased 4.0 percent in 2005 to \$11.2 billion from \$10.8 billion in 2004. Cost of sales per case increased 4.0 percent in 2005 versus 2004. The following table summarizes the significant components of the change in our 2005 cost of sales per case (rounded to the nearest ½ percent and based on wholesale physical case volume):

|   | Consolidated | North<br>America | Europe |
|---|--------------|------------------|--------|
| Changes in cost of sales per case:                        |              |                  |        |
| Bottle and can ingredient and<br>packaging costs          | 3.5%         | 5.0%             | 1.5%   |
| Belgium excise tax and VAT                                | 0.0          | 0.0              | 0.5    |
| HFCS litigation settlement<br>proceeds in 2005            | (0.5)        | (0.5)            | 0.0    |
| New concentrate pricing<br>structure in 2004              | 0.0          | (0.5)            | 0.0    |
| Bottle and can marketing credits and<br>Jumpstart funding | (0.5)        | (0.5)            | (0.5)  |
| Costs of post mix, agency and<br>other revenues           | 1.0          | 1.5              | 0.5    |
| Currency exchange rate changes                            | 0.5          | 0.5              | (0.5)  |
| Change in cost of sales per case                          | 4.0%         | 5.5%             | 1.5%   |

During 2005, the increase in our bottle and can ingredient and packaging costs was primarily the result of increases in the cost of certain materials, particularly PET (plastic) bottles, aluminum and fuel. We also experienced a moderate increase in the cost of concentrate. The increased costs we experienced in North America were due, in part, to the impact of the hurricanes.

We implemented a project in the Netherlands to transition from the production and sale of refillable PET (plastic) bottles to the production and sale of non-refillable PET (plastic) bottles. The transition commenced in 2004 and was completed in the first quarter of 2006 when we introduced the new bottles to the market. The transition has resulted in (1) accelerated depreciation for certain machinery and equipment, plastic crates and refillable plastic bottles; (2) costs for removing current production lines; (3) termination and severance costs; (4) training costs; (5) external warehousing costs; and (6) operational inefficiencies. The total of these expenses is estimated to be \$19 million, net of \$8 million in gains related to the sale of refillable PET (plastic) bottles and crates. We recognized \$11 million and \$16 million of these expenses during 2005 and 2004, respectively, and expect to record gains totaling \$8 million during 2006. We expect the increased packaging flexibility to increase sales in the Netherlands by offering added variety and convenience to consumers.

## 2004

Cost of sales increased 6.0 percent in 2004 to \$10.8 billion from \$10.2 billion in 2003. Cost of sales per case increased 7.5 percent in 2004 versus 2003. The following table summarizes the significant components of the change in our 2004 cost of sales per case (rounded to the nearest ½ percent and based on wholesale physical case volume):

|  | Consolidated | North       |              |
|--|--------------|-------------|--------------|
|  |              | America     | Europe       |
| Changes in cost of sales per case:                     |              |             |              |
| Bottle and can ingredient and packaging costs          | 2.0%         | 3.0%        | 1.5%         |
| Belgium excise tax and VAT                             | 0.5          | 0.0         | 1.0          |
| New concentrate pricing structure in 2004              | 0.5          | 0.5         | 0.0          |
| Bottle and can marketing credits and Jumpstart funding | 0.0          | (0.5)       | 0.5          |
| Costs of post mix, agency and other revenues           | 0.5          | 0.0         | 2.0          |
| Currency exchange rate changes                         | 4.0          | 1.0         | 12.0         |
| <b>Change in cost of sales per case</b>                | <b>7.5%</b>  | <b>4.0%</b> | <b>17.0%</b> |

The increase in our bottle and can ingredient and packaging costs in 2004 was the result of increases in the costs of certain materials, including aluminum, sweetener and PET (plastic) bottles. We also experienced a moderate increase in the cost of concentrate.

## VOLUME

### 2005

The following table summarizes the change in our 2005 bottle and can volume versus 2004, as adjusted to reflect the impact of two fewer selling days in 2005 versus 2004 (no acquisitions were made in 2005 or 2004; rounded to the nearest ½ percent):

|   | Consolidated | North       |               |
|---|--------------|-------------|---------------|
|   |              | America     | Europe        |
| Change in volume  | 0.0%         | 0.5%        | (2.5)%        |
| Impact of selling day shift                             | 0.5          | 0.5         | 0.5           |
| <b>Change in volume, adjusted for selling day shift</b> | <b>0.5%</b>  | <b>1.0%</b> | <b>(2.0)%</b> |

North America comprised 77 percent and 76 percent of our 2005 and 2004 bottle and can volume, respectively. In both 2005 and 2004, our sales represented approximately 13 percent of the total nonalcoholic beverage sales in our North American territories and approximately 8 percent of total nonalcoholic beverage sales in our European territories.

The following table summarizes our 2005 bottle and can volume results by major brand category, as adjusted to reflect the impact of two fewer selling days in 2005 versus 2004 (no acquisitions were made in 2005 or 2004; rounded to the nearest ½ percent):

|                            | Change        | Percent of Total |
|----------------------------|---------------|------------------|
| <b>Consolidated:</b>       |               |                  |
| Coca-Cola Trademark        | (1.5)%        | 61.5%            |
| Flavors                    | 0.5           | 24.0             |
| Juices, isotonic and other | 4.0           | 8.5              |
| Water                      | 21.0          | 6.0              |
| <b>Total</b>               | <b>0.5%</b>   | <b>100.0%</b>    |
| <b>North America:</b>      |               |                  |
| Coca-Cola Trademark        | (1.5)%        | 59.5%            |
| Flavors                    | 2.5           | 25.0             |
| Juices, isotonic and other | 2.5           | 8.5              |
| Water                      | 24.0          | 7.0              |
| <b>Total</b>               | <b>1.0%</b>   | <b>100.0%</b>    |
| <b>Europe:</b>             |               |                  |
| Coca-Cola Trademark        | (1.5)%        | 68.0%            |
| Flavors                    | (6.5)         | 20.5             |
| Juices, isotonic and other | 9.0           | 9.5              |
| Water                      | (4.0)         | 2.0              |
| <b>Total</b>               | <b>(2.0)%</b> | <b>100.0%</b>    |

During 2005, the sales volume of our Coca-Cola trademark products decreased 1.5 percent on a consolidated basis. Our regular Coca-Cola trademark products, which represented 37.0 percent of our total 2005 sales volume, decreased 3.0 percent on a consolidated basis. This decrease was primarily attributable to lower sales of Coca-Cola classic, Coca-Cola C2 and Vanilla Coke, offset partially by the sale of Coke with Lime, which was introduced during the first quarter of 2005. Our diet Coca-Cola trademark products, which represented 24.5 percent of our total 2005 sales volume, increased 1.0 percent on a consolidated basis. This increase was primarily driven by significant product innovation during the second quarter of 2005, which included the introduction of Coca-Cola Zero and Diet Coke Sweetened with Splenda. The positive impact of these new products was partially offset by a slight decrease in the sale of regular Diet Coke.

On a consolidated basis, our flavors volume increased 0.5 percent during 2005. This increase was primarily the result of higher sales of regular Fresca products, Diet Sprite Zero and diet Fanta products, offset partially by a decline in the sale of regular Sprite products. In North America, we introduced two new energy drinks, Full Throttle and Rockstar, during the first and second quarters of 2005, respectively. These products have performed above expectations and have had a positive impact on our flavors volume. In Europe, we experienced a significant decline in the sale of Fanta products, which contributed to the 6.5 percent decrease in flavors volume.

Our juices, isotonics and other volume increased 4.0 percent on a consolidated basis during 2005. This increase was primarily driven by significant volume growth in our sports drinks, Powerade and Aquarius, offset partially by a decrease in the sale of Minute Maid products. In North America, our Powerade volume was up 27.5 percent, which included the introduction of Powerade Option, a reduced calorie sports drink, during the third quarter of 2005. Our water brands continued to perform extremely well during 2005, increasing 21.0 percent on a consolidated basis. This performance was primarily the result of a significant increase in the sale of Dasani and the introduction of Dasani flavored waters beginning in the second quarter of 2005.

The overall performance of our products during 2005 continued to be impacted by trends in the marketplace, which reflect a growing consumer preference for diet and lower-calorie beverages. As a result of these trends, we continue to experience a decline in the demand for sugared soft drinks. Consumers are also demanding more beverage choices, including the desire for new brands, brand extensions, new packaging and new categories. In order to capitalize on these trends, we will continue to promote product and package innovation during 2006, particularly in our diet and light brands, water brands and sports and energy drinks.

The following table summarizes our 2005 bottle and can volume results by major package category, as adjusted to reflect the impact of two fewer selling days in 2005 versus 2004 (no acquisitions were made in 2005 or 2004; rounded to the nearest ½ percent):

|                                       | Change        | Percent of Total |
|---------------------------------------|---------------|------------------|
| North America:                        |               |                  |
| Cans                                  | (1.0)%        | 60.0%            |
| 20-ounce                              | 2.5           | 14.5             |
| 2-liter                               | (6.0)         | 11.0             |
| Other                                 | 17.5          | 14.5             |
| <b>Total</b>                          | <b>1.0%</b>   | <b>100.0%</b>    |
| Europe:                               |               |                  |
| Cans                                  | (1.5)%        | 38.0%            |
| Multi-serve PET (1-liter and greater) | (5.0)         | 32.5             |
| Single-serve PET                      | 2.0           | 13.5             |
| Other                                 | 1.0           | 16.0             |
| <b>Total</b>                          | <b>(2.0)%</b> | <b>100.0%</b>    |

## 2004

The following table summarizes the change in our 2004 bottle and can volume versus 2003, as adjusted to reflect the impact of one more selling day in 2004 versus 2003 and the impact of all acquisitions completed in 2003 as if those acquisitions were completed on January 1, 2003 (no acquisitions were made in 2004; rounded to the nearest ½ percent):

|  | North         |               |               |
|--|---------------|---------------|---------------|
|  | Consolidated  | America       | Europe        |
| Change in volume   | (1.5)%        | (1.0)%        | (4.0)%        |
| Impact of selling day shift  | 0.0           | 0.0           | 0.0           |
| Impact of acquisitions   | 0.0           | 0.0           | (0.5)         |
| <b>Change in volume, adjusted for selling day shift and acquisitions</b> | <b>(1.5)%</b> | <b>(1.0)%</b> | <b>(4.5)%</b> |

North America comprised 76 percent of our 2004 and 2003 bottle and can volume. In both 2004 and 2003, our sales represented approximately 13 percent of the total nonalcoholic beverage sales in our North American territories and approximately 8 percent of total nonalcoholic beverage sales in our European territories.

The following table summarizes our 2004 bottle and can volume results by major brand category, as adjusted to reflect the impact of one more selling day in 2004 versus 2003 and the impact of all acquisitions completed in 2003 as if those acquisitions were completed on January 1, 2003 (no acquisitions were made in 2004; rounded to the nearest ½ percent):

|                             | Change        | Percent of Total |
|-----------------------------|---------------|------------------|
| Consolidated:               |               |                  |
| Coca-Cola Trademark         | (1.0)%        | 63.0%            |
| Flavors                     | (4.5)         | 24.0             |
| Juices, isotonics and other | 1.0           | 8.5              |
| Water                       | (3.0)         | 4.5              |
| <b>Total</b>                | <b>(1.5)%</b> | <b>100%</b>      |
| North America:              |               |                  |
| Coca-Cola Trademark         | (0.5)%        | 61.0%            |
| Flavors                     | (4.0)         | 25.0             |
| Juices, isotonics and other | 1.0           | 8.5              |
| Water                       | 10.0          | 5.5              |
| <b>Total</b>                | <b>(1.0)%</b> | <b>100%</b>      |
| Europe:                     |               |                  |
| Coca-Cola Trademark         | (1.5)%        | 68.0%            |
| Flavors                     | (4.5)         | 21.5             |
| Juices, isotonics and other | 0.0           | 8.5              |
| Water                       | (52.5)        | 2.0              |
| <b>Total</b>                | <b>(4.5)%</b> | <b>100%</b>      |

During 2004, the sales volume of our Coca-Cola trademark products decreased 1.0 percent on a consolidated basis. This decrease was the result of a 4.0 percent decline in our regular Coca-Cola trademark products, offset partially by a 4.0 percent increase in our diet Coca-Cola trademark products. The introduction of Diet Coke with Lime, along with an increase in Diet Coke volume, contributed to the improved results of our diet Coca-Cola trademark products.

On a consolidated basis, the decrease in our flavors volume was primarily attributable to a 5.5 percent decrease in Sprite, partially offset by an increase in Fanta products. The 1.0 percent increase in juices, isotonics and other, on a consolidated basis, reflected an increase in the sale of Powerade, offset by a slight decrease in the sale of Minute Maid products and Nestea.

The performance of our water brands in North America was primarily the result of an increase in the sale of Dasani. The decrease in our water volume in Europe was driven by our discontinuing the distribution of Nestle water brands in Great Britain in anticipation of the introduction of Dasani into that market. We subsequently withdrew Dasani from the Great Britain market.

The following table summarizes our 2004 bottle and can volume results by major package category, as adjusted to reflect the impact of one more selling day in 2004 versus 2003 and the impact of all acquisitions completed in 2003 as if those acquisitions were completed on January 1, 2003 (no acquisitions were made in 2004; rounded to the nearest ½ percent):

|                                       | Change        | Percent of Total |
|---------------------------------------|---------------|------------------|
| North America:                        |               |                  |
| Cans                                  | (2.0)%        | 61.5%            |
| 20-ounce                              | 0.0           | 13.0             |
| 2-liter                               | (8.5)         | 12.0             |
| Other                                 | 11.0          | 13.5             |
| <b>Total</b>                          | <b>(1.0)%</b> | <b>100.0%</b>    |
| Europe:                               |               |                  |
| Cans                                  | (3.0)%        | 38.0%            |
| Multi-serve PET (1-liter and greater) | (3.0)         | 33.5             |
| Single-serve PET                      | (11.0)        | 13.0             |
| Other                                 | (5.0)         | 15.5             |
| <b>Total</b>                          | <b>(4.5)%</b> | <b>100.0%</b>    |

#### SELLING, DELIVERY AND ADMINISTRATIVE EXPENSES 2005

Selling, delivery and administrative (“SD&A”) expenses increased \$139 million, or 2.5 percent, to \$6.1 billion in 2005. The following table summarizes the significant components of the change in our 2005 SD&A expenses (in millions; percentages rounded to the nearest ½ percent):

|  | Amount       | Change Percent of Total |
|--|--------------|-------------------------|
| Changes in SD&A expenses:                  |              |                         |
| Administrative expenses                    | \$ (16)      | (0.5)%                  |
| Delivery and merchandise expenses          | 35           | 0.5                     |
| Selling and marketing expenses             | 14           | 0.5                     |
| Restructuring charges in 2005              | 80           | 1.5                     |
| Hurricane related asset write-offs in 2005 | 26           | 0.5                     |
| Asset sale in 2005                         | (8)          | 0.0                     |
| Impact of currency exchange rate changes   | 24           | 0.5                     |
| Impact of other expenses                   | (16)         | (0.5)                   |
| <b>Change in SD&amp;A expenses</b>         | <b>\$139</b> | <b>2.5%</b>             |

SD&A expenses as a percentage of net operating revenues was 32.6 percent and 32.8 percent in 2005 and 2004, respectively. During 2005, we were able to successfully control the growth of our underlying operating expenses, as we realized cost savings associated with our ongoing operating expense initiatives. Our SD&A expenses were also impacted by the restructuring charges we recorded during the year and the asset write-offs associated with hurricane damage.

During 2005, we recorded restructuring charges totaling \$80 million. These charges were primarily related to (1) workforce reductions associated with the reorganization of our North American operations; (2) changes in our executive manage-

ment; and (3) the elimination of certain corporate headquarters positions. The reorganization of our North American operations (1) has resulted in a simplified and flatter organizational structure; (2) has helped facilitate a closer interaction between our front-line employees and our customers; and (3) will provide long-term cost savings through improved administrative and operating efficiencies. During 2006, we expect to incur additional restructuring charges in the range of \$50 million to \$60 million related to these activities and to reorganize certain aspects of our operations in Europe.

During 2005, we recorded charges totaling \$28 million related to damage caused by Hurricanes Katrina, Rita and Wilma. These charges were primarily for (1) the write-off of damaged or destroyed fixed assets; (2) the estimated costs to retrieve and dispose of non-usable vending equipment; and (3) the loss of inventory. Approximately \$26 million of the charges were included in SD&A and the remainder were recorded in cost of sales. We are self-insured up to specified limits for casualty losses, property damage and business interruption. We intend to seek recovery of amounts paid in excess of our self-insurance limits, but at this time we have not recorded any recovery amounts since we are unable to determine the ultimate outcome of these claims.

Depreciation and amortization expense totaled \$1,044 million and \$1,068 million during the years ended December 31, 2005 and 2004, respectively. The majority of our depreciation and amortization expense is recorded in SD&A expenses; however, a portion is recorded in cost of sales. During 2005, we completed an analysis of the useful lives used to depreciate our buildings and concluded that certain of the lives should be adjusted. Our depreciation and amortization expense would have been \$1,056 million, or \$12 million higher, in 2005 had we not adjusted the useful lives of these buildings.

#### 2004

SD&A expenses increased \$363 million, or 6.5 percent, to \$6.0 billion in 2004. The following table summarizes the significant components of the change in our 2004 SD&A expenses (in millions; percentages rounded to the nearest ½ percent):

|  | Amount       | Change Percent of Total |
|--|--------------|-------------------------|
| Changes in SD&A expenses:  |              |                         |
| Administrative expenses  | \$ 37        | 0.5%                    |
| Delivery and merchandise expenses  | 40           | 0.5                     |
| Selling and marketing expenses   | 16           | 0.5                     |
| Net insurance proceeds and settlement of pre-acquisition contingencies in 2003 | 82           | 1.5                     |
| Currency exchange rate changes   | 155          | 3.0                     |
| Other expenses   | 33           | 0.5                     |
| <b>Change in SD&amp;A expenses</b>   | <b>\$363</b> | <b>6.5%</b>             |

SD&A expenses as a percentage of net operating revenues was 32.8 percent and 32.2 percent in 2004 and 2003, respectively. The increase in SD&A expenses as a percentage of net operating revenues in 2004 versus 2003 was primarily the result of the net insurance proceeds and favorable pre-acquisition settlements in 2003.

## INTEREST EXPENSE

### 2005

Interest expense, net increased 2.5 percent in 2005 to \$633 million from \$619 million in 2004. During 2005, we recorded a net charge totaling \$8 million resulting from the early extinguishment of certain debt obligations in conjunction with the repatriation of foreign earnings. We also experienced higher interest rates, partially offset by a lower average outstanding debt balance. At December 31, 2005, approximately 86 percent of our debt portfolio was comprised of fixed-rate debt and 14 percent was floating-rate debt. Our weighted average cost of debt was 5.7 percent in 2005 versus 5.3 percent in 2004. Our average outstanding debt balance in 2005 was \$10.9 billion as compared to \$11.4 billion in 2004.

### 2004

Interest expense, net increased 2.0 percent in 2004 to \$619 million from \$607 million in 2003. The 2004 increase was the result of higher interest rates and currency exchange rate changes, partially offset by a lower average outstanding debt balance. At December 31, 2004, approximately 74 percent of our debt portfolio was comprised of fixed-rate debt and 26 percent was floating-rate debt. Our weighted average cost of debt was 5.3 percent in 2004 versus 5.1 percent in 2003. Our average outstanding debt balance in 2004 was \$11.4 billion as compared to \$12.1 billion in 2003.

## INCOME TAX EXPENSE

### 2005

Our effective tax rate was 35 percent and 27 percent for 2005 and 2004, respectively. Our 2005 rate includes (1) a \$128 million (16 percentage point increase in our effective tax rate) income tax provision related to the repatriation of foreign earnings; (2) a \$40 million (5 percentage point decrease in our effective tax rate) tax benefit, primarily for state tax rate changes; and (3) a \$27 million (3 percentage point decrease in our effective tax rate) tax benefit related to the revaluation of various income tax obligations. Our 2004 rate includes tax rate reductions totaling \$20 million (2 percentage point decrease in our effective rate) due to the benefit of favorable tax rate changes, primarily in Europe.

### 2004

Our effective tax rate was 27 percent and 30 percent for 2004 and 2003, respectively. These rates include tax rate reductions totaling \$20 million (2 percentage point decrease in our effective tax rate) and \$8 million (1 percentage point decrease in our effective rate) for 2004 and 2003, respectively. Our 2004 tax rate reductions were due to the benefit of favorable tax rate changes, primarily in Europe. Our 2003 tax rate reductions resulted from the revaluation of various income tax obligations of approximately \$25 million (3 percentage point decrease in our effective tax rate) and other tax adjustments of \$6 million (1 percentage point decrease in our effective tax rate), offset by the unfavorable impact of provincial tax rate changes in Canada totaling approximately \$23 million (2 percentage point increase in our effective tax rate).

## Relationship With The Coca-Cola Company

We are a marketer, producer and distributor principally of Coca-Cola products with approximately 93 percent of our sales volume consisting of sales of TCCC products. Our license

arrangements with TCCC are governed by licensing territory agreements. TCCC owned approximately 36 percent of our outstanding shares as of December 31, 2005. Our relationship with TCCC has a great impact on our success. Our collaborative efforts will continue to be beneficial to us as we work to create new brands, to market our products more effectively, to find ways to profitably grow the entire Coca-Cola business on a sustainable basis and to make our system more efficient.

For information about our transactions with TCCC during the years ended December 31, 2005, 2004 and 2003, refer to Note 3 of the Notes to Consolidated Financial Statements.

## Liquidity and Cash Flow Review

### LIQUIDITY AND CAPITAL RESOURCES

Our sources of capital include, but are not limited to, cash flows from operations, the issuance of public or private placement debt, bank borrowings and the issuance of equity securities. We believe that available short-term and long-term capital resources are sufficient to fund our capital expenditures, benefit plan contributions, working capital requirements, scheduled debt payments, interest payments, income tax obligations, dividends to our shareowners, any contemplated acquisitions and share repurchases.

The following table summarizes our availability under debt and credit facilities as of December 31, 2005 and 2004 (in millions):

|   | At December 31, |                |
|---|-----------------|----------------|
|   | 2005            | 2004           |
| Amounts available for borrowing:  |                 |                |
| Amounts available under committed domestic and international credit facilities <sup>(A)</sup> | \$2,890         | \$2,863        |
| Amounts available under public debt facilities <sup>(B)</sup> :                               |                 |                |
| Shelf registration statement with the U.S. Securities and Exchange Commission                 | 3,221           | 3,221          |
| Euro medium-term note program <sup>(C)</sup>  | 1,557           | 2,135          |
| Canadian medium-term note program <sup>(D)</sup>  | —               | 1,664          |
| <b>Total amounts available under public debt facilities</b>                                   | <b>4,778</b>    | <b>7,020</b>   |
| <b>Total amounts available</b>  | <b>\$7,668</b>  | <b>\$9,883</b> |

<sup>(A)</sup> At December 31, 2005 and 2004, we had \$172 million and \$209 million, respectively, of short-term borrowings outstanding under our committed international credit facilities. Our primary committed domestic credit facility was established in August 2004 and combined four previously separate credit facilities into a single facility that matures in 2009. This \$2.5 billion revolving credit facility is with a syndicate of 26 banks and serves as a backstop to our various commercial paper programs and for general corporate borrowing purposes. There were no outstanding borrowings under this facility as of December 31, 2005 or 2004.

<sup>(B)</sup> Amounts available under each of these public debt facilities and the related costs to borrow are subject to market conditions at the time of borrowing.

<sup>(C)</sup> In October 2005, we increased the amount available for borrowing under our Euro medium-term note program by \$500 million. In December 2005, we issued approximately \$1.1 billion in notes under this program. These notes were issued in conjunction with repatriation of foreign earnings that occurred in December 2005. For additional information about the repatriation, refer to Note 10 of the Notes to Consolidated Financial Statements.

<sup>(D)</sup> In July 2005, our Canadian medium-term note program expired as scheduled. We did not renew this program.

We satisfy seasonal working capital needs and other financing requirements with short-term borrowings under our commercial paper programs, bank borrowings and various lines of credit. At December 31, 2005 and 2004, we had approximately \$593 million and \$1.2 billion, respectively, outstanding in commercial paper. During 2006, we plan to repay a portion of the

outstanding borrowings under our commercial paper programs and short-term credit facilities with operating cash flow and intend to refinance the remaining outstanding borrowings. As shown in the preceding table, at December 31, 2005, we had approximately \$2.9 billion available for borrowing under committed domestic and international credit facilities.

#### CREDIT RATINGS AND COVENANTS

Our credit ratings are periodically reviewed by rating agencies. Currently, our long-term ratings from Moody's, Standard and Poor's and Fitch are A2, A and A, respectively. Changes in our operating results, cash flows or financial position could impact the ratings assigned by the various rating agencies. Should our credit ratings be adjusted downward, we may incur higher costs to borrow, which could have a material impact on our Consolidated Financial Statements.

Our credit facilities and outstanding notes and debentures contain various provisions that, among other things, require us to limit the incurrence of certain liens or encumbrances in excess of defined amounts. Additionally, our credit facilities require us to maintain a defined net debt to total capital ratio. We were in compliance with these requirements as of December 31, 2005. These requirements currently are not, and it is not anticipated they will become, restrictive to our liquidity or capital resources.

#### SUMMARY OF CASH ACTIVITIES

##### 2005

Our principal sources of cash consisted of those derived from operations of \$1.6 billion, proceeds from the issuance of debt aggregating \$1.5 billion, proceeds from the settlement of our interest rate swap agreements totaling \$46 million and proceeds from the disposal of capital assets totaling \$48 million. Our primary uses of cash were for debt payments of \$1.8 billion, net payments on commercial paper of \$599 million, dividend payments totaling \$76 million and capital asset investments of \$914 million.

##### 2004

Our principal sources of cash consisted of those derived from operations of \$1.6 billion, proceeds from the issuance of debt aggregating \$558 million and proceeds from the exercise of employee share options totaling \$181 million. Our primary uses of cash were for debt payments of \$1.3 billion, dividend payments totaling \$76 million and capital asset investments of \$946 million.

#### OPERATING ACTIVITIES

##### 2005

Our net cash derived from operating activities increased \$16 million in 2005 to \$1.6 billion. This increase was primarily driven by favorable changes in our assets and liabilities, offset by a decrease in our net income. For additional information about the changes in our assets and liabilities, refer to the Financial Position discussion below.

##### 2004

Our net cash derived from operating activities decreased \$182 million in 2004 to \$1.6 billion from \$1.8 billion in 2003. This decrease was primarily the result of lower net income and a smaller change in our deferred income taxes.

#### INVESTING ACTIVITIES

##### 2005

Our capital asset investments decreased \$32 million in 2005 to \$914 million and represented the principal use of cash for investing activities. Our 2005 capital asset investments included approximately (1) \$409 million for operational infrastructure improvements; (2) \$287 million for cold drink equipment; (3) \$79 million for fleet purchases; and (4) \$139 million for information technology and other capital investments. Our proceeds from the disposal of capital assets totaled \$48 million in 2005 as compared to \$24 million in 2004.

##### 2004

Our capital asset investments decreased \$153 million in 2004 to \$946 million and represented the principal use of cash for investing activities. Our 2004 capital asset investments included approximately (1) \$380 million for operational infrastructure improvements; (2) \$330 million for cold drink equipment; (3) \$95 million for fleet purchases; and (4) \$141 million for information technology and other capital investments. Our proceeds from the disposal of capital assets totaled \$24 million in 2004 as compared to \$95 million in 2003.

#### FINANCING ACTIVITIES

##### 2005

Our net cash used in financing activities increased \$172 million in 2005 to \$804 million from \$632 million in 2004. The following table summarizes our issuances of debt, payments on debt and our net payments on commercial paper for the year ended December 31, 2005 (in millions):

| Issuances of Debt                    | Maturity Date | Rate             | Amount   |
|--------------------------------------|---------------|------------------|----------|
| 550 million Euro note <sup>(A)</sup> | June 2007     | — <sup>(B)</sup> | \$ 651   |
| 350 million Euro note <sup>(A)</sup> | December 2008 | 3.125%           | 414      |
| British revolving credit facilities  | Uncommitted   | — <sup>(B)</sup> | 180      |
| French revolving credit facilities   | Uncommitted   | — <sup>(B)</sup> | 283      |
| Other issuances                      | —             | —                | 13       |
| Total issuances of debt              |               |                  | \$ 1,541 |

| Payments on Debt                                   | Maturity Date  | Rate             | Amount    |
|--|----------------|------------------|-----------|
| \$500 million U.S. dollar note <sup>(C)</sup>      | May 2007       | 5.25%            | \$ (505)  |
| \$300 million U.S. dollar note <sup>(C)</sup>      | September 2009 | 7.125%           | (183)     |
| \$550 million U.S. dollar note <sup>(C)</sup>      | August 2011    | 6.125%           | (279)     |
| \$250 million U.S. dollar note                     | January 2005   | 8.00%            | (250)     |
| French revolving credit facilities                 | Uncommitted    | — <sup>(B)</sup> | (308)     |
| British revolving credit facilities                | Uncommitted    | — <sup>(B)</sup> | (151)     |
| Other payments                                     | —              | —                | (80)      |
| Total payments on debt, excluding commercial paper |                |                  | (1,756)   |
| Net payments on commercial paper                   |                |                  | (599)     |
| Total payments on debt                             |                |                  | \$(2,355) |

<sup>(A)</sup> These notes were issued in conjunction with the repatriation of foreign earnings that occurred in December 2005. For additional information about the repatriation, refer to Note 10 of the Notes to Consolidated Financial Statements.

<sup>(B)</sup> These credit facilities and notes carry variable interest rates.

<sup>(C)</sup> These notes were extinguished or partially extinguished in conjunction with the repatriation of foreign earnings that occurred in December 2005. As a result of these extinguishments, we recorded a net loss of \$8 million (\$5 million net of tax), which is included in interest expense, net on our Consolidated Statement of Income.

During 2005 and 2004, we paid a quarterly dividend of \$0.04 per common share. In December 2005, our Board of Directors approved a 50 percent increase in our quarterly dividend to \$0.06 per common share beginning in the first quarter of 2006. Dividends are declared at the discretion of our Board of Directors.

For additional information about these financing activities, refer to Note 6 of the Notes to Consolidated Financial Statements.

## 2004

Our net cash used in financing activities decreased \$144 million in 2004 to \$632 million from \$776 million in 2003. The following table summarizes our issuances of debt, payments on debt and our net issuance of commercial paper for the year ended December 31, 2004 (in millions):

| Issuances of Debt                                   | Maturity Date | Rate             | Amount |
|---|---------------|------------------|--------|
| British revolving credit facilities                 | Uncommitted   | — <sup>(A)</sup> | \$ 187 |
| French revolving credit facilities                  | Uncommitted   | — <sup>(A)</sup> | 173    |
| Other issuances                                     | —             | —                | 26     |
| Total issuances of debt, excluding commercial paper |               |                  | 386    |
| Net issuances of commercial paper                   |               |                  | 172    |
| Total issuances of debt                             |               |                  | \$ 558 |

| Payments on Debt                    | Maturity Date | Rate             | Amount    |
|-------------------------------------|---------------|------------------|-----------|
| \$350 million Canadian dollar note  | March 2004    | 5.65%            | \$ (266)  |
| \$500 million U.S. dollar note      | April 2004    | — <sup>(A)</sup> | (500)     |
| \$60 million Canadian dollar note   | May 2004      | — <sup>(A)</sup> | (44)      |
| \$200 million U.S. dollar note      | August 2004   | 6.625%           | (200)     |
| French revolving credit facilities  | Uncommitted   | — <sup>(A)</sup> | (135)     |
| British revolving credit facilities | Uncommitted   | — <sup>(A)</sup> | (103)     |
| Other payments                      | —             | —                | (47)      |
| Total payments on debt              |               |                  | \$(1,295) |

<sup>(A)</sup> These credit facilities and notes carry variable interest rates.

## Financial Position

### ASSETS 2005

Trade accounts receivable decreased \$82 million, or 4.5 percent, to \$1.8 billion at December 31, 2005. This decrease was primarily the result of currency exchange rate changes and a decrease in our average days sales outstanding, offset partially by the termination of our sale of accounts receivable program in January 2005. At December 31, 2004, approximately \$58 million of our accounts receivable were sold under this program.

Inventories increased \$23 million, or 3.0 percent, to \$786 million at December 31, 2005 from \$763 million at December 31, 2004. This increase was primarily the result of higher cost of goods on hand, offset partially by lower levels of inventory and currency exchange rate changes.

## 2004

Trade accounts receivable increased \$142 million, or 8.0 percent, to \$1.9 billion at December 31, 2004 from \$1.7 billion at December 31, 2003. Inventories increased \$38 million, or 5.0 percent, to \$763 million at December 31, 2004 from \$725 million at December 31, 2003. These increases were primarily the result of currency exchange rate changes.

### LIABILITIES AND SHAREOWNERS' EQUITY

#### 2005

Accounts payable and accrued expenses decreased \$69 million to \$2.6 billion at December 31, 2005. This decrease was primarily the result of currency exchange rate changes, offset partially by an increase in our accrued taxes related to the repatriation.

Amounts payable to TCCC increased \$89 million to \$180 million at December 31, 2005 from \$91 million at December 31, 2004. Our balance payable to TCCC was higher due to the timing of payments, including those related to CTM programs.

Our total debt decreased \$1.0 billion to \$10.1 billion at December 31, 2005 from \$11.1 billion at December 31, 2004. This decrease was the result of cash repayments on debt exceeding new debt issuances by approximately \$814 million and a \$208 million decrease resulting from currency exchange rate changes.

In 2005, currency exchange rate changes resulted in a net loss recognized in comprehensive income of \$249 million. This amount consisted of a \$303 million loss in foreign currency translation adjustments offset by the impact of net investment hedges of \$54 million.

#### 2004

Amounts payable to TCCC increased to \$91 million at December 31, 2004 from a receivable of \$37 million at December 31, 2003. Our balance payable to TCCC increased primarily due to netting a significant portion of our funding from TCCC against the price we pay TCCC for concentrate.

Our total debt decreased \$516 million to \$11.1 billion at December 31, 2004 from \$11.6 billion at December 31, 2003. This decrease was the result of cash repayments on debt exceeding new debt issuances by approximately \$737 million, offset partially by a \$181 million increase resulting from currency exchange rate changes and a \$40 million increase from other debt related changes.

In 2004, currency exchange rate changes resulted in a net gain recognized in comprehensive income of \$277 million. This amount consisted of the benefit of approximately \$305 million in foreign currency translation adjustments offset by the impact of net investment hedges of \$28 million.

## CONTRACTUAL OBLIGATIONS AND OTHER COMMERCIAL COMMITMENTS

The following table summarizes our significant contractual obligations and commercial commitments as of December 31, 2005 (in millions):

| Contractual Obligations                       | Payments due by Period |                 |                 |                 |               |                 | Total            |
|---|------------------------|-----------------|-----------------|-----------------|---------------|-----------------|------------------|
|   | 2006                   | 2007            | 2008            | 2009            | 2010          | Thereafter      |                  |
| Debt, excluding capital leases <sup>(A)</sup> | \$ 924                 | \$ 1,012        | \$ 1,274        | \$ 1,620        | \$ 250        | \$ 4,897        | \$ 9,977         |
| Capital leases <sup>(B)</sup>                 | 20                     | 17              | 15              | 15              | 14            | 51              | 132              |
| Operating leases <sup>(C)</sup>               | 100                    | 87              | 79              | 74              | 68            | 187             | 595              |
| Purchase agreements <sup>(D)</sup>            | 972                    | 899             | 913             | —               | —             | —               | 2,784            |
| Customer contract arrangements <sup>(E)</sup> | 150                    | 81              | 56              | 34              | 20            | 30              | 371              |
| Other purchase obligations <sup>(F)</sup>     | 129                    | 15              | 7               | —               | —             | —               | 151              |
| <b>Total contractual obligations</b>          | <b>\$ 2,295</b>        | <b>\$ 2,111</b> | <b>\$ 2,344</b> | <b>\$ 1,743</b> | <b>\$ 352</b> | <b>\$ 5,165</b> | <b>\$ 14,010</b> |

| Other Commercial Commitments             | Amount of Commitment Expiration by Period |             |              |              |              |               |               |
|--|---|-------------|--------------|--------------|--------------|---------------|---------------|
|  | 2006                                      | 2007        | 2008         | 2009         | 2010         | Thereafter    | Total         |
| Affiliate guarantees <sup>(G)</sup>      | \$ 49                                     | \$ 6        | \$ 10        | \$ 10        | \$ 16        | \$ 146        | \$ 237        |
| Standby letters of credit <sup>(H)</sup> | 408                                       | 2           | —            | —            | —            | —             | 410           |
| <b>Total commercial commitments</b>      | <b>\$ 457</b>                             | <b>\$ 8</b> | <b>\$ 10</b> | <b>\$ 10</b> | <b>\$ 16</b> | <b>\$ 146</b> | <b>\$ 647</b> |

<sup>(A)</sup> These amounts represent our debt maturities, as adjusted to reflect the long-term classification of certain of our borrowings due in the next 12 months, as a result of our intent and ability to refinance these borrowings. These amounts exclude contractually required interest payments. For additional information about our debt, refer to Note 6 of the Notes to Consolidated Financial Statements.

<sup>(B)</sup> These amounts represent our minimum capital lease payments, net of interest payments totaling \$19 million. For additional information about our capital leases, refer to Note 6 of the Notes to Consolidated Financial Statements.

<sup>(C)</sup> These amounts represent our minimum operating lease payments due under non-cancelable operating leases with initial or remaining lease terms in excess of one year as of December 31, 2005. For additional information about our operating leases, refer to Note 7 of the Notes to Consolidated Financial Statements.

<sup>(D)</sup> These amounts represent non-cancelable purchase agreements with various suppliers, primarily for cans, that specify a fixed or minimum quantity that we must purchase. All purchases made under these agreements are subject to standard quality and performance criteria.

<sup>(E)</sup> These amounts represent our obligation under customer contract arrangements for pouring or vending rights in specific athletic venues, school districts or other locations. For additional information about these arrangements, refer to Note 1 of the Notes to Consolidated Financial Statements.

<sup>(F)</sup> These amounts represent outstanding purchase obligations primarily related to capital expenditures. We have not included amounts related to our requirement to purchase and place specified numbers of venders/coolers or cold drink equipment each year through 2010 under our Jumpstart Programs with TCCC. We are unable to estimate these amounts due to the varying costs for equipment placements. For additional information about our Jumpstart Programs, refer to Note 3 of the Notes to Consolidated Financial Statements.

<sup>(G)</sup> We guarantee debt and other obligations of certain third parties. In North America, we guarantee the repayment of debt owed by a PET (plastic) bottle manufacturing cooperative. We also guarantee the repayment of debt owed by a vending partnership in which we have a limited partnership interest. At December 31, 2005, the maximum amount of our guarantee was \$262 million, of which \$237 million was outstanding. For additional information about these affiliate guarantees, refer to Note 8 of the Notes to Consolidated Financial Statements.

<sup>(H)</sup> We had letters of credit outstanding totaling \$410 million at December 31, 2005, primarily for self-insurance programs. For additional information about these letters of credit, refer to Note 8 of the Notes to Consolidated Financial Statements.

## BENEFIT PLAN CONTRIBUTIONS

The following table summarizes the contributions made to our pension and other postretirement benefit plans for the years ended December 31, 2005 and 2004, as well as our projected contributions for the year ending December 31, 2006 (in millions):

|                            | Actual       |              | Projected    |
|----------------------------|--------------|--------------|--------------|
|                            | 2005         | 2004         | 2006         |
| Pension – U.S.             | \$204        | \$229        | \$145        |
| Pension – Foreign          | 70           | 37           | 71           |
| Other Postretirement       | 22           | 22           | 21           |
| <b>Total contributions</b> | <b>\$296</b> | <b>\$288</b> | <b>\$237</b> |

We fund our U.S. pension plans at a level to maintain, within established guidelines, the IRS-defined 90 percent current liability funded status. At January 1, 2005, the date of the most recent calculation, all U.S. funded defined benefit pension plans reflected current liability funded status equal to or greater than 90 percent. Our primary Canadian plan does not

require contributions at this time. Contributions to our primary Great Britain plan are based on a percentage of employees' pay.

For additional information about our pension and other postretirement benefit plans, refer to Note 9 of the Notes to Consolidated Financial Statements.

## OFF-BALANCE SHEET ARRANGEMENTS

We have identified the manufacturing cooperatives and the purchasing cooperative in which we participate as variable interest entities ("VIEs"). At December 31, 2005, our variable interests in these cooperatives included an equity investment in each of the entities and certain debt guarantees. Our maximum exposure as a result of our involvement in these cooperatives is approximately \$260 million, including our equity investments and debt guarantees. The largest of these cooperatives, of which we have determined we are not the primary beneficiary, represents greater than 95 percent of our maximum exposure. For additional information about these entities, refer to Note 8 of the Notes to Consolidated Financial Statements.

## Critical Accounting Policies

We make judgmental decisions and estimates with underlying assumptions when applying accounting principles to prepare our Consolidated Financial Statements. Certain critical accounting policies requiring significant judgments, estimates and assumptions are detailed below. We consider an accounting estimate to be critical if (1) it requires assumptions to be made that are uncertain at the time the estimate is made and (2) changes to the estimate or different estimates, that could have reasonably been used, would have materially changed our Consolidated Financial Statements. The development and selection of these critical accounting policies have been reviewed with the Audit Committee of our Board of Directors.

We believe the current assumptions and other considerations used to estimate amounts reflected in our Consolidated Financial Statements are appropriate. However, should our actual experience differ from these assumptions and other considerations used in estimating these amounts, the impact of these differences could have a material effect on our Consolidated Financial Statements.

### IMPAIRMENT TESTING OF GOODWILL AND FRANCHISE LICENSE INTANGIBLE ASSETS

We perform annual impairment tests of our goodwill and franchise license intangible assets at the North American and European group levels, which are our reporting units. Our franchise license agreements contain performance requirements and convey to us the rights to distribute and sell products of the licensor within specified territories. Our domestic cola franchise license agreements with TCCC do not expire, reflecting a long and ongoing relationship. Our agreements with TCCC covering our United States non-cola, European and Canadian operations are renewable periodically. TCCC does not grant perpetual franchise license intangible rights outside the United States; however, these agreements can be renewed for additional terms with minimal cost. We believe and expect that these and other renewable licensor agreements will be renewed at each expiration date. We have never had a franchise license agreement with TCCC be terminated due to nonperformance of the terms of the agreement or due to a decision by TCCC to terminate an agreement at the expiration of a term. After evaluating the renewal provisions and our mutually beneficial relationship with TCCC, we have assigned indefinite lives to all of our franchise license intangible assets.

The fair values calculated in our annual impairment tests are determined using discounted cash flow models involving several assumptions. These assumptions include, but are not limited to, anticipated growth rates by geographic region, our long-term anticipated growth rate, the discount rate and estimates of capital charges for our franchise license intangible assets. In performing our 2005 impairment tests, the following critical assumptions were used in determining the fair values of our goodwill and franchise license intangible assets: (1) projected long-term operating income growth of approximately 4.0 percent to 5.0 percent; (2) projected long-term growth of 2.5 percent for determining terminal value; and (3) an average discount rate of 7.6 percent, representing our targeted weighted average cost of capital ("WACC"). These and other assumptions were impacted by the current economic environment and our current expectations, which could change

in the future based on period specific facts and circumstances. Factors inherent in determining our WACC were (1) the value of our common stock; (2) the volatility of our common stock; (3) our interest costs on debt and debt market conditions; and (4) the amounts and relationships of our debt and equity capital.

We have estimated that the fair value of our North American franchise license intangible assets exceed their carrying amount by approximately 7 percent. Therefore, if the estimated value of these rights declined greater than this amount, we would need to record an impairment charge for these assets. The estimated fair value of our European franchise license intangible assets substantially exceeded their carrying amount.

For additional information about our accounting policies related to goodwill and franchise license intangible assets, refer to Note 1 of the Notes to Consolidated Financial Statements.

### PENSION PLAN VALUATIONS

We sponsor a number of defined benefit pension plans covering substantially all of our employees in North America and Europe. In determining our pension plan liabilities and related pension expense under Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions" ("SFAS 87"), critical assumptions are made. We believe the most critical of these assumptions are the discount rate and the expected long-term return on assets ("EROA"). Other assumptions we make are related to employee demographic factors such as rate of compensation increases, mortality rates, retirement patterns and turnover rates.

We determine the discount rate primarily by reference to rates of high-quality, long-term corporate bonds that mature in a pattern similar to the expected payments to be made under the plans. Decreasing our discount rate (5.8 percent for the year ended December 31, 2005) by 0.5 percent would have increased our 2005 pension expense by approximately \$32 million.

The EROA is based on long-term expectations given current investment objectives and historical results. We utilize a combination of active and passive fund management of pension plan assets in order to maximize pension returns within established risk parameters. We periodically revise asset allocations, where appropriate, to improve returns and/or manage risk. Pension expense in 2005 would have increased by approximately \$10 million had the EROA been 0.5 percent lower than that used (8.3 percent for the year ended December 31, 2005).

We utilize the five-year asset smoothing technique under SFAS 87 to recognize market gains and losses for plans representing 85 percent of our North American assets. Pension expense in 2006 will be \$9 million higher as compared to 2005 as a result of recognizing a portion of previously deferred losses.

As a result of asset losses and the decline of discount rates in recent years, our unrecognized losses now exceed the defined corridor of losses prescribed in SFAS 87. This causes our pension expense to be higher, since the excess losses must be amortized to expense until such time as, for example, increases in asset values and/or discount rates result in a reduction in unrecognized losses to a point where they do not exceed the defined corridor. Our 2005 pension expense was approximately \$15 million higher than our 2004 pension expense and we expect our 2006 pension expense to be

approximately \$12 million higher than our 2005 expense as a result of the amortization of our excess losses. Unrecognized losses, net of gains, totaling \$990 million were deferred through December 31, 2005.

For additional information about our pension plans, refer to Note 9 of the Notes to Consolidated Financial Statements.

#### **Tax Accounting**

We recognize valuation allowances on tax carryforwards when we believe that it is more likely than not that some or all of our deferred tax assets will not be realized. Deferred tax assets associated with net operating loss and tax credit carryforwards totaled \$384 million at December 31, 2005. Of this amount, approximately \$378 million is associated with U.S. federal and state carryforwards and \$6 million is associated with Canadian carryforwards. We believe the majority of our deferred tax assets will be realized because of the reversal of certain significant timing differences and anticipated future taxable income from operations. However, valuation allowances of approximately \$74 million have been provided against a portion of our U.S. state carryforwards.

For additional information about our income taxes and tax accounting, refer to Note 10 of the Notes to Consolidated Financial Statements.

#### **Cold Drink Equipment Placement Funding**

We participate in programs with TCCC designed to promote the placement of cold drink equipment ("Jumpstart Programs"). We recognize the majority of support payments received from TCCC under the Jumpstart Programs as we place cold drink equipment. A small portion of the support payments are recognized on a straight-line basis over the 12-year period beginning after equipment is placed. Approximately \$500 is recognized for each unit of equipment that is placed per year. Our principal requirement under these programs is the placement of equipment. If, for example, we are unable to place 10,000 units of equipment projected to be placed in a given year, we would reduce our recognition in income of deferred cash receipts from TCCC by \$5 million in that year. Should we not satisfy certain provisions of the programs, the agreements provide for the parties to meet to work out a mutually agreeable solution. Should the parties be unable to agree on alternative solutions, TCCC would be able to seek a partial refund. No refunds of amounts previously earned have ever been paid under the programs and we believe the probability of a partial refund of amounts previously earned under the programs is remote. We believe we would in all cases resolve any matters that might arise regarding these programs that could potentially result in a refund of amounts previously earned. At December 31, 2005, \$324 million in support payments were deferred under the Jumpstart Programs.

We believe the two most critical assumptions related to the accounting for these programs are (1) the probability of our compliance with the placement requirements, as amended, of the programs and (2) the probability of TCCC asserting their refund rights. For additional information about our Jumpstart Programs, refer to Note 3 of the Notes to Consolidated Financial Statements.

#### **Marketing Programs and Sales Incentives with Customers**

We participate in various programs and arrangements with customers designed to increase the sale of our products by these customers. Among the programs negotiated are arrangements under which allowances can be earned by customers for attaining agreed-upon sales levels or for participating in specific marketing programs. In the United States, we participate in CTM programs, which are typically developed by us but are administered by TCCC. We are responsible for all costs of these programs in our territories, except for some costs related to a limited number of specific customers. Under these programs, we pay TCCC and TCCC pays our customers as a representative for the North American bottling system. Coupon programs are also developed on a territory-specific basis with the intent of increasing sales by all customers. We believe our participation in these programs is essential to ensuring continued volume and revenue growth in the competitive marketplace. The costs of all these various programs, included as a reduction in net operating revenues, totaled approximately \$2.2 billion, \$1.9 billion and \$1.7 billion in 2005, 2004 and 2003, respectively. These amounts are net of customer marketing accrual reductions related to prior year programs of \$75 million and \$71 million in 2005 and 2004, respectively.

Under customer programs and arrangements that require sales incentives to be paid in advance, we amortize the amount paid over the period of benefit or contractual sales volume. When incentives are paid in arrears, we accrue the estimated amount to be paid based upon expected customer performance and estimated sales volume. These estimates are determined using historical customer experience and other factors, which require significant judgment. Actual amounts paid can differ from these estimates.

#### **Current Trends And Uncertainties**

##### **Interest Rate, Currency and Commodity Price Risk Management Interest Rates**

Interest rate risk is present with both fixed and floating-rate debt. We are exposed to interest rate risk in international currencies because of our intent to finance the purchase and cash flow requirements of our international subsidiaries with local borrowings. Interest rates in these markets typically differ from those in the United States. Interest rate swap agreements and other risk management instruments are used, at times, to manage our fixed/floating debt profile. At December 31, 2005, approximately 86 percent of our debt portfolio was comprised of fixed-rate debt and 14 percent was floating-rate debt. We did not have any outstanding interest rate swap agreements as of December 31, 2005.

Interest rate swap agreements generally involve exchanges of interest payments based on fixed and floating interest rates without exchanges of underlying face (notional) amounts of the designated hedges. We continually evaluate the credit quality of counterparties to interest rate swap agreements and other risk management instruments.

A one percent change in the interest costs of floating-rate debt outstanding at December 31, 2005 would change interest expense on an annual basis by approximately \$12 million. This amount is determined by calculating the effect of a hypothetical interest rate change on our floating-rate debt

after giving consideration to our interest rate swap agreements and other risk management instruments. This estimate does not include the effects of other possible occurrences such as actions to mitigate this risk or changes in our financial structure.

#### **FOREIGN CURRENCY EXCHANGE RATES**

Our European operations represented approximately 28 percent of our consolidated net operating revenues during 2005 and approximately 24 percent of our consolidated long-lived assets at December 31, 2005. Our Canadian operations represented approximately 6 percent of our consolidated net operating revenues during 2005 and approximately 9 percent of our consolidated long-lived assets at December 31, 2005. We are exposed to translation risk because our operations in Canada and Europe are in local currency and must be translated into U.S. dollars. As currency exchange rates fluctuate, translation of the income statements of international businesses into U.S. dollars affects the comparability of revenues and expenses between years. We hedge a portion of our net investments in international subsidiaries with foreign currency denominated debt at the parent company level. Our revenues are denominated in each international subsidiary's local currency; thus, we are not exposed to currency transaction risk on our revenues. We are exposed to currency transaction risk on certain purchases of raw materials and certain obligations of our international subsidiaries.

We currently use currency forward agreements and option contracts to hedge a certain portion of the aforementioned raw material purchases. These forward agreements and option contracts are scheduled to expire in 2006. For the years ended December 31, 2005, 2004 and 2003, the result of a hypothetical 10 percent adverse movement in foreign exchange rates applied to the hedging agreements and underlying exposures would not have had a material effect on our Consolidated Financial Statements.

#### **COMMODITY PRICE RISK**

We are subject to market risk with respect to commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We manage our exposure to this risk primarily through the use of pricing agreements, which enable us to establish the purchase prices for certain commodities within a defined range. During 2005, 2004 and 2003, we did not use derivative financial instruments to manage this risk. We are in the process of reviewing the possibility of using derivative financial instruments to manage the risk associated with our purchases of certain commodities during 2006.

#### **CONTINGENCIES**

For information about our contingencies, including outstanding legal cases, refer to Note 8 of the Notes to Consolidated Financial Statements.

#### **WORKFORCE**

At December 31, 2005, we had approximately 73,000 employees, including 11,000 in Europe. Approximately 18,150 of our employees in North America are covered by collective bargaining agreements in 169 different employee units and

approximately 8,600 of our employees in Europe are covered by local agreements. These bargaining agreements expire at various dates over the next seven years, including some in 2006. We believe that we will be able to renegotiate subsequent agreements on satisfactory terms.

#### **RECENTLY ISSUED STANDARDS**

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"). SFAS 154 replaces APB Opinion No. 20, "Accounting Changes," ("APB 20") and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." The statement requires a voluntary change in accounting principle to be applied retrospectively to all prior period financial statements so that those financial statements are presented as if the current accounting principle had always been applied. APB 20 previously required most voluntary changes in accounting principle to be recognized by including in net income of the period of change the cumulative effect of changing to the new accounting principle. In addition, SFAS 154 carries forward without change the guidance contained in APB 20 for reporting a correction of an error in previously issued financial statements and a change in accounting estimate. SFAS 154 is effective for accounting changes and correction of errors made after January 1, 2006.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which revises SFAS 123 and supersedes APB 25 and related interpretations. SFAS 123R requires the grant-date fair value of all share-based payment awards, including employee share options, to be recognized as employee compensation expense in the income statement. SFAS 123R is effective for the first annual reporting period beginning after June 15, 2005 and requires one of two transition methods to be applied. We are in the process of determining which transition method we will apply. Refer to Note 1 of the Notes to Consolidated Financial Statements for the proforma effect of recording our share-based compensation plans under the fair value method of SFAS 123 and Note 11 of the Notes to Consolidated Financial Statements for additional information about our share-based compensation plans.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage). In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on normal capacity of production facilities. SFAS 151 is effective January 1, 2006 and is not expected to have a material impact on our Consolidated Financial Statements.

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

See "CURRENT TRENDS AND UNCERTAINTIES — Interest Rate, Currency and Commodity Risk Management" in ITEM 7 (above).

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### Audited Financial Statements

#### Report of Management

##### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements included in this annual report. The financial statements have been prepared in accordance with U.S. generally accepted accounting principles and reflect management's judgments and estimates concerning effects of events and transactions that are accounted for or disclosed.

##### INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is also responsible for establishing and maintaining effective internal control over financial reporting. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. Management recognizes that there are inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

In order to ensure that the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently as of December 31, 2005. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes the Company maintained effective internal control over financial reporting as of December 31, 2005. Ernst & Young LLP, the Company's independent registered public accounting firm, has issued an attestation report on management's assessment of the Company's internal control over financial reporting as of December 31, 2005.

##### AUDIT COMMITTEE'S RESPONSIBILITY

The Board of Directors, acting through its Audit Committee, is responsible for the oversight of the Company's accounting policies, financial reporting and internal control. The Audit Committee of the Board of Directors is comprised entirely of outside directors who are independent of management. The Audit Committee is responsible for the appointment and compensation of our independent registered public accounting firm and approves decisions regarding the appointment or removal of our Vice President, Internal Audit. It meets periodically with management, the independent registered public accounting firm and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of the Company in addition to reviewing the Company's financial reports. Our independent registered public accounting firm and our internal auditors have full and unlimited access to the Audit Committee, with or without management, to discuss the adequacy of internal control over financial reporting, and any other matters which they believe should be brought to the attention of the Audit Committee.



LOWRY F. KLINE  
Chairman and Chief Executive Officer



WILLIAM W. DOUGLAS III  
Senior Vice President and  
Chief Financial Officer



CHARLES D. LISCHER  
Vice President, Controller and  
Chief Accounting Officer

Atlanta, Georgia  
February 16, 2006

## Report of Independent Registered Public Accounting Firm on Financial Statements

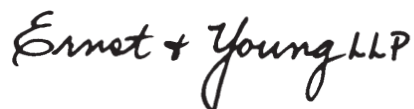
The Board of Directors and Shareowners of Coca-Cola Enterprises Inc.

We have audited the accompanying consolidated balance sheets of Coca-Cola Enterprises Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Coca-Cola Enterprises Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Coca-Cola Enterprises Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2006 expressed an unqualified opinion thereon.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Atlanta, Georgia  
February 16, 2006

## Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareowners of Coca-Cola Enterprises Inc.

We have audited management's assessment, included in the Internal Control Over Financial Reporting section of the accompanying Report of Management, that Coca-Cola Enterprises Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Coca-Cola Enterprises Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

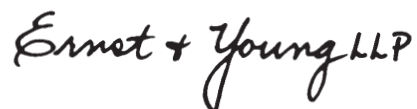
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Coca-Cola Enterprises Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Coca-Cola Enterprises Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Coca-Cola Enterprises Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2005 and our report dated February 16, 2006 expressed an unqualified opinion thereon.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Atlanta, Georgia  
February 16, 2006

**Coca-Cola Enterprises Inc.**  
**Consolidated Statements of Income**

| (in millions, except per share data)                                    | Year ended December 31, |          |          |
|---|-------------------------|----------|----------|
|   | 2005                    | 2004     | 2003     |
| Net operating revenues  | \$18,706                | \$18,158 | \$17,330 |
| Cost of sales   | 11,185                  | 10,771   | 10,165   |
| Gross profit  | 7,521                   | 7,387    | 7,165    |
| Selling, delivery and administrative expenses                           | 6,090                   | 5,951    | 5,588    |
| Operating income  | 1,431                   | 1,436    | 1,577    |
| Interest expense, net   | 633                     | 619      | 607      |
| Other nonoperating (expense) income, net                                | (8)                     | 1        | 2        |
| Income before income taxes  | 790                     | 818      | 972      |
| Income tax expense  | 276                     | 222      | 296      |
| Net income  | 514                     | 596      | 676      |
| Preferred stock dividends   | —                       | —        | 2        |
| Net income applicable to common shareowners                             | \$ 514                  | \$ 596   | \$ 674   |
| Basic net income per share applicable to common shareowners             | \$ 1.09                 | \$ 1.28  | \$ 1.48  |
| Diluted net income per share applicable to common shareowners           | \$ 1.08                 | \$ 1.26  | \$ 1.46  |
| Dividends declared per share applicable to common shareowners           | \$ 0.22                 | \$ 0.16  | \$ 0.16  |
| Basic weighted average common shares outstanding                        | 471                     | 465      | 454      |
| Diluted weighted average common shares outstanding                      | 476                     | 473      | 461      |
| Income (expense) from transactions with The Coca-Cola Company — Note 3: |                         |          |          |
| Net operating revenues  | \$ 574                  | \$ 547   | \$ 475   |
| Cost of sales   | (4,926)                 | (4,906)  | (4,475)  |
| Selling, delivery and administrative expenses                           | 41                      | (5)      | 23       |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**Coca-Cola Enterprises Inc.**  
**Consolidated Balance Sheets**

| (in millions, except share data)  | December 31, |           |
|---|--------------|-----------|
|   | 2005         | 2004      |
| <b>Assets</b>   |              |           |
| <b>Current:</b>   |              |           |
| Cash and cash equivalents   | \$ 107       | \$ 155    |
| Trade accounts receivable, less allowances of \$40 and \$43, respectively   | 1,802        | 1,884     |
| Inventories   | 786          | 763       |
| Current deferred income tax assets  | 313          | 196       |
| Prepaid expenses and other current assets   | 387          | 373       |
| Total current assets  | 3,395        | 3,371     |
| Property, plant and equipment, net  | 6,560        | 6,913     |
| Goodwill  | 578          | 578       |
| Franchise license intangible assets, net  | 13,832       | 14,517    |
| Customer distribution rights and other noncurrent assets, net   | 992          | 1,082     |
| Total assets  | \$ 25,357    | \$ 26,461 |
| <b>Liabilities and Shareowners' Equity</b>  |              |           |
| <b>Current:</b>   |              |           |
| Accounts payable and accrued expenses   | \$ 2,639     | \$ 2,708  |
| Amounts payable to The Coca-Cola Company, net   | 180          | 91        |
| Deferred cash receipts from The Coca-Cola Company   | 83           | 45        |
| Current portion of debt   | 944          | 607       |
| Total current liabilities   | 3,846        | 3,451     |
| Debt, less current portion  | 9,165        | 10,523    |
| Retirement and insurance programs and other long-term obligations   | 1,309        | 1,406     |
| Deferred cash receipts from The Coca-Cola Company, less current   | 246          | 331       |
| Long-term deferred income tax liabilities   | 5,106        | 5,338     |
| Amounts payable to The Coca-Cola Company  | 42           | 34        |
| Total liabilities   | \$ 19,714    | \$ 21,083 |
| <b>Shareowners' Equity:</b>   |              |           |
| Common stock, \$1 par value – Authorized – 1,000,000,000 shares;<br>Issued – 481,827,242 and 477,331,329 shares, respectively | 482          | 477       |
| Additional paid-in-capital  | 2,943        | 2,860     |
| Reinvested earnings   | 2,170        | 1,761     |
| Accumulated other comprehensive income  | 162          | 390       |
| Common stock in treasury, at cost – 8,031,660 and 7,680,398 shares, respectively  | (114)        | (110)     |
| Total shareowners' equity   | 5,643        | 5,378     |
| Total liabilities and shareowners' equity   | \$ 25,357    | \$ 26,461 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**Coca-Cola Enterprises Inc.**  
**Consolidated Statements of Cash Flows**

| (in millions)  | Year ended December 31, |               |              |
|--|-------------------------|---------------|--------------|
|  | 2005                    | 2004          | 2003         |
| <b>Cash Flows From Operating Activities:</b>   |                         |               |              |
| Net income   | \$ 514                  | \$ 596        | \$ 676       |
| Adjustments to reconcile net income to net cash derived from operating activities:                                 |                         |               |              |
| Depreciation and amortization  | 1,044                   | 1,068         | 1,022        |
| Net change in customer distribution rights   | 29                      | 18            | 61           |
| Share-based compensation expense   | 30                      | 23            | 13           |
| Deferred funding income from The Coca-Cola Company   | (47)                    | (50)          | (72)         |
| Deferred income tax expense  | 78                      | 124           | 237          |
| Pension expense less than retirement plan contributions  | (91)                    | (113)         | (107)        |
| Changes in assets and liabilities, net of acquisition amounts:   |                         |               |              |
| Trade accounts and other receivables   | (30)                    | (21)          | 75           |
| Inventories  | (48)                    | (2)           | 35           |
| Prepaid expenses and other assets  | (26)                    | 29            | (106)        |
| Accounts payable and accrued expenses  | 264                     | 57            | 69           |
| Other changes, net   | (86)                    | (114)         | (106)        |
| Net cash derived from operating activities   | 1,631                   | 1,615         | 1,797        |
| <b>Cash Flows From Investing Activities:</b>   |                         |               |              |
| Capital asset investments  | (914)                   | (946)         | (1,099)      |
| Capital asset disposals, \$9 million and \$58 million from<br>The Coca-Cola Company in 2005 and 2003, respectively | 48                      | 24            | 95           |
| Acquisitions of bottling operations, net of cash acquired  | —                       | —             | (13)         |
| Net cash used in investing activities  | (866)                   | (922)         | (1,017)      |
| <b>Cash Flows From Financing Activities:</b>   |                         |               |              |
| (Decrease) increase in commercial paper, net   | (599)                   | 172           | (817)        |
| Issuances of debt  | 1,541                   | 386           | 913          |
| Payments on debt   | (1,756)                 | (1,295)       | (857)        |
| Dividend payments on common and preferred stock  | (76)                    | (76)          | (74)         |
| Exercise of employee share options   | 40                      | 181           | 30           |
| Interest rate swap settlements   | 46                      | —             | 29           |
| Net cash used in financing activities  | (804)                   | (632)         | (776)        |
| Net effect of currency exchange rate changes on cash and cash equivalents  | (9)                     | 14            | 8            |
| <b>Net Change In Cash and Cash Equivalents</b>   | <b>(48)</b>             | <b>75</b>     | <b>12</b>    |
| <b>Cash and Cash Equivalents At Beginning of Year</b>  | <b>155</b>              | <b>80</b>     | <b>68</b>    |
| <b>Cash and Cash Equivalents At End of Year</b>  | <b>\$ 107</b>           | <b>\$ 155</b> | <b>\$ 80</b> |
| <b>Supplemental Noncash Investing And Financing Activities:</b>  |                         |               |              |
| Acquisitions of bottling operations:   |                         |               |              |
| Fair value of assets acquired  | \$ —                    | \$ —          | \$ 27        |
| Debt issued and assumed  | —                       | —             | (3)          |
| Other liabilities assumed  | —                       | —             | (11)         |
| Cash paid, net of cash acquired  | —                       | —             | 13           |
| Capital lease additions  | 36                      | 53            | 18           |
| Interest paid, net of amounts capitalized  | 630                     | 583           | 609          |
| Income taxes paid (refunded), net  | 137                     | 108           | (1)          |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**Coca-Cola Enterprises Inc.**  
**Consolidated Statements of Shareowners' Equity**

| (in millions)  | Year ended December 31, |                 |                 |
|--|-------------------------|-----------------|-----------------|
|  | 2005                    | 2004            | 2003            |
| <b>Preferred Stock:</b>                                  |                         |                 |                 |
| Balance at beginning of year                             | \$ —                    | \$ —            | \$ 37           |
| Conversion of preferred stock to common stock            | —                       | —               | (37)            |
| Balance at end of year                                   | —                       | —               | —               |
| <b>Common Stock:</b>                                     |                         |                 |                 |
| Balance at beginning of year                             | 477                     | 462             | 458             |
| Exercise of employee share options                       | 3                       | 13              | 3               |
| Deferred compensation plans                              | —                       | 1               | —               |
| Issuance of share-based compensation awards              | 2                       | 1               | 1               |
| Balance at end of year                                   | 482                     | 477             | 462             |
| <b>Additional Paid-in Capital:</b>                       |                         |                 |                 |
| Balance at beginning of year                             | 2,860                   | 2,611           | 2,581           |
| Issuance of share-based compensation awards              | 46                      | 32              | 29              |
| Unamortized cost of share-based compensation awards      | (48)                    | (33)            | (30)            |
| Deferred compensation plans                              | (3)                     | 21              | (6)             |
| Expense related to share-based compensation awards       | 30                      | 23              | 13              |
| Exercise of employee share options                       | 37                      | 168             | 25              |
| Tax benefit from share-based compensation awards         | 17                      | 37              | 9               |
| Conversion of preferred stock to common stock            | —                       | —               | (9)             |
| Other changes  | 4                       | 1               | (1)             |
| Balance at end of year                                   | 2,943                   | 2,860           | 2,611           |
| <b>Reinvested Earnings:</b>                              |                         |                 |                 |
| Balance at beginning of year                             | 1,761                   | 1,241           | 639             |
| Dividends declared on common stock                       | (105)                   | (76)            | (72)            |
| Dividends on preferred stock                             | —                       | —               | (2)             |
| Net income   | 514                     | 596             | 676             |
| Balance at end of year                                   | 2,170                   | 1,761           | 1,241           |
| <b>Accumulated Other Comprehensive Income:</b>           |                         |                 |                 |
| Balance at beginning of year                             | 390                     | 133             | (236)           |
| Currency translations                                    | (303)                   | 305             | 572             |
| Net investment hedges                                    | 54                      | (28)            | (86)            |
| Minimum pension liability adjustments                    | 23                      | (23)            | (106)           |
| Other changes, net                                       | (2)                     | 3               | (11)            |
| Net other comprehensive income adjustments, net of taxes | (228)                   | 257             | 369             |
| Balance at end of year                                   | 162                     | 390             | 133             |
| <b>Treasury Stock:</b>                                   |                         |                 |                 |
| Balance at beginning of year                             | (110)                   | (82)            | (132)           |
| Deferred compensation plans                              | 3                       | (22)            | 4               |
| Conversion of preferred stock to common stock            | —                       | —               | 46              |
| Other changes  | (7)                     | (6)             | —               |
| Balance at end of year                                   | (114)                   | (110)           | (82)            |
| <b>Total Shareowners' Equity</b>                         | <b>\$ 5,643</b>         | <b>\$ 5,378</b> | <b>\$ 4,365</b> |
| <b>Comprehensive Income:</b>                             |                         |                 |                 |
| Net income   | \$ 514                  | \$ 596          | \$ 676          |
| Net other comprehensive income adjustments               | (228)                   | 257             | 369             |
| Total comprehensive income                               | \$ 286                  | \$ 853          | \$ 1,045        |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# Notes to Consolidated Financial Statements

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

### The Company's Business

Coca-Cola Enterprises Inc. ("CCE," "we," "our" or "us") is the world's largest marketer, producer and distributor of bottle and can nonalcoholic beverages. We market, produce and distribute our bottle and can products to customers and consumers through license territories in 46 states in the United States, the District of Columbia, the United States Virgin Islands and the 10 provinces of Canada (collectively referred to as "North America"). We are also the sole licensed bottler for products of The Coca-Cola Company ("TCCC") in Belgium, continental France, Great Britain, Luxembourg, Monaco and the Netherlands (collectively referred to as "Europe").

### Basis of Presentation

Our Consolidated Financial Statements include the accounts of CCE and our majority-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. Our fiscal year ends on December 31. For interim quarterly reporting convenience, we report on the Friday closest to the end of the quarterly calendar period. There were two fewer selling days in 2005 versus 2004 and one more selling day in 2004 versus 2003.

### Use of Estimates

Our Consolidated Financial Statements and accompanying Notes are prepared in accordance with U.S. generally accepted accounting principles and include estimates and assumptions made by management that affect reported amounts. Actual results could differ materially from those estimates.

### Reclassifications

We have reclassified certain amounts in our prior years' Consolidated Financial Statements to conform to our current presentation.

### Revenue Recognition

We recognize net operating revenues from the sale of our products when we deliver the products to our customers and in the case of full service vending, when we collect cash from vending machines. We earn service revenues for equipment maintenance and production when services are completed.

### Shipping and Handling Costs

Shipping and handling costs related to the movement of finished goods from manufacturing locations to our sales distribution centers are included in cost of sales on our Consolidated Statements of Income. Shipping and handling costs incurred to move finished goods from our sales distribution centers to customer locations are included in selling, delivery and administrative ("SD&A") expenses on our Consolidated Statements of Income and totaled approximately \$1.6 billion in 2005, 2004 and 2003. Our customers do not pay us separately for shipping and handling costs.

### Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments purchased with maturity dates of less than three months. The fair value of our cash and cash equivalents approximate the amounts shown in our Consolidated Balance Sheets due to their short-term nature.

### Credit Risk and Trade Accounts Receivable Allowance

We sell our products to retailers, wholesalers and other customers and extend credit, generally without requiring collateral, based on our evaluation of the customer's financial condition. While we have a concentration of credit risk in the retail sector, this risk is mitigated due to our large number of geographically dispersed customers. Potential losses on receivables are dependent on each individual customer's financial condition and sales adjustments granted after the balance sheet date. We carry our trade accounts receivable at net realizable value. Typically, our accounts receivable are collected in less than 40 days and do not bear interest. We monitor our exposure to losses on receivables and maintain allowances for potential losses or adjustments. We determine these allowances by (1) evaluating the aging of our receivables; (2) analyzing our history of sales adjustments; and (3) reviewing our high-risk customers. Past due receivable balances are written-off when our internal collection efforts have been unsuccessful in collecting the amount due.

### Sale of Accounts Receivable

During January 2005, we terminated an agreement in Canada whereby designated revolving pools of accounts receivable were sold with recourse at a discount to a Canadian special purpose trust. Upon termination, we classified the related remittance of customer cash receipts to the special purpose trust as a reduction in cash flows from operations on our Consolidated Statement of Cash Flows. At December 31, 2004, approximately \$58 million of receivables were sold under this agreement. We accounted for this agreement as a sale and, therefore, excluded the sold receivables from our Consolidated Balance Sheet. We retained collection and administrative responsibilities for the accounts receivable sold. Our liability to service the receivables sold was indistinguishable from other collection responsibilities and was not separately recorded as a liability. Our recourse liability was limited to the requirement to repurchase any balance that ceased to be a part of the designated pool.

### Inventories

We value our inventories at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method.

The following table summarizes our inventories as of December 31, 2005 and 2004 (in millions):

|                            | 2005  | 2004  |
|----------------------------|-------|-------|
| Finished goods             | \$483 | \$450 |
| Raw materials and supplies | 303   | 313   |
| Total inventories          | \$786 | \$763 |

## Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Major property additions, replacements and betterments are capitalized, while maintenance and repairs that do not extend the useful life of an asset are expensed as incurred. Depreciation is recorded using the straight-line method over the respective estimated useful lives of our assets. Our cold drink equipment is depreciated using the straight-line method over the estimated useful life of each group of equipment, as determined using the group-life method. Under this method, we do not recognize gains or losses on the disposal of individual units of equipment when the disposal occurs in the normal course of business. We capitalize the costs of refurbishing our cold drink equipment and depreciate those costs over the estimated period until the next scheduled refurbishment or until the equipment is retired. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the improvement. For tax purposes, we use other depreciation methods (generally, accelerated depreciation methods) where appropriate.

Our interests in assets acquired under capital leases are included in property, plant and equipment and are primarily related to fleet assets and certain buildings. Amounts due under capital leases are recorded as liabilities and are included in our total debt (refer to Note 6).

We assess the recoverability of the carrying amount of our property, plant and equipment when events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. If we determine that the carrying amount of an asset or asset group is not recoverable based upon the expected undiscounted future cash flows of the asset or asset group, we record an impairment loss equal to the excess of the carrying amount over the estimated fair value of the asset or asset group.

We capitalize certain development costs associated with internal use software, including external direct costs of materials and services and payroll costs for employees devoting time to a software project. Costs incurred during the preliminary project stage, as well as costs for maintenance and training, are expensed as incurred. During 2005 and 2004, we capitalized approximately \$35 million and \$55 million, respectively, related to our multi-year effort to redesign our business processes and implement the SAP software platform.

The following table summarizes our property, plant and equipment as of December 31, 2005 and 2004 (in millions):

|   | 2005     | 2004     | Useful Life    |
|---|----------|----------|----------------|
| Land  | \$ 503   | \$ 488   | n/a            |
| Building and improvements                       | 2,176    | 2,197    | 20 to 40 years |
| Cold drink equipment                            | 5,388    | 5,465    | 5 to 13 years  |
| Fleet   | 1,610    | 1,680    | 5 to 20 years  |
| Machinery and equipment                         | 3,271    | 3,219    | 3 to 20 years  |
| Furniture and office equipment                  | 1,067    | 1,020    | 3 to 10 years  |
| Property, plant and equipment                   | 14,015   | 14,069   |                |
| Less: accumulated depreciation and amortization | 7,756    | 7,408    |                |
|   | 6,259    | 6,661    |                |
| Construction in process                         | 301      | 252      |                |
| Property, plant and equipment, net              | \$ 6,560 | \$ 6,913 |                |

Depreciation and amortization expense on our property, plant and equipment totaled \$1,044 million, \$1,068 million and \$1,022 million during the years ended December 31, 2005, 2004 and 2003, respectively. The majority of our depreciation and amortization expense is recorded in SD&A expenses; however, a portion is recorded as cost of sales. During 2005, we completed an analysis of the useful lives used to depreciate our buildings and concluded that certain of the lives should be adjusted. Our depreciation and amortization expense would have been \$1,056 million, or \$12 million higher, in 2005 had we not adjusted the useful lives of these buildings.

## Goodwill and Franchise License Intangible Assets

We do not amortize our goodwill and franchise license intangible assets. Instead, we test these assets for impairment annually, or more frequently if events or changes in circumstances indicate they may be impaired. We perform our impairment tests of goodwill and franchise license intangible assets at the North American and European group levels, which are our reporting units.

The impairment test for our goodwill involves comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, a second step is required to measure the goodwill impairment loss. This step compares the implied fair value of the reporting unit's goodwill to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. The impairment test for our franchise license intangible assets involves comparing the estimated fair value of franchise license intangible assets for a reporting unit, as determined using discounted future cash flows, to its carrying amount to determine if a write-down to fair value is required. At October 28, 2005, we performed our annual impairment tests of goodwill and franchise license intangible assets. The results indicated that the fair values of our goodwill and franchise license intangible assets exceeded their carrying amounts and, therefore, the assets are not impaired.

We have estimated that the fair value of our North American franchise license intangible assets exceed their carrying amount by approximately 7 percent. Therefore, if the estimated value of these rights declined greater than this amount, we would need to record an impairment charge for these assets. The estimated fair value of our European franchise license intangible assets substantially exceeded their carrying amount.

The following table summarizes the net carrying amounts of our franchise license intangible assets as of December 31, 2005 and 2004 (in millions):

|  | 2005     | 2004     |
|--|----------|----------|
| North America                            | \$10,367 | \$10,593 |
| Europe                                   | 3,465    | 3,924    |
| Franchise license intangible assets, net | \$13,832 | \$14,517 |

Our franchise license agreements contain performance requirements and convey to us the rights to distribute and sell products of the licensor within specified territories. Our domestic cola franchise license agreements with TCCC do not expire, reflecting a long and ongoing relationship. Our agreements with TCCC covering our United States non-cola, European and Canadian operations are periodically renewable. TCCC does not grant perpetual franchise license intangible rights outside the United States; however, these agreements can be renewed for additional terms with minimal cost. We believe and expect that these and other renewable licensor agreements will be renewed at each expiration date and, therefore, are essentially perpetual. We have never had a franchise license agreement with TCCC be terminated due to non-performance of the terms of the agreement or due to a decision by TCCC to terminate an agreement at the expiration of a term. After evaluating the renewal provisions of our franchise license agreements and our mutually beneficial relationship with TCCC, we have assigned indefinite lives to all of our franchise license intangible assets.

### Investments in Marketable Equity Securities

We record our investments in marketable equity securities at fair value. Changes in the fair value of securities classified as available for sale are recorded in accumulated other comprehensive income on our Consolidated Balance Sheets, unless we determine that an unrealized loss is other than temporary. If we determine that an unrealized loss is other than temporary, we recognize the loss in earnings (refer to Note 13).

### Risk Management Programs

In general, we are self-insured for the costs of workers' compensation, casualty and health and welfare claims. We use commercial insurance for casualty and workers' compensation claims to reduce the risk of catastrophic losses. Workers' compensation and casualty losses are estimated through actuarial procedures of the insurance industry and by using industry assumptions, adjusted for our specific expectations based on our claim history. Our workers' compensation liability is discounted using estimated weighted average risk-free interest rates that correspond with expected payment dates.

### Share-Based Compensation Plans

We account for our share-based compensation plans using the intrinsic value method of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations.

We have share-based compensation plans that provide for the granting of non-qualified share options and restricted shares to certain key employees. We do not recognize share option compensation expense because our share options are granted with exercise prices equal to or greater than the fair value of our stock on the date of grant. We recognize employee compensation expense for restricted share awards and share option award modifications. During 2005, we recognized employee compensation expense totaling \$10 million (\$7 million net of tax) related to the modification of certain restricted share awards and share options. The majority of these modifications occurred in connection with our restructuring activities (refer to Note 17).

The following table illustrates the effect on reported net income and earnings per share applicable to common shareowners for the years ended December 31, 2005, 2004 and 2003, had we accounted for our share-based compensation plans using the fair value method of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS 148 (in millions, except per share data):

|  | 2005   | 2004   | 2003   |
|--|--------|--------|--------|
| Net income applicable to common shareowners, as reported   | \$ 514 | \$ 596 | \$ 674 |
| Add: Total share-based employee compensation costs included in net income applicable to common shareowners, net of tax | 19     | 15     | 8      |
| Less: Total share-based employee compensation costs determined under the fair value method for all awards, net of tax  | (52)   | (71)   | (69)   |
| Net income applicable to common shareowners, pro forma   | \$ 481 | \$ 540 | \$ 613 |
| Net income per share applicable to common shareowners:   |        |        |        |
| Basic – as reported  | \$1.09 | \$1.28 | \$1.48 |
| Basic – pro forma  | \$1.02 | \$1.16 | \$1.35 |
| Diluted – as reported  | \$1.08 | \$1.26 | \$1.46 |
| Diluted – pro forma  | \$1.01 | \$1.14 | \$1.33 |

For additional information about our share-based compensation plans, refer to Note 11.

### Income Taxes

We recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of our assets and liabilities. We establish valuation allowances if we believe that it is more likely than not that some or all of our deferred tax assets will not be realized (refer to Note 10).

### Foreign Currency Translation

Assets and liabilities of our international operations are translated from local currencies into U.S. dollars at currency exchange rates in effect at the end of a fiscal period. Gains and losses from the translation of foreign entities are included in accumulated other comprehensive income on our Consolidated Balance Sheets. Revenues and expenses are translated at average monthly currency exchange rates. Transaction gains and losses arising from currency exchange rate fluctuations on transactions denominated in a currency other than the local functional currency are included in other nonoperating income, net on our Consolidated Statements of Income.

### Fair Values of Financial Instruments and Derivatives

The fair values of our cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts due to their short-term nature. The fair values of our debt instruments are calculated based on debt with similar maturities and credit quality and current market interest rates (refer to Note 6). The estimated fair values of our derivative instruments are calculated based on market rates. These values represent the estimated amounts we would receive or pay

to terminate agreements, taking into consideration current market rates. Market conditions and counterparty creditworthiness can also factor into the values received or paid should there be an actual unwinding of any of these agreements (refer to Note 5).

### Derivative Financial Instruments

We account for our derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended (refer to Note 5). We, at times, use interest rate swap agreements and other financial instruments to manage the fluctuation of interest rates on our debt portfolio. We also use currency swap agreements, forward agreements, options and other financial instruments to minimize the impact of currency exchange rate changes on our nonfunctional currency cash flows and to protect the value of our net investments in foreign operations. All derivative financial instruments are recorded at their fair values on our Consolidated Balance Sheets. We do not use derivative financial instruments for trading or speculative purposes.

Interest rate swap agreements designated as fair value hedges are used to mitigate our exposure to changes in the fair value of fixed-rate debt resulting from fluctuations in interest rates. Effective changes in the fair value of these hedges are recognized as adjustments to the carrying values of the related hedged liabilities. Any changes in the fair value of these hedges that are the result of ineffectiveness are recognized in other nonoperating (expense) income, net on our Consolidated Statements of Income.

Our cash flow hedges are used to mitigate our exposure to changes in cash flows attributable to currency fluctuations associated with certain forecasted transactions, including our international raw material purchases and payments on certain foreign currency debt obligations. Effective changes in the fair value of these cash flow hedging instruments are recognized in accumulated other comprehensive income on our Consolidated Balance Sheets. The effective changes are then recognized in the period that the forecasted purchases or payments are made in the expense line items on our Consolidated Statements of Income that are consistent with the underlying hedged item. Any changes in the fair value of these cash flow hedges that are the result of ineffectiveness are recognized in other nonoperating (expense) income, net on our Consolidated Statements of Income.

We enter into certain foreign currency denominated borrowings as net investment hedges of our international subsidiaries. Changes in the carrying value of these borrowings arising from currency exchange rate changes are recognized in accumulated other comprehensive income on our Consolidated Balance Sheets to offset the change in the carrying value of the net investment being hedged.

We also, at times, enter into derivative instruments that are not designated as hedge instruments under SFAS 133. Changes in the fair value of these instruments are recognized in other nonoperating (expense) income, net on our Consolidated Statements of Income.

We are exposed to counterparty credit risk on all of our derivative financial instruments. Because the amounts are recorded at fair value, the full amount of our exposure is the carrying value of these instruments. We only enter into derivative transactions with well established financial institutions, so we believe our risk is minimal. We do not require collateral under these agreements.

### Marketing Programs and Sales Incentives

We participate in various programs and arrangements with customers designed to increase the sale of our products by these customers. Among the programs negotiated are arrangements under which allowances can be earned by customers for attaining agreed-upon sales levels or for participating in specific marketing programs. In the United States, we participate in cooperative trade marketing ("CTM") programs, which are typically developed by us but are administered by TCCC. We are responsible for all costs of these programs in our territories, except for some costs related to a limited number of specific customers. Under these programs, we pay TCCC and TCCC pays our customers as a representative for the North American bottling system. Coupon programs are also developed on a territory-specific basis with the intent of increasing sales by all customers. We believe our participation in these programs is essential to ensuring continued volume and revenue growth in the competitive marketplace. The costs of all these various programs, included as a reduction in net operating revenues, totaled approximately \$2.2 billion, \$1.9 billion and \$1.7 billion in 2005, 2004 and 2003, respectively.

Under customer programs and arrangements that require sales incentives to be paid in advance, we amortize the amount paid over the period of benefit or contractual sales volume. When incentives are paid in arrears, we accrue the estimated amount to be paid based upon expected customer performance and estimated sales volume.

We frequently participate with TCCC in contractual arrangements in school districts and at specific athletic venues and other locations, whereby we obtain exclusive pouring or vending rights at a specific location in exchange for cash payments. We record our obligation under each contract at inception and defer and amortize the total required payments using the straight-line method over the term of the contract. At December 31, 2005, the net unamortized balance of these arrangements, included in customer distribution rights and other noncurrent assets, net on our Consolidated Balance Sheet, totaled \$491 million (\$1,045 million capitalized, net of \$554 million in accumulated amortization). Amortization expense on these assets, included as a reduction in net operating revenues, totaled \$145 million, \$150 million and \$143 million in 2005, 2004 and 2003, respectively. The following table summarizes the estimated future amortization expense related to these assets as of December 31, 2005 (in millions):

| Years ending December 31,        | Amortization Expense |
|----------------------------------|----------------------|
| 2006                             | \$137                |
| 2007                             | 114                  |
| 2008                             | 86                   |
| 2009                             | 59                   |
| 2010                             | 40                   |
| Thereafter                       | 55                   |
| <b>Total future amortization</b> | <b>\$491</b>         |

At December 31, 2005, the liability associated with these arrangements totaled \$371 million, \$150 million of which is included in accounts payable and accrued expenses on our Consolidated Balance Sheet, and \$221 million is included in other long-term obligations on our Consolidated Balance Sheet. Cash payments on these obligations totaled \$116 million,

\$132 million and \$82 million in 2005, 2004 and 2003, respectively. The following table summarizes the estimated future payments required under these arrangements as of December 31, 2005 (in millions):

| Years ending December 31,    | Future Payments |
|------------------------------|-----------------|
| 2006                         | \$150           |
| 2007                         | 81              |
| 2008                         | 56              |
| 2009                         | 34              |
| 2010                         | 20              |
| Thereafter                   | 30              |
| <b>Total future payments</b> | <b>\$371</b>    |

For presentation purposes, the net change in customer distribution rights on our Consolidated Statements of Cash Flows is presented net of cash payments made under these arrangements.

For additional information about our transactions with TCCC, refer to Note 3.

### Marketing Costs and Other Support Arrangements

We participate in various funding programs supported by TCCC or other licensors, whereby we receive funds from the licensors to support customer marketing programs or other arrangements that promote the sale of the licensor's products. Under these programs, certain costs incurred by us are reimbursed by the applicable licensor. We classify cash consideration received from vendors as a reduction in cost of sales, unless we can overcome the presumption that the cash consideration is a reduction in the price of the vendor's products.

Payments from TCCC and other licensors for marketing programs and other similar arrangements to promote the sale of products are classified as a reduction in cost of sales. These payments are recognized in cost of sales either in the period in which payments are specified or on a per unit basis over the year as product is sold. Payments for volume-based marketing programs are recognized as product is sold and payments for programs covering a specific period are recognized on a straight-line basis over the specified period. Support payments from licensors received in connection with market or infrastructure development are classified as a reduction in cost of sales.

For additional information about our transactions with TCCC, refer to Note 3.

## NOTE 2 NEW ACCOUNTING STANDARDS

### Recently Issued Standards

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"). SFAS 154 replaces APB Opinion No. 20, "Accounting Changes," ("APB 20") and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." The statement requires a voluntary change in accounting principle to be applied retrospectively to all prior period financial statements so that those financial statements are presented as if the current accounting principle had always been applied. APB 20 previously required most voluntary

changes in accounting principle to be recognized by including in net income of the period of change the cumulative effect of changing to the new accounting principle. In addition, SFAS 154 carries forward, without change, the guidance contained in APB 20 for reporting a correction of an error in previously issued financial statements and a change in accounting estimate. SFAS 154 is effective for accounting changes and correction of errors made after January 1, 2006.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which revises SFAS 123 and supersedes APB 25 and related interpretations. SFAS 123R requires the grant-date fair value of all share-based payment awards, including employee share options, to be recognized as employee compensation expense in the income statement. SFAS 123R is effective for the first annual reporting period beginning after June 15, 2005 and requires one of two transition methods to be applied. We are in the process of determining which transition method we will apply. Refer to Note 1 for the proforma effect of recording our share-based compensation plans under the fair value method of SFAS 123 and Note 11 for additional information about our share-based compensation plans.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage). In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on normal capacity of production facilities. SFAS 151 is effective January 1, 2006 and is not expected to have a material impact on our Consolidated Financial Statements.

### Recently Adopted Standards

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 clarifies that a conditional asset retirement obligation, as used in SFAS 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of the settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. We adopted FIN 47 during the fourth quarter of 2005 and it did not have a material impact on our Consolidated Financial Statements.

In December 2004, the FASB issued SFAS No. 153, "Exchange of Nonmonetary Assets, an amendment of APB Opinion No. 29" ("SFAS 153"). SFAS 153 eliminates the exception for nonmonetary exchanges of similar productive assets, which were previously required to be recorded on a carryover basis rather than at fair value. Instead, this statement provides that exchanges of nonmonetary assets that do not have commercial substance be reported at carryover basis rather than at fair value. A nonmonetary exchange is considered to have commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. We adopted SFAS 153 during the second quarter of 2005 and it did not have a material impact on our Consolidated Financial Statements.

### NOTE 3 RELATED PARTY TRANSACTIONS

We are a marketer, producer and distributor principally of Coca-Cola products with approximately 93 percent of our sales volume consisting of sales of TCCC products. Our license arrangements with TCCC are governed by licensing territory agreements. TCCC owned approximately 36 percent of our outstanding shares as of December 31, 2005. From time to time, the terms and conditions of programs with TCCC are modified upon mutual agreement of both parties.

The following table summarizes the transactions with TCCC that directly affected our Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003 (in millions):

|  | 2005             | 2004             | 2003             |
|--|------------------|------------------|------------------|
| Amounts affecting net operating revenues:                        |                  |                  |                  |
| Fountain syrup and packaged product sales                        | \$ 428           | \$ 428           | \$ 403           |
| Dispensing equipment repair services                             | 70               | 63               | 62               |
| Other transactions   | 76               | 56               | 10               |
| <b>Total</b>   | <b>\$ 574</b>    | <b>\$ 547</b>    | <b>\$ 475</b>    |
| Amounts affecting cost of sales:                                 |                  |                  |                  |
| Purchases of syrup, concentrate, mineral water and juice         | \$(4,411)        | \$(4,609)        | \$(4,451)        |
| Purchases of sweeteners  | (275)            | (309)            | (311)            |
| Purchases of finished products                                   | (731)            | (615)            | (655)            |
| Marketing support funding earned                                 | 444              | 577              | 862              |
| Cold drink equipment placement funding earned                    | 47               | 50               | 72               |
| Cost recovery from sale of hot-fill production facility          | —                | —                | 8                |
| <b>Total</b>   | <b>\$(4,926)</b> | <b>\$(4,906)</b> | <b>\$(4,475)</b> |
| Amounts affecting selling, delivery and administrative expenses: |                  |                  |                  |
| Marketing program payments                                       | \$ (3)           | \$ (22)          | \$ (2)           |
| Operating expense cost reimbursements:                           |                  |                  |                  |
| To TCCC  | —                | —                | (18)             |
| From TCCC  | 28               | 25               | 43               |
| Other transactions   | 16               | (8)              | —                |
| <b>Total</b>   | <b>\$ 41</b>     | <b>\$ (5)</b>    | <b>\$ 23</b>     |

#### Fountain Syrup and Packaged Product Sales

We sell fountain syrup to TCCC in certain territories and deliver this syrup to certain major fountain accounts of TCCC. We will, on behalf of TCCC, invoice and collect amounts receivable for these fountain sales. We also sell bottle and can products to TCCC at prices that are generally similar to the prices charged by us to our major customers.

#### Purchases of Syrup, Concentrate, Mineral Water, Juice, Sweeteners and Finished Products

We purchase syrup, concentrate, mineral water and juice from TCCC to produce, package, distribute and sell TCCC products under licensing agreements. These licensing agreements give TCCC complete discretion to set prices of syrup and concentrate. Pricing of mineral water is based on contractual arrangements with TCCC. We also purchase finished products and fountain syrup from TCCC for sale within certain of our territories and have an agreement with TCCC to purchase from them substantially all of our requirements for sweeteners in the United States.

During 2005, we received approximately \$53 million in proceeds from the settlement of litigation against suppliers of high fructose corn syrup ("HFCS"). These proceeds were recorded as a reduction in our cost of sales and included a payment of approximately \$49 million from TCCC, which represented our share of the proceeds received by TCCC from the claims administrator. The amount received from TCCC is not included in the preceding table.

#### Marketing Support Funding Earned and Other Arrangements

We and TCCC engage in a variety of marketing programs to promote the sale of products of TCCC in territories in which we operate. The amounts to be paid under the programs are determined annually and periodically as the programs progress. TCCC is under no obligation to participate in the programs or continue past levels of funding in the future. The amounts paid and terms of similar programs may differ with other licensees. Marketing support funding programs granted to us provide financial support principally based on product sales to offset a portion of the costs to us of the programs. TCCC also administers certain other marketing programs directly with our customers. During 2005, 2004 and 2003, direct-marketing support paid or payable to us, or to customers in our territories by TCCC, totaled approximately \$580 million, \$681 million and \$977 million, respectively. We recognized \$444 million, \$577 million and \$862 million of these amounts as a reduction in cost of sales during 2005, 2004 and 2003, respectively. Amounts paid directly to our customers by TCCC during 2005, 2004 and 2003 totaled \$136 million, \$104 million and \$115 million, respectively, and are not included in the preceding table.

Effective May 1, 2004 in the United States and June 1, 2004 in Canada, we and TCCC agreed that a significant portion of our funding from TCCC would be netted against the price we pay TCCC for concentrate. As a result of this change, we and TCCC agreed to terminate the Strategic Growth Initiative ("SGI") program and eliminate the Special Marketing Funds ("SMF") funding program previously in place. TCCC paid us for all funding earned under the SMF funding program. Under the SGI program, we recognized \$58 million and \$161 million during 2004 and 2003, respectively, related to sales and volume growth through the termination date of the program. These amounts are included in the total amounts recognized in marketing support funding earned in the preceding table.

In conjunction with the above changes, we and TCCC agreed to establish a Global Marketing Fund ("GMF"), effective May 1, 2004, under which TCCC is paying us \$61.5 million annually through December 31, 2014, as support for marketing activities. The term of the agreement will automatically be extended for successive ten-year periods thereafter unless either party gives written notice to terminate the agreement. The marketing activities to be funded under this agreement will be agreed upon each year as part of the annual joint planning process and will be incorporated into the annual marketing plans of both companies. TCCC may terminate this agreement for the balance of any year in which we fail to timely complete the marketing plans or are unable to execute the elements of those plans, when such failure is within our reasonable control. We received \$61.5 million in conjunction with the GMF in 2005 and a pro rata amount of \$41.5 million during 2004. These amounts are included in the total amounts recognized in marketing support funding earned in the preceding table.

We participate in CTM programs in the United States administered by TCCC. We are responsible for all costs of the programs in our territories, except for some costs related to a limited number of specific customers. Under these programs, we pay TCCC and TCCC pays our customers as a representative for the North American bottling system. Amounts paid under CTM programs to TCCC for payment to our customers are included as a reduction in net operating revenues and totaled \$243 million, \$224 million and \$219 million in 2005, 2004 and 2003. These amounts are not included in the preceding table.

We have an agreement with TCCC under which TCCC provides support payments for the marketing of certain brands of TCCC in the Herb territories acquired in 2001. Under the terms of this agreement, we received \$14 million in 2005, 2004 and 2003, and will receive \$14 million annually through 2008 and \$11 million in 2009. Payments received under this agreement are not refundable to TCCC. These amounts are included in the total amounts recognized in marketing support funding earned in the preceding table.

### **Cold Drink Equipment Placement Funding Earned**

We participate in programs with TCCC designed to promote the placement of cold drink equipment ("Jumpstart Programs"). Under the Jumpstart Programs, as amended, we agree to (1) purchase and place specified numbers of venders/coolers or cold drink equipment each year through 2010; (2) maintain the equipment in service, with certain exceptions, for a minimum period of 12 years after placement; (3) maintain and stock the equipment in accordance with specified standards for marketing TCCC products; and (4) report to TCCC during the period the equipment is in service whether, on average, the equipment purchased under the programs has generated a stated minimum sales volume of TCCC products. We have agreed to relocate equipment if it is not generating sufficient volume to meet minimum requirements. Movement of the equipment is required only if it is determined that, on average, sufficient volume is not being generated and it would help to ensure our performance under the programs.

During December 2005, we and TCCC amended our Jumpstart agreements in North America to move to a system of "credits," whereby we earn credit toward our annual purchase and placement requirements (expressed as "total credits") based upon the type of equipment placed and the

expected revenue contribution of the equipment. The amended agreements also provide that no violation of the Jumpstart Programs will occur even if we do not attain the required number of credits in any given year, so long as (1) the shortfall does not exceed 20 percent of the required credits for that year; (2) a compensating payment is made to TCCC or its affiliate; (3) the shortfall is corrected in the following year; and (4) we meet all specified credit requirements by the end of 2010. The amended Jumpstart agreements were effective January 1, 2005.

During 2004, we and TCCC amended our Jumpstart agreements in North America to defer the placement of certain vending equipment from 2004 and 2005 to 2009 and 2010. In exchange for this amendment, we agreed to pay TCCC \$1.5 million in 2004, \$3.0 million annually in 2005 through 2008 and \$1.5 million in 2009. Additionally, we and TCCC amended our Jumpstart agreement in Europe to (1) consolidate country-specific placement requirements; (2) redefine the definition of a placement for certain large coolers; and (3) extend the agreement through 2009.

Should we not satisfy the provisions of the Jumpstart Programs, the agreements provide for the parties to meet to work out a mutually agreeable solution. Should the parties be unable to agree on alternative solutions, TCCC would be able to seek a partial refund. No refunds of amounts previously earned have ever been paid under the programs and we believe the probability of a partial refund of amounts previously earned under the programs is remote. We believe we would in all cases resolve any matters that might arise regarding these programs. We and TCCC have amended prior agreements to reflect, where appropriate, modified goals and we believe that we can continue to resolve any differences that might arise over our performance requirements under the Jumpstart Programs.

We received approximately \$1.2 billion in Jumpstart support payments from TCCC during the period 1994 through 2001. There are no additional amounts payable to us from TCCC under these programs. We recognize the majority of support payments received from TCCC as we place cold drink equipment. A small portion of the support payments are recognized on a straight-line basis over the 12-year period beginning after equipment is placed. We recognized a total of \$47 million, \$50 million and \$72 million as a reduction to cost of sales during 2005, 2004 and 2003, respectively. The decrease in the 2005 and 2004 amounts as compared to 2003 reflects the reduction in equipment purchases and placements as provided for under the amended agreements.

At December 31, 2005, \$324 million in support payments were deferred under the Jumpstart Programs. Approximately \$305 million of this amount is expected to be recognized during the period 2006 through 2010 as equipment is placed and approximately \$19 million is expected to be recognized over the 12-year period after the equipment is placed. We have allocated the support payments to equipment units based on per unit funding amounts. The amount allocated to the requirement to place equipment is the balance remaining after determining the potential cost of moving the equipment after initial placement. The amount allocated to the potential cost of moving equipment after initial placement is determined based on an estimate of the units of equipment that could potentially be moved and an estimate of the cost to move that equipment.

## Marketing Program Payments

On occasion, we participate in marketing programs outside the scope of recurring arrangements with TCCC. In 2005, 2004 and 2003, we paid TCCC approximately \$3 million, \$22 million and \$2 million, respectively, for participation in these types of marketing programs.

## Operating Expense Cost Reimbursements

During 2005, we sold a multi-format PET (plastic) bottle production line in Belgium to TCCC for \$9 million in cash. We did not recognize a gain or loss on this sale. This amount is included in the preceding table.

During 2005, we recorded a \$5 million restructuring charge as a result of workforce changes at a Chaudfontaine production facility in Belgium. This charge was recorded net of \$5 million to be received from TCCC as reimbursement for a portion of the restructuring costs (refer to Note 17). This amount is included in the preceding table.

During 2004, we revised our base SMF funding rate with TCCC to include reimbursements related to certain staffing costs associated with customer marketing group ("CMG") efforts and local media activities. We subsequently terminated our SMF funding agreement with TCCC in the second quarter of 2004 as previously discussed. Prior to 2004, TCCC reimbursed us for the staffing costs of CMG efforts in North America and we reimbursed TCCC for the staffing costs of local media efforts. Amounts reimbursed to us by TCCC for CMG staffing costs during 2003 totaled \$43 million. Amounts reimbursed to TCCC for local media staffing costs totaled \$18 million in 2003. The 2005 and 2004 amounts reflected in the preceding table represent staffing costs reimbursed to us by TCCC under a separate agreement.

## Other Transactions

Other transactions with TCCC include the sale of bottle pre-forms, management fees, office space leases and purchases of point-of-sale and other advertising items.

During 2004, we recalled the recently launched Dasani water brand in Great Britain because of bromate levels exceeding British regulatory standards. We received \$32 million from TCCC during 2004 as reimbursement for recall costs. We recognized this reimbursement as an offset to the related costs of the recall. This amount is not included in the preceding table.

During 2003, we sold a hot-fill plant in Truesdale, Missouri to TCCC for approximately \$58 million, realizing cost recoveries for operating, depreciation and carrying costs of \$8 million as a reduction in cost of sales. This amount is included in the preceding table.

During 2003, we acquired the production and distribution facilities of Chaudfontaine, a Belgian water brand. At the same time, TCCC acquired the Chaudfontaine water source and brand. The total acquisition cost for both TCCC and us was \$31 million in cash and assumed debt. Our portion of the acquisition cost was \$16 million in cash and assumed debt. We also entered into an agreement with TCCC to equally share the cash flows from the sale of Chaudfontaine products. This amount is not included in the preceding table.

## NOTE 4 ACCOUNTS PAYABLE AND ACCRUE EXPENSES

The following table summarizes our accounts payable and accrued expenses as of December 31, 2005 and 2004 (in millions):

|                                       | 2005    | 2004    |
|---------------------------------------|---------|---------|
| Trade accounts payable                | \$ 744  | \$ 835  |
| Accrued marketing costs               | 597     | 689     |
| Accrued compensation and benefits     | 362     | 295     |
| Accrued interest costs                | 179     | 206     |
| Accrued taxes                         | 275     | 204     |
| Accrued self-insurance obligations    | 194     | 167     |
| Other accrued expenses                | 288     | 312     |
| Accounts payable and accrued expenses | \$2,639 | \$2,708 |

## NOTE 5 DERIVATIVE FINANCIAL INSTRUMENTS

### Interest Rate Swap Agreements

In December 2005, we settled all of our outstanding fixed-to-floating interest rate swaps with an aggregate notional amount of \$1.4 billion. These swaps were previously designated as fair value hedges of fixed-rate debt instruments due August 15, 2006, May 15, 2007, September 30, 2009 and August 15, 2011. As a result of the settlement, we received \$46 million, which represented the fair value of the hedges on the date of settlement. This amount included \$4 million previously recognized as adjustments to interest expense under the terms of the swap agreements. Accordingly, the fair value adjustments to the previously hedged debt instruments totaled \$42 million at the time of settlement. We recognized \$23 million of this amount as part of the loss on the extinguishment of a portion of the previously hedged debt instruments and are recognizing \$19 million as a reduction to interest expense over the remaining term of the previously hedged debt instruments. We extinguished the debt instruments in conjunction with the repatriation of foreign earnings that occurred in December 2005 (refer to Notes 6 and 10).

In March 2003, we settled a fixed-to-floating interest rate swap with a notional amount of \$150 million. As a result, we received \$29 million, which represented the fair value of the hedge on the settlement date. The swap was previously designated as a fair value hedge of a fixed rate debt instrument due September 30, 2009. At the date of settlement, the fair value adjustments to the previously hedged debt instrument totaled \$29 million. This amount is being recognized as a reduction to interest expense over the remaining term of the previously hedged debt instrument.

During 2005, 2004 and 2003, there was no ineffectiveness related to the change in the fair value of these hedges. At December 31, 2004, our interest rate swap agreements had a total fair value of approximately \$95 million, which was recorded in customer distribution rights and other noncurrent assets, net on our Consolidated Balance Sheet and was included in the carrying amount of our debt.

## Cash Flow Hedges

Cash flow hedges are used to mitigate our exposure to changes in cash flows attributable to currency fluctuations associated with certain forecasted transactions, including our international raw material purchases and payments on certain foreign currency debt obligations. During 2005, 2004 and 2003, there was no material ineffectiveness related to the change in the fair value of these hedges.

At December 31, 2005, our cash flow hedges related to the purchase of international raw materials had a total fair value of approximately \$1.1 million, which was recorded in prepaid expenses and other current assets on our Consolidated Balance Sheet. Unrealized net of tax gains of approximately \$0.5 million related to these hedges was included in accumulated other comprehensive income on our Consolidated Balance Sheet. We expect these gains to be reclassified into cost of sales within the next 12 months as the forecasted purchases

are made. At December 31, 2004, our cash flow hedges related to the purchase of international raw materials had a total fair value of approximately \$3.5 million, which was recorded in prepaid expenses and other current assets on our Consolidated Balance Sheet. Unrealized net of tax gains of approximately \$2.0 million related to these hedges was included in accumulated other comprehensive income on our Consolidated Balance Sheet. These gains were reclassified into cost of sales during 2005 as the forecasted purchases were made.

## Net Investment Hedges

We enter into certain foreign currency denominated borrowings as net investment hedges of our international subsidiaries. During 2005, 2004 and 2003, we recorded a net of tax gain of \$54 million, a net of tax loss of \$28 million and a net of tax loss of \$86 million, respectively, in accumulated other comprehensive income on our Consolidated Balance Sheets, related to these hedges.

## NOTE 6 DEBT AND CAPITAL LEASES

The following table summarizes our debt as of December 31, 2005 and 2004, as adjusted for the effects of our interest rate swap agreements, if applicable (in millions, except rates):

|  | 2005              |                      | 2004              |                      |
|--|-------------------|----------------------|-------------------|----------------------|
|  | Principal Balance | Rates <sup>(A)</sup> | Principal Balance | Rates <sup>(A)</sup> |
| U.S. commercial paper                                      | \$ 156            | 3.9%                 | \$ 849            | 2.2%                 |
| Euro commercial paper                                      | 236               | 2.4                  | 193               | 2.2                  |
| Canadian dollar commercial paper                           | 201               | 3.4                  | 182               | 2.6                  |
| U.S. dollar notes due 2006–2037 <sup>(B)(C)</sup>          | 2,496             | 5.0                  | 3,763             | 4.2                  |
| Euro and pound sterling notes due 2006–2021 <sup>(D)</sup> | 2,563             | 4.6                  | 1,680             | 5.9                  |
| Canadian dollar notes due 2009                             | 129               | 5.9                  | 125               | 5.9                  |
| U.S. dollar debentures due 2012–2098                       | 3,783             | 7.4                  | 3,783             | 7.4                  |
| U.S. dollar zero coupon notes due 2020 <sup>(E)</sup>      | 193               | 8.4                  | 177               | 8.4                  |
| Various foreign currency debt and credit facilities        | 172               | —                    | 209               | —                    |
| Capital lease obligations <sup>(F)</sup>                   | 132               | —                    | 126               | —                    |
| Other debt obligations                                     | 48                | —                    | 43                | —                    |
| <b>Total debt<sup>(G)</sup></b>                            | <b>10,109</b>     |                      | <b>11,130</b>     |                      |
| Less: current portion of debt                              | 944               |                      | 607               |                      |
| <b>Debt, less current portion</b>                          | <b>\$ 9,165</b>   |                      | <b>\$10,523</b>   |                      |

<sup>(A)</sup> These rates represent the weighted average interest rates or effective interest rates on the balances outstanding, as adjusted for the effects of our interest rate swap agreements, if applicable.

<sup>(B)</sup> In January 2005, a \$250 million note matured.

<sup>(C)</sup> In December 2005, we extinguished \$169 million of 7.125 percent notes due 2009, \$263 million of 6.125 percent notes due 2011 and \$500 million of 5.25 percent notes due 2007. These notes were extinguished in conjunction with the repatriation of foreign earnings that occurred in December 2005 (refer to Note 10). As a result of these extinguishments, we recorded a net loss of \$8 million (\$5 million net of tax), which is included in interest expense, net on our Consolidated Statement of Income.

<sup>(D)</sup> In December 2005, we issued approximately \$1.1 billion in notes under our Euro medium-term note program. This debt issuance was comprised of \$651 million of variable rate notes due 2007 (550 million Euro notes) and \$415 million of 3.125 percent fixed rate notes due 2008 (350 million Euro notes). We issued these notes in conjunction with the repatriation of foreign earnings that occurred in December 2005 (refer to Note 10).

<sup>(E)</sup> These amounts are shown net of unamortized discounts of \$436 million and \$452 million at December 31, 2005 and 2004, respectively.

<sup>(F)</sup> These amounts represent the present value of our minimum capital lease payments as of December 31, 2005 and 2004, respectively.

<sup>(G)</sup> The total fair value of our debt was \$11.1 billion and \$12.2 billion at December 31, 2005 and 2004, respectively.

## Future Maturities

The following table summarizes our debt maturities and capital lease obligations as of December 31, 2005, as adjusted to reflect the long-term classification of certain of our borrowings due in the next 12 months as a result of our intent and ability to refinance these borrowings (in millions):

| Years ending December 31,      | Debt Maturities |
|--------------------------------|-----------------|
| 2006                           | \$ 924          |
| 2007                           | 1,012           |
| 2008                           | 1,274           |
| 2009                           | 1,620           |
| 2010                           | 250             |
| Thereafter                     | 4,897           |
| Debt, excluding capital leases | \$ 9,977        |

| Years ending December 31,                                      | Capital Leases |
|--|----------------|
| 2006   | \$ 20          |
| 2007   | 17             |
| 2008   | 15             |
| 2009   | 15             |
| 2010   | 14             |
| Thereafter   | 51             |
| Present value of minimum capital lease payments <sup>(A)</sup> | 132            |
| Total debt   | \$10,109       |

<sup>(A)</sup> Amounts due under capital lease are net of interest payments totaling \$19 million.

At December 31, 2005 and 2004, approximately \$849 million and \$1.1 billion, respectively, of borrowings due in the next 12 months, including commercial paper, were classified as long-term on our Consolidated Balance Sheets as a result of our intent and our ability to refinance these borrowings through amounts available under committed domestic and international credit facilities. The \$849 million is included in our 2009 maturities in the preceding table, which corresponds to the scheduled expiration of our primary committed domestic credit facility discussed below.

## Debt and Credit Facilities

We have amounts available to us under various debt and credit facilities. Amounts available under our committed credit facilities serve as back-up to our domestic and international commercial paper programs and support our working capital needs. Amounts available under our public debt facilities could be used for long-term financing, refinancing of debt maturities and refinancing of commercial paper. The following table summarizes our availability under debt and credit facilities as of December 31, 2005 and 2004 (in millions):

| At December 31,   | 2005    | 2004    |
|---|---------|---------|
| Amounts available for borrowing:  |         |         |
| Amounts available under committed domestic and international credit facilities <sup>(A)</sup> | \$2,890 | \$2,863 |
| Amounts available under public debt facilities <sup>(B)</sup> :                               |         |         |
| Shelf registration statement with the U.S. Securities and Exchange Commission                 | 3,221   | 3,221   |
| Euro medium-term note program <sup>(C)</sup>  | 1,557   | 2,135   |
| Canadian medium-term note program <sup>(D)</sup>  | —       | 1,664   |
| Total amounts available under public debt facilities  | 4,778   | 7,020   |
| Total amounts available   | \$7,668 | \$9,883 |

<sup>(A)</sup> At December 31, 2005 and 2004, we had \$172 million and \$209 million, respectively, of short-term borrowings outstanding under our committed international credit facilities. Our primary committed domestic credit facility was established in August 2004 and combined four previously separate credit facilities into a single facility that matures in 2009. This \$2.5 billion revolving credit facility is with a syndicate of 26 banks and serves as a backstop to our various commercial paper programs and for general corporate borrowing purposes. There were no outstanding borrowings under this facility as of December 31, 2005 or 2004.

<sup>(B)</sup> Amounts available under each of these public debt facilities and the related costs to borrow are subject to market conditions at the time of borrowing.

<sup>(C)</sup> In October 2005, we increased the amount available for borrowing under our Euro medium-term note program by \$500 million. In December 2005, we issued approximately \$1.1 billion in notes under this program. These notes were issued in conjunction with repatriation of foreign earnings that occurred in December 2005 (refer to Note 10).

<sup>(D)</sup> In July 2005, our Canadian medium-term note program expired as scheduled. We did not renew this program.

## Covenants

Our credit facilities and outstanding notes and debentures contain various provisions that, among other things, require us to limit the incurrence of certain liens or encumbrances in excess of defined amounts. Additionally, our credit facilities require us to maintain a defined net debt to total capital ratio. We were in compliance with these requirements as of December 31, 2005. These requirements currently are not, and it is not anticipated they will become, restrictive to our liquidity or capital resources.

## NOTE 7 OPERATING LEASES

We lease office and warehouse space, computer hardware, machinery and equipment and vehicles under non-cancelable operating lease agreements expiring at various dates through 2049. Some lease agreements contain standard renewal provisions, which allow us to renew the lease at rates equivalent to fair market value at the end of the lease term. Under lease agreements that contain escalating rent provisions, lease expense is recorded on a straight-line basis over the lease term. Rent expense under non-cancelable operating lease agreements totaled approximately \$165 million, \$170 million and \$144 million during 2005, 2004 and 2003, respectively.

The following table summarizes our minimum lease payments under non-cancelable operating leases with initial or remaining lease terms in excess of one year as of December 31, 2005 (in millions):

| Years ending December 31,                     | Operating Leases |
|---|------------------|
| 2006  | \$100            |
| 2007  | 87               |
| 2008  | 79               |
| 2009  | 74               |
| 2010  | 68               |
| Thereafter                                    | 187              |
| <b>Total minimum operating lease payments</b> | <b>\$595</b>     |

## NOTE 8 COMMITMENTS AND CONTINGENCIES

### Affiliate Guarantees

We guarantee debt and other obligations of certain third parties. In North America, we guarantee the repayment of debt owed by a PET (plastic) bottle manufacturing cooperative in which we have an equity interest. We also guarantee the repayment of debt owed by a vending partnership in which we have a limited partnership interest.

The following table summarizes the maximum amounts of our guarantees and the amounts outstanding under these guarantees as of December 31, 2005 and 2004 (in millions):

| Category                  | Expiration           | Guaranteed   |              | Outstanding  |              |
|---------------------------|----------------------|--------------|--------------|--------------|--------------|
|                           |                      | 2005         | 2004         | 2005         | 2004         |
| Manufacturing cooperative | Various through 2015 | \$236        | \$236        | \$223        | \$206        |
| Vending partnership       | November 2006        | 25           | 25           | 13           | 16           |
| Other                     | Renewable            | 1            | 1            | 1            | 1            |
|                           |                      | <b>\$262</b> | <b>\$262</b> | <b>\$237</b> | <b>\$223</b> |

The following table summarizes the expiration of amounts outstanding under our guarantees as of December 31, 2005 (in millions):

| Years ending December 31, | Outstanding Amounts |
|---------------------------|---------------------|
| 2006                      | \$ 49               |
| 2007                      | 6                   |
| 2008                      | 10                  |
| 2009                      | 10                  |
| 2010                      | 16                  |
| Thereafter                | 146                 |
| <b>Total outstanding</b>  | <b>\$237</b>        |

We hold no assets as collateral against these guarantees and no contractual recourse provisions exist under the guarantees that would enable us to recover amounts we guarantee in the event of an occurrence of a triggering event under these guarantees. These guarantees arose as a result of our ongoing business relationships.

## Variable Interest Entities

We have identified the manufacturing cooperatives and the purchasing cooperative in which we participate as variable interest entities ("VIEs"). FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R") requires us to consolidate the assets, liabilities and results of operations of these VIEs if we determine that we are the primary beneficiary.

At December 31, 2005, our variable interests in these cooperatives included an equity investment in each of the entities and certain debt guarantees. At December 31, 2005, these entities had total assets of approximately \$415 million and total debt of approximately \$290 million. For the year ended December 31, 2005, these entities had total revenues, including sales to us, of approximately \$750 million. Our maximum exposure as a result of our involvement in these cooperatives is approximately \$260 million, including our equity investments and debt guarantees. The largest of these cooperatives, of which we have determined we are not the primary beneficiary, represents greater than 95 percent of our maximum exposure. We have been purchasing PET (plastic) bottles from this cooperative since 1984 and our first equity investment was made in 1988.

## Purchase Commitments

We have non-cancelable purchase agreements with various suppliers, primarily for cans, that specify a fixed or minimum quantity that we must purchase. All purchases made under these agreements are subject to standard quality and performance criteria. The following table summarizes our purchase commitments under these agreements as of December 31, 2005 (in millions):

| Years ending December 31,  | Purchase Amount |
|----------------------------|-----------------|
| 2006                       | \$ 972          |
| 2007                       | 899             |
| 2008                       | 913             |
| Total purchase commitments | \$2,784         |

## Legal Contingencies

On February 7, 2006, a purported class action lawsuit was filed against us and several of our current and former officers and directors (the "Argento Suit"). The lawsuit alleges that we engaged in "channel stuffing" with customers and raises certain insider trading claims. Also, on February 7, 2006, a separate, but related derivative lawsuit was filed against TCCC, certain officers and directors of TCCC and certain of our officers and directors. This lawsuit makes claims that are virtually identical to the Argento Suit and further alleges that we are "controlled" by TCCC to our detriment and to the detriment of our shareholders. We are in the process of examining the claims raised in these lawsuits and possess strong defenses to the claims and expect, in due course, to ask the courts to dismiss the lawsuits. At this time, it is not possible for us to predict the ultimate outcome of these matters.

On February 14, 2006, a lawsuit was filed by 48 United States Coca-Cola bottler plaintiffs against TCCC and us (the "Ozarks Suit"). This lawsuit brings claims for breach of contract and breach of duty, along with other related claims arising out of our plan to offer warehouse delivery of Powerade to

a specific customer within our territory. The lawsuit seeks unspecified compensatory and exemplary damages and seeks preliminary and permanent injunctive relief. Also, on February 14, 2006, a second lawsuit was filed by six additional bottler plaintiffs. This lawsuit brings claims that are substantially similar to those in the Ozarks Suit, although it does not contain a request for preliminary injunctive relief. We are in the process of examining the claims raised in these lawsuits and possess strong defenses to the claims. At this time, it is not possible for us to predict the ultimate outcome of this matter.

In 2000, we and TCCC were found by a Texas jury to be jointly liable in a combined amount of \$15.2 million to five plaintiffs, each a distributor of competing beverage products. These distributors sued alleging that we and TCCC engaged in anticompetitive marketing practices. The trial court's verdict was upheld by the Texas Court of Appeals in July 2003. We and TCCC argued our appeals before the Texas Supreme Court in November 2004. The court has not yet released a decision. Should the trial court's verdict not be overturned, this matter would not have a material adverse effect on our Consolidated Financial Statements. The claims of three remaining plaintiffs in this case remain to be tried. We intend to vigorously defend against an unfavorable outcome in these claims. At this time, we have not recorded any amounts for potential awards related to these additional claims.

Our California subsidiary has been sued by several current and former employees over alleged violations of state wage and hour rules. Several of these suits have now been resolved and are to be dismissed. Amounts to be paid toward the settlements reached in these suits have been recorded in our Consolidated Financial Statements. Our California subsidiary is vigorously defending against the remaining claims. At this time, it is not possible for us to predict the ultimate outcome of these matters.

We are a party to various other matters of litigation or claims, including other employment matters, generally arising out of the normal course of business. Although it is difficult to predict the ultimate outcome of these matters, we believe that any ultimate liability would not have a material adverse effect on our Consolidated Financial Statements.

During 2005, we received approximately \$53 million in proceeds from the settlement of litigation against suppliers of HFCS. These proceeds were recorded as a reduction in our cost of sales.

## Environmental

At December 31, 2005, there were two federal and two state superfund sites for which we and our bottling subsidiaries' involvement or liability as a potentially responsible party ("PRP") was unresolved. We believe any ultimate liability under these PRP designations will not have a material effect on our Consolidated Financial Statements. In addition, we or our bottling subsidiaries have been named as a PRP at 38 other federal and 10 other state superfund sites under circumstances that have led us to conclude that either (1) we will have no further liability because we had no responsibility for having deposited hazardous waste; (2) our ultimate liability, if any, would be less than \$100,000 per site; or (3) payments made to date will be sufficient to satisfy our liability.

### **Income Taxes**

Our tax filings for various periods are subjected to audit by tax authorities in most jurisdictions where we conduct business. These audits may result in assessments of additional taxes that are subsequently resolved with the authorities or potentially through the courts. Currently, there are assessments involving certain of our subsidiaries, including one of our Canadian subsidiaries, which may not be resolved for many years. We believe we have substantial defenses to the questions being raised and would pursue all legal remedies before an unfavorable outcome would result. We believe we have adequately provided for any amounts that could result from these proceedings where (1) it is probable we will pay some amount and (2) the amount can be estimated. At this time, it is not possible for us to predict the ultimate outcome of some of these matters.

### **Letters of Credit**

At December 31, 2005, we had letters of credit issued as collateral for claims incurred under self-insurance programs for workers' compensation and large deductible casualty insurance programs aggregating \$405 million and letters of credit for certain operating activities aggregating \$5 million. In December 2004, we entered into a Multicurrency Letter of Credit Agreement with six financial institutions. Pursuant to this agreement, we received a five-year commitment from the underlying lenders to issue standby letters of credit in an aggregate face amount not to exceed \$540 million at any time.

### **Workforce**

At December 31, 2005, we had approximately 73,000 employees, including 11,000 in Europe. Approximately 18,150 of our employees in North America are covered by collective bargaining agreements in 169 different employee units and approximately 8,600 of our employees in Europe are covered by local agreements. (These employee numbers are unaudited.) These bargaining agreements expire at various dates over the next seven years, including some in 2006. We believe that we will be able to renegotiate subsequent agreements on satisfactory terms.

### **Indemnifications**

In the normal course of business, we enter into agreements that provide general indemnifications. We have not made significant indemnification payments under such agreements in the past and we believe the likelihood of incurring such a payment obligation in the future is remote. Furthermore, we cannot reasonably estimate future potential payment obligations, because we cannot predict when and under what circumstances they may be incurred. As a result, we have not recorded a liability in our Consolidated Financial Statements with respect to these general indemnifications.

## **NOTE 9 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS**

### **Pension Plans**

We sponsor a number of defined benefit pension plans covering substantially all of our employees in North America and Europe. Pension plans representing approximately 97 percent of our total benefit obligations were measured as of September 30th and all other plans were measured as of December 31st.

### **Other Postretirement Plans**

We sponsor unfunded defined benefit postretirement plans providing healthcare and life insurance benefits to substantially all U.S. and Canadian employees who retire or terminate after qualifying for such benefits. Retirees of our European operations are covered primarily by government-sponsored programs and the specific cost to us for those programs and other postretirement healthcare is not significant. The primary U.S. postretirement benefit plan is a defined dollar benefit plan limiting the effects of medical inflation by establishing dollar limits for determining our contribution. Effective January 1, 2004, our dollar limit was frozen at fixed rates and will no longer be subject to increases at the lesser of 4.0 percent or the assumed Consumer Price Index. Because the plan has established dollar limits for determining our contributions, the effect of a 1 percent increase in the assumed healthcare cost trend rate is not significant. The Canadian plan also contains provisions that limit the effects of inflation on our future costs. Our defined benefit postretirement plans were measured as of December 31st.

During 2004, we determined that we qualify for the federal subsidy introduced in the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The impact of this subsidy resulted in a reduction in our accumulated postretirement benefit obligation of \$12.3 million. During the years ended December 31, 2005 and 2004, we recognized a reduction in our net periodic postretirement benefit cost of \$1.5 million related to this subsidy.

The following table summarizes information about our pension and other postretirement benefit plans (in millions):

|  | Pension Plans |          | Other Postretirement Plans |          |
|--|---------------|----------|----------------------------|----------|
|  | 2005          | 2004     | 2005                       | 2004     |
| <b>Reconciliation of benefit obligation:</b>               |               |          |                            |          |
| Benefit obligation at beginning of plan year               | \$2,576       | \$2,229  | \$ 390                     | \$ 360   |
| Service cost   | 128           | 108      | 12                         | 11       |
| Interest cost  | 146           | 131      | 22                         | 21       |
| Plan participants' contributions                           | 12            | 10       | 5                          | 4        |
| Amendments   | 3             | 4        | —                          | —        |
| Actuarial loss   | 184           | 114      | 11                         | 18       |
| Benefit payments   | (86)          | (78)     | (27)                       | (26)     |
| Currency translation adjustments                           | (59)          | 58       | 1                          | 2        |
| Benefit obligation at end of year                          | \$2,904       | \$2,576  | \$ 414                     | \$ 390   |
| <b>Reconciliation of fair value of plan assets:</b>        |               |          |                            |          |
| Fair value of plan assets at beginning of plan year        | \$ 1,810      | \$ 1,422 | \$ —                       | \$ —     |
| Actual gain on plan assets                                 | 266           | 145      | —                          | —        |
| Employer contributions                                     | 266           | 264      | 22                         | 22       |
| Plan participants' contributions                           | 12            | 10       | 5                          | 4        |
| Benefit payments   | (86)          | (78)     | (27)                       | (26)     |
| Currency translation adjustments                           | (47)          | 47       | —                          | —        |
| Fair value of plan assets at end of plan year              | \$2,221       | \$ 1,810 | \$ —                       | \$ —     |
| <b>Funded status:</b>                                      |               |          |                            |          |
| Funded status at end of year                               | \$ (683)      | \$ (766) | \$ (414)                   | \$ (390) |
| Unrecognized prior service cost (asset)                    | 32            | 33       | (84)                       | (97)     |
| Unrecognized net loss                                      | 990           | 987      | 113                        | 106      |
| Fourth quarter contributions                               | 15            | 7        | —                          | —        |
| Net amounts recognized                                     | \$ 354        | \$ 261   | \$ (385)                   | \$ (381) |
| <b>Amounts recognized in the balance sheet consist of:</b> |               |          |                            |          |
| Prepaid benefits cost                                      | \$ 198        | \$ 176   | \$ —                       | \$ —     |
| Accrued benefits liability                                 | (352)         | (465)    | (385)                      | (381)    |
| Intangible assets  | 26            | 31       | —                          | —        |
| Accumulated other comprehensive income                     | 482           | 519      | —                          | —        |
| Net amounts recognized                                     | \$ 354        | \$ 261   | \$ (385)                   | \$ (381) |
| Accumulated benefit obligation                             | \$2,457       | \$ 2,171 | n/a                        | n/a      |
| <b>Weighted average assumptions to determine:</b>          |               |          |                            |          |
| Benefit obligations at measurement date                    |               |          |                            |          |
| Discount rate  | 5.4%          | 5.8%     | 5.6%                       | 5.9%     |
| Rate of compensation increase                              | 4.6           | 4.6      | —                          | —        |
| Net periodic pension cost for years ended December 31,     |               |          |                            |          |
| Discount rate  | 5.8           | 6.0      | 5.9                        | 6.1      |
| Expected return on assets                                  | 8.3           | 8.3      | —                          | —        |
| Rate of compensation increase                              | 4.6           | 4.6      | —                          | —        |

Minimum pension liability adjustments totaling \$23 million, net of tax, were recorded in accumulated other comprehensive income on our Consolidated Balance Sheets at both December 31, 2005 and 2004, respectively.

The following table summarizes information about our defined benefit pension plans that had accumulated benefit obligations in excess of plan assets as of our measurement dates (in millions):

|                                | 2005    | 2004    |
|--------------------------------|---------|---------|
| Projected benefit obligation   | \$2,034 | \$1,804 |
| Accumulated benefit obligation | 1,790   | 1,586   |
| Fair value of plan assets      | 1,443   | 1,143   |

The following table summarizes the net periodic benefit costs of our pension plans and other postretirement plans for the years ended December 31, 2005, 2004 and 2003 (in millions):

|   | Pension Plans |        |       | Other Postretirement Plans |       |       |
|---|---------------|--------|-------|----------------------------|-------|-------|
|   | 2005          | 2004   | 2003  | 2005                       | 2004  | 2003  |
| Components of net periodic benefit costs: |               |        |       |                            |       |       |
| Service cost                              | \$ 128        | \$ 108 | \$ 82 | \$ 12                      | \$ 11 | \$ 11 |
| Interest cost                             | 146           | 131    | 114   | 22                         | 21    | 24    |
| Expected return on plan assets            | (158)         | (135)  | (116) | —                          | —     | —     |
| Amortization of prior service cost        | 4             | 2      | —     | (13)                       | (13)  | (9)   |
| Recognized actuarial loss                 | 62            | 47     | 10    | 5                          | 3     | —     |
| Net periodic benefit cost                 | 182           | 153    | 90    | 26                         | 22    | 26    |
| Other                                     | 1             | —      | —     | —                          | —     | —     |
| Total costs in earnings                   | \$ 183        | \$ 153 | \$ 90 | \$ 26                      | \$ 22 | \$ 26 |

### Pension Plan Assets

Pension assets of our North American and Great Britain plans represent approximately 96 percent of our total pension plan assets. The following table summarizes the pension plan asset allocations of those assets as of December 31, 2005 and the expected long-term rates of return by asset category:

| Asset Category                   | Weighted Average Allocation |        |      | Weighted Average Expected Long-Term Rate of Return |
|----------------------------------|-----------------------------|--------|------|--|
|                                  | Target                      | Actual |      |  |
|                                  | 2005                        | 2005   | 2004 |  |
| Equity securities <sup>(A)</sup> | 65%                         | 70%    | 71%  | 8.7%   |
| Fixed income securities          | 20                          | 20     | 21   | 5.7  |
| Real estate                      | 5                           | 3      | 2    | 9.6  |
| Other                            | 10                          | 7      | 6    | 10.4   |
| Total                            | 100%                        | 100%   | 100% | 8.3  |

<sup>(A)</sup> The overweight in equity securities versus our target allocation is primarily the result of funds that are invested on an interim basis until they are redirected to the real estate and other asset categories.

We have established formal investment policies for the assets associated with these plans. Policy objectives include maximizing long-term return at acceptable risk levels, diversifying among asset classes, if appropriate, and among investment managers, as well as establishing relevant risk parameters within each asset class. Specific asset class targets are based on the results of periodic asset/liability studies. The investment policies permit variances from the targets within certain parameters. The weighted average expected long-term rates of return are based on a September 2005 review of such rates.

Our fixed income securities portfolio is invested primarily in commingled funds and is managed for overall return expectations rather than matching duration against plan liabilities; therefore, debt maturities are not significant to the plan performance.

### Benefit Plan Contributions

The following table summarizes the contributions made to our pension and other postretirement benefit plans for the years ended December 31, 2005 and 2004, as well as our projected contributions for the year ending December 31, 2006 (in millions):

|                      | Actual |       | Projected <sup>(A)</sup> |
|----------------------|--------|-------|--------------------------|
|                      | 2005   | 2004  | 2006                     |
| Pension – U.S.       | \$204  | \$229 | \$145                    |
| Pension – Foreign    | 70     | 37    | 71                       |
| Other Postretirement | 22     | 22    | 21                       |
| Total contributions  | \$296  | \$288 | \$237                    |

<sup>(A)</sup> These amounts are unaudited.

We fund our U.S. pension plans at a level to maintain, within established guidelines, the IRS-defined 90 percent current liability funded status. At January 1, 2005, the date of the most recent calculation, all U.S. funded defined benefit pension plans reflected current liability funded status equal to or greater than 90 percent. Our primary Canadian plan does not require contributions at this time. Contributions to the primary Great Britain plan are based on a percentage of employees' pay.

## Benefit Plan Payments

Benefit payments are made primarily from funded benefit plan trusts and also from current assets. The following table summarizes our expected future benefit payments as of December 31, 2005 (in millions):

| Years ending December 31, | Pension<br>Benefit Plan<br>Payments <sup>(A)</sup> | Other<br>Postretirement<br>Benefit Plan<br>Payments <sup>(A)</sup> |
|---------------------------|--|--|
| 2006                      | \$ 90  | \$ 21  |
| 2007                      | 92   | 22   |
| 2008                      | 97   | 23   |
| 2009                      | 104  | 24   |
| 2010                      | 111  | 25   |
| 2011–2015                 | 685  | 135  |

<sup>(A)</sup> These amounts are unaudited.

## Defined Contribution Plans

We sponsor qualified defined contribution plans covering substantially all employees in the U.S., France, Canada and certain employees in Great Britain and the Netherlands. Our contributions to these plans totaled \$23 million, \$24 million and \$57 million in 2005, 2004 and 2003, respectively. Under our primary plan in the U.S., we matched 25 percent in 2005 and 2004 and 75 percent in 2003 of participants' voluntary contributions up to a maximum of 7 percent of the participants' contributions. For 2006, we intend to match 25 percent of participants' voluntary contributions up to a maximum of 7 percent of the participants' contributions.

## Multi-Employer Pension Plans

We participate in various multi-employer pension plans mostly in the U.S. Total pension expense for multi-employer plans was \$36 million, \$37 million and \$31 million in 2005, 2004 and 2003, respectively.

## NOTE 10 INCOME TAXES

The current income tax provision represents the estimated amount of income taxes paid or payable for the year, as well as changes in estimates from prior years. The deferred income tax provision represents the change in deferred tax liabilities and assets and, for business combinations, the change in such tax liabilities and assets since the date of acquisition. The following table summarizes the significant components of our provision for income taxes for the years ended December 31, 2005, 2004 and 2003 (in millions):

|   | 2005         | 2004         | 2003         |
|---|--------------|--------------|--------------|
| Current:                                |              |              |              |
| Domestic:                               |              |              |              |
| Federal                                 | \$ 36        | \$ —         | \$ (15)      |
| State and local                         | 9            | 7            | 5            |
| European and Canadian                   | 153          | 91           | 69           |
| <b>Total current provision</b>          | <b>198</b>   | <b>98</b>    | <b>59</b>    |
| Deferred:                               |              |              |              |
| Domestic:                               |              |              |              |
| Federal                                 | 171          | 107          | 164          |
| State and local                         | (6)          | 21           | 10           |
| European and Canadian                   | (47)         | 16           | 40           |
| Rate changes                            | (40)         | (20)         | 23           |
| <b>Total deferred expense</b>           | <b>78</b>    | <b>124</b>   | <b>237</b>   |
| <b>Total provision for income taxes</b> | <b>\$276</b> | <b>\$222</b> | <b>\$296</b> |

Our effective tax rate was 35 percent, 27 percent and 30 percent for the years ended December 31, 2005, 2004 and 2003, respectively. The following table provides a reconciliation of our income tax provision at the statutory federal rate to our actual income tax provision for the years ended December 31, 2005, 2004 and 2003 (in millions):

|  | 2005         | 2004         | 2003         |
|--|--------------|--------------|--------------|
| U.S. federal statutory expense                       | \$276        | \$286        | \$340        |
| State expense, net of federal benefit                | 7            | 12           | 17           |
| Taxation of European and<br>Canadian operations, net | (73)         | (71)         | (68)         |
| Rate change (benefit) expense                        | (40)         | (20)         | 23           |
| Repatriation of foreign earnings                     | 128          | —            | —            |
| Valuation allowance provision                        | (3)          | 13           | 1            |
| Nondeductible items                                  | 12           | 12           | 14           |
| Revaluation of income tax obligations                | (33)         | (10)         | (25)         |
| Other, net   | 2            | —            | (6)          |
| <b>Total provision for income taxes</b>              | <b>\$276</b> | <b>\$222</b> | <b>\$296</b> |

Income before income taxes consisted of the following for the years ended December 31, 2005, 2004 and 2003 (in millions):

|                                  | 2005  | 2004  | 2003  |
|----------------------------------|-------|-------|-------|
| United States                    | \$288 | \$294 | \$458 |
| International                    | 502   | 524   | 514   |
| Total income before income taxes | \$790 | \$818 | \$972 |

On October 22, 2004, the American Jobs Creation Act of 2004 ("Tax Act") was signed into law. The Tax Act contained, among other things, a repatriation provision that provided a special, one-time tax deduction of 85 percent of certain foreign earnings that were repatriated prior to December 31, 2005, provided certain criteria were met. In December 2005, we repatriated a total of \$1.6 billion in previously undistributed foreign earnings and basis. The total income tax provision associated with the repatriation was approximately \$128 million (16 percentage point increase in our effective tax rate). In order to accommodate the efficient repayment of debt in conjunction with the repatriation, we restructured a portion of our debt portfolio in December 2005 (refer to Note 6).

Due to the repatriation, our foreign subsidiaries did not have any undistributed earnings as of December 31, 2005. The foreign earnings repatriation that was completed during 2005 was done so in connection with the unique provisions of the Tax Act, which created a special one-time opportunity for the repatriation to occur. Any future earnings of our foreign subsidiaries will be indefinitely reinvested and, therefore, no provision for U.S. federal and state income taxes will be made. As was the case during 2005, upon distribution of foreign earnings in the form of dividends or otherwise, we are subject to U.S. federal and state income taxes, adjusted for foreign tax credits, and withholding taxes payable to the various foreign countries. Determination of the amount of any unrecognized deferred income tax liability associated with foreign earnings is not practicable.

Deferred income taxes are recognized for tax consequences of temporary differences between the financial and tax bases of existing assets and liabilities by applying enacted statutory tax rates to such differences. The following table summarizes the significant components of our deferred tax liabilities and assets as of December 31, 2005 and 2004 (in millions):

|   | 2005     | 2004     |
|---|----------|----------|
| Deferred tax liabilities:                     |          |          |
| Franchise license and other intangible assets | \$ 4,940 | \$ 5,116 |
| Property, plant and equipment                 | 723      | 1,026    |
| Other, net                                    | —        | 25       |
| Total deferred tax liabilities                | 5,663    | 6,167    |
| Deferred tax assets:                          |          |          |
| Net operating loss and other carryforwards    | (316)    | (568)    |
| Employee and retiree benefit accruals         | (374)    | (338)    |
| Alternative minimum tax and other credits     | (68)     | (65)     |
| Deferred revenue                              | (123)    | (142)    |
| Other, net                                    | (63)     | —        |
| Total deferred tax assets                     | (944)    | (1,113)  |
| Valuation allowances on deferred tax assets   | 74       | 88       |
| Net deferred tax liabilities                  | 4,793    | 5,142    |
| Current deferred income tax assets            | 313      | 196      |
| Long-term deferred income tax liabilities     | \$ 5,106 | \$ 5,338 |

Deferred tax assets are recognized for the tax benefit of deductible timing differences and for foreign, federal and state net operating loss and tax credit carryforwards. Valuation allowances are recognized on these assets if we believe that it is more likely than not that some or all of our deferred tax assets will not be realized. We believe the majority of our deferred tax assets will be realized because of the reversal of certain significant temporary differences and anticipated future taxable income from operations.

Valuation allowances of \$74 million and \$88 million were established for certain deferred tax assets as of December 31, 2005 and 2004, respectively. Included in the valuation allowances as of December 31, 2005 and 2004 were \$1 million and \$2 million, respectively, for net operating loss carryforwards of acquired companies. The reduction in our valuation allowances during 2005 was due to adjustments resulting from expirations and law changes.

At December 31, 2005, we had U.S. federal tax operating loss carryforwards totaling \$646 million. These carryforwards are available to offset future taxable income until they expire at varying dates through 2024. We also had U.S. state operating loss carryforwards totaling \$2 billion, which expire at varying dates through 2025 and international operating loss carryforwards totaling \$18 million, which expire at varying dates through 2012. The following table summarizes the estimated amount of our federal, state and international tax operating loss carryforwards that expire each year (in millions):

| Years ending December 31,              | U.S.<br>Federal | U.S.<br>State | International |
|--|-----------------|---------------|---------------|
| 2006                                   | \$ —            | \$ 150        | \$ —          |
| 2007                                   | 3               | 293           | —             |
| 2008                                   | 6               | 151           | —             |
| 2009                                   | 2               | 175           | —             |
| 2010                                   | —               | 112           | —             |
| Thereafter                             | 635             | 1,149         | 18            |
| Total tax operating loss carryforwards | \$646           | \$2,030       | \$ 18         |

The tax benefit associated with share-based compensation plans reduced current and future taxes payable by \$17 million, \$37 million and \$9 million for 2005, 2004 and 2003, respectively. These benefits are recognized as increases to additional paid-in capital. We had foreign currency denominated loans with exchange rate changes that increased federal deferred tax liabilities by \$32 million in 2005 and decreased federal deferred tax liabilities by \$16 million and \$48 million in 2004 and 2003, respectively. The effect of these loans is reflected as a component of currency translation and net investment hedges included in accumulated other comprehensive income on our Consolidated Balance Sheets. Taxes associated with unrealized gains (losses) on marketable equity securities decreased deferred tax liabilities by approximately \$1 million in 2005 and increased deferred tax liabilities by approximately \$1 million in 2004. The tax cost is reflected as a component of unrealized gains (losses) on marketable equity securities included in accumulated other comprehensive income on our Consolidated Balance Sheets.

## NOTE 11 SHARE-BASED COMPENSATION PLANS

We maintain share-based compensation plans that provide for the granting of non-qualified share options and restricted shares to certain executive and management level employees. We believe that these awards better align the interests of our employees with the interests of our shareowners.

### Share Options

Our share options (1) are granted with exercise prices equal to or greater than the fair value of our stock on the date of grant; (2) vest over a period of three to nine years; and (3) expire 10 years from the date of grant. Certain share option grants contain provisions that allow for accelerated vesting should various stock performance criteria be met. When options are exercised, we generally issue new shares, rather than issuing shares from treasury.

The following table summarizes our share option activity during the years ended December 31, 2005, 2004 and 2003 (shares in thousands):

|                                    | 2005          |                | 2004          |                | 2003          |                |
|------------------------------------|---------------|----------------|---------------|----------------|---------------|----------------|
|                                    | Shares        | Exercise Price | Shares        | Exercise Price | Shares        | Exercise Price |
| Outstanding at beginning of year   | 56,013        | \$25.09        | 63,831        | \$23.01        | 59,942        | \$22.70        |
| Granted                            | 2,709         | 22.31          | 6,724         | 23.67          | 7,893         | 21.88          |
| Exercised <sup>(A)</sup>           | (2,644)       | 15.18          | (13,225)      | 13.85          | (2,552)       | 11.11          |
| Forfeited or expired               | (1,651)       | 37.90          | (1,317)       | 29.86          | (1,452)       | 25.25          |
| Outstanding at end of year         | <u>54,427</u> | 25.04          | <u>56,013</u> | 25.09          | <u>63,831</u> | 23.01          |
| Options exercisable at end of year | <u>44,023</u> | 25.23          | <u>37,586</u> | 26.39          | <u>42,510</u> | 24.04          |
| Options available for future grant | <u>27,530</u> |                | <u>29,730</u> |                | <u>12,939</u> |                |

<sup>(A)</sup> The total intrinsic value of options exercised during the years ended December 31, 2005, 2004 and 2003 was \$17 million, \$147 million and \$23 million, respectively.

The following table summarizes our options outstanding and our options exercisable as of December 31, 2005 (shares in thousands):

| Range of Exercise Prices | Outstanding                        |   |                                 | Exercisable                        |   |                                 |
|--------------------------|------------------------------------|---|---------------------------------|------------------------------------|---|---------------------------------|
|                          | Options Outstanding <sup>(A)</sup> | Weighted Average Remaining Life (years) | Weighted Average Exercise Price | Options Exercisable <sup>(A)</sup> | Weighted Average Remaining Life (years) | Weighted Average Exercise Price |
| \$ 5.00 to 10.00         | 21                                 | 0.01                                    | \$ 9.02                         | 21                                 | 0.01                                    | \$ 9.02                         |
| 10.01 to 16.00           | 1,600                              | 1.01                                    | 15.90                           | 1,600                              | 1.01                                    | 15.90                           |
| 16.01 to 22.00           | 27,747                             | 5.47                                    | 19.08                           | 25,245                             | 5.32                                    | 18.86                           |
| 22.01 to 32.00           | 16,812                             | 6.62                                    | 24.85                           | 10,286                             | 5.28                                    | 25.96                           |
| 32.01 to 42.00           | 4,110                              | 2.73                                    | 36.16                           | 2,734                              | 2.58                                    | 36.69                           |
| Over 42.00               | 4,137                              | 2.48                                    | 58.37                           | 4,137                              | 2.48                                    | 58.37                           |
|                          | <u>54,427</u>                      | 5.26                                    | 25.04                           | <u>44,023</u>                      | 4.72                                    | 25.23                           |

<sup>(A)</sup> The aggregate intrinsic value of options outstanding as of December 31, 2005 was \$32 million. The aggregate intrinsic value of options exercisable as of December 31, 2005 was \$31 million.

The weighted average grant date fair value of share options granted during the years ended December 31, 2005, 2004 and 2003 was \$7.61, \$10.04 and \$9.65, respectively. The following table summarizes the assumptions that were used in our Black-Scholes valuation model to estimate the grant date fair value of options granted during each of these years:

|                         | 2005    | 2004    | 2003    |
|-------------------------|---------|---------|---------|
| Dividend yield          | 0.7%    | 0.4%    | 0.4%    |
| Expected volatility     | 30%     | 40%     | 43%     |
| Average expected life   | 6 years | 6 years | 6 years |
| Risk-free interest rate | 3.87%   | 3.49%   | 3.46%   |

## Restricted Shares

Our restricted share awards generally vest upon continued employment for a period of at least five years and the attainment of certain share price targets. All restricted share awards entitle the participant to full dividend and voting rights. Unvested shares are restricted as to disposition and subject to forfeiture under certain circumstances.

In 2005, we granted 1.7 million restricted shares and 247,000 restricted share units with a combined weighted average grant date fair value of \$22.31. In 2004, we granted 1.1 million restricted shares and 120,500 restricted share units with a combined weighted average grant date fair value of \$23.36. In 2003, we granted 1.2 million restricted shares and 77,000 restricted share units with a combined weighted average grant date fair value of \$21.65. The following table summarizes our restricted share award activity during the year ended December 31, 2005 (shares in thousands):

|                                  | Restricted<br>Shares | Weighted<br>Average Grant<br>Date Fair Value | Restricted<br>Share Units | Weighted<br>Average Grant<br>Date Fair Value |
|----------------------------------|----------------------|--|---------------------------|--|
| Outstanding at December 31, 2004 | 3,345                | \$20.57                                      | 199                       | \$22.04                                      |
| Granted                          | 1,728                | 22.31  | 247                       | 22.31  |
| Vested                           | (895)                | 20.49  | (100)                     | 22.26  |
| Forfeited                        | (54)                 | 22.44  | (1)                       | 22.31  |
| Transferred                      | (201)                | 20.82  | 201                       | 20.82  |
| Outstanding at December 31, 2005 | 3,923                | 21.31  | 546                       | 21.67  |

When we issue restricted share awards, unearned compensation is charged to shareowners' equity for the total cost of the awards. The unearned compensation is then recognized as amortization expense ratably over the vesting period of the awards. During 2005, 2004 and 2003, we recognized amortization expense totaling \$27 million, \$20 million and \$11 million, respectively, related to our restricted share awards. As of December 31, 2005, we had approximately \$68 million in total unearned compensation cost associated with our restricted share awards. We expect to recognize this compensation cost over a weighted average period of 3.2 years. As of December 31, 2005, we had approximately 4.8 million restricted shares or restricted share units available for future grant.

## NOTE 12 EARNINGS PER SHARE

We calculate basic earnings per share by dividing net income applicable to common shareowners by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated in a similar manner, but include the dilutive effect of securities. The following table summarizes our basic and diluted earnings per share calculations for the years ended December 31, 2005, 2004 and 2003 (in millions, except per share data; per share data is calculated prior to rounding to millions):

|   | 2005   | 2004   | 2003   |
|---|--------|--------|--------|
| Net income  | \$ 514 | \$ 596 | \$ 676 |
| Preferred stock dividends                                       | —      | —      | 2      |
| Net income applicable to common shareowners                     | \$ 514 | \$ 596 | \$ 674 |
| Basic weighted average common shares outstanding <sup>(A)</sup> | 471    | 465    | 454    |
| Effect of dilutive securities <sup>(B)(C)</sup>                 | 5      | 8      | 7      |
| Diluted weighted average common shares outstanding              | 476    | 473    | 461    |
| Net income applicable to common shareowners:                    |        |        |        |
| Basic earnings per share  | \$1.09 | \$1.28 | \$1.48 |
| Diluted earnings per share                                      | \$1.08 | \$1.26 | \$1.46 |

<sup>(A)</sup> At December 31, 2005, 2004 and 2003, we were obligated to issue, for no additional consideration, 3.3 million, 3.4 million and 3.4 million common shares, respectively, under deferred stock plans and other agreements. These shares were included in our calculation of basic and diluted earnings per share for each year presented.

<sup>(B)</sup> As detailed in Note 11, options to purchase 54.4 million, 56.0 million and 63.8 million common shares were outstanding at the end of 2005, 2004 and 2003, respectively. Of these amounts, options to purchase 32.2 million, 17.0 million and 29.3 million common shares in 2005, 2004 and 2003, respectively, were not included in the computation of diluted earnings per share because the effect of including the options in the computation would have been antidilutive. The dilutive impact of the remaining options outstanding in each year was included in the effect of dilutive securities.

<sup>(C)</sup> Refer to Note 14 for information about the impact of our preferred shares on diluted earnings per share.

During 2005, 2004 and 2003, we paid a quarterly dividend of \$0.04. In December 2005, our Board of Directors approved a 50 percent increase in our quarterly dividend to \$0.06 beginning in the first quarter of 2006. Dividends are declared at the discretion of our Board of Directors.

## NOTE 13 ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income is comprised of net income and other adjustments, including items such as foreign currency translation adjustments, hedges of net investments in international subsidiaries, minimum pension liability adjustments, gains and losses on certain investments in marketable equity securities and changes in the fair value of certain derivative financial instruments qualifying as cash flow hedges. We do not provide income taxes on currency translation adjustments, as the earnings from our foreign subsidiaries are considered to be indefinitely reinvested, except for the foreign earnings repatriated during 2005 in connection with the unique provisions of the Tax Act (refer to Note 10). The following table summarizes our accumulated other comprehensive income activity for the years ended December 31, 2005, 2004 and 2003 (in millions):

|                            | Currency<br>Translations | Net Investment<br>Hedges | Minimum Pension<br>Liability Adjustments | Other<br>Adjustments, Net | Total   |
|----------------------------|--------------------------|--------------------------|--|---------------------------|---------|
| Balance, December 31, 2002 | \$(193)                  | \$ 143                   | \$(195)                                  | \$ 9                      | \$(236) |
| 2003 Pre-tax activity      | 572                      | (129)                    | (168)                                    | (16)                      | 259     |
| 2003 Tax effect            | —                        | 43                       | 62                                       | 5                         | 110     |
| Balance, December 31, 2003 | 379                      | 57                       | (301)                                    | (2)                       | 133     |
| 2004 Pre-tax activity      | 305                      | (44)                     | (36)                                     | 5                         | 230     |
| 2004 Tax effect            | —                        | 16                       | 13                                       | (2)                       | 27      |
| Balance, December 31, 2004 | 684                      | 29                       | (324)                                    | 1                         | 390     |
| 2005 Pre-tax activity      | (303)                    | 86                       | 37                                       | (4)                       | (184)   |
| 2005 Tax effect            | —                        | (32)                     | (14)                                     | 2                         | (44)    |
| Balance, December 31, 2005 | \$ 381                   | \$ 83                    | \$(301)                                  | \$ (1)                    | \$ 162  |

During 2005, we recorded a \$7 million loss (\$4 million net of tax) on our investment in certain marketable equity securities, after concluding that the unrealized loss on our investment was other-than-temporary. As of December 31, 2005, the gross unrealized loss related to this investment was approximately \$4 million, which we have concluded is temporary in nature. The aggregate fair value of this investment was approximately \$30 million and \$40 million at December 31, 2005 and 2004, respectively. We have the ability and intent to continue to hold this investment.

Refer to Note 9 for additional information about our minimum pension liability adjustments and Note 5 for additional information about our net investment hedges.

## NOTE 14 PREFERRED STOCK

In connection with the 1998 acquisition of Great Plains Bottlers and Canners, Inc., we issued 401,528 shares of \$1 par value voting convertible preferred stock ("Great Plains series"). The mandatory conversion date for the Great Plains series was August 7, 2003. As of December 31, 2002, 35,000 shares of the Great Plains series had been converted into 154,778 shares of common stock. During the third quarter of 2003, the remaining 366,528 outstanding preferred shares were converted into 2,119,518 shares of common stock from treasury stock. The Great Plains series shares are not included in our computation of diluted earnings per share, detailed in Note 12, in 2003 because the effect of their inclusion would be antidilutive.

## NOTE 15 SHARE REPURCHASE PROGRAM

Under the April 1996 share repurchase program authorizing the repurchase of up to 30 million shares, we can repurchase shares in the open market and in privately negotiated transactions. In 2005, 2004 and 2003 there were no share repurchases under this share repurchase program.

We consider market conditions and alternative uses of cash and/or debt, balance sheet ratios and shareholder returns when evaluating share repurchases. Repurchased shares are added to treasury stock and are available for general corporate purposes, including acquisition financing and the funding of various employee benefit and compensation plans.

We have repurchased a total of 26.7 million shares under the April 1996 program. In 2000, our Board of Directors authorized the repurchase of up to an additional 30 million shares upon completion of the current program.

## NOTE 16 GEOGRAPHIC OPERATING INFORMATION

We market, produce and distribute bottle and can nonalcoholic beverages in both North America and Europe. These segments are aggregated because they have similar economic characteristics. We have no material amounts of sales or transfers between North America and Europe and no significant United States export sales.

The following table summarizes our net operating revenues for the years ended December 31, 2005, 2004 and 2003 and our long-lived assets as of December 31, 2005 and 2004 by geographic territory (in millions):

|                              | Net Operating Revenues |          |          | Long-Lived Assets |          |
|------------------------------|------------------------|----------|----------|-------------------|----------|
|                              | 2005                   | 2004     | 2003     | 2005              | 2004     |
| North America <sup>(A)</sup> | \$13,492               | \$12,907 | \$12,590 | \$16,674          | \$17,146 |
| Europe <sup>(B)</sup>        | 5,214                  | 5,251    | 4,740    | 5,288             | 5,944    |
| Consolidated                 | \$18,706               | \$18,158 | \$17,330 | \$21,962          | \$23,090 |

<sup>(A)</sup> Canada contributed approximately 9 percent, 8 percent and 7 percent of North America's net operating revenues during 2005, 2004 and 2003, respectively. At December 31, 2005 and 2004, Canada's long-lived assets represented approximately 12 percent of North America's long-lived assets.

<sup>(B)</sup> Great Britain contributed approximately 46 percent, 47 percent and 48 percent of Europe's net operating revenues during 2005, 2004 and 2003, respectively. At December 31, 2005 and 2004, Great Britain's long-lived assets represented approximately 64 percent and 63 percent of Europe's long-lived assets, respectively.

## NOTE 17 RESTRUCTURING ACTIVITIES

During 2005, we recorded restructuring charges totaling \$80 million. These charges, included in SD&A expenses, were primarily related to (1) workforce reductions associated with the reorganization of our North American operations into six United States business units and Canada; (2) changes in our executive management; and (3) the elimination of certain corporate headquarters positions. The reorganization of our North American operations (1) has resulted in a simplified and flatter organizational structure; (2) has helped facilitate a closer interaction between our front-line employees and our customers; and (3) will provide long-term cost savings through improved administrative and operating efficiencies. During 2006, we expect to incur additional restructuring charges in the range of \$50 million to \$60 million related to these activities and to reorganize certain aspects of our operations in Europe. The following table summarizes our restructuring activities for the year ended December 31, 2005 (in millions):

|                              | Severance<br>Pay and<br>Benefits | Consulting,<br>Relocation<br>and Other | Total |
|------------------------------|----------------------------------|--|-------|
| Balance at December 31, 2004 | \$ —                             | \$ —                                   | \$ —  |
| Provision                    | 61                               | 19                                     | 80    |
| Cash payments                | (18)                             | (19)                                   | (37)  |
| Non-cash payments            | (10)                             | —                                      | (10)  |
| Balance at December 31, 2005 | \$ 33                            | \$ —                                   | \$ 33 |

## NOTE 18 OTHER EVENTS

### Hurricanes

During the latter part of 2005, Hurricanes Katrina, Rita and Wilma negatively impacted our operations throughout the areas affected by the hurricanes. We sustained damage to several of our production and distribution facilities and had large quantities of vending equipment and inventory damaged or destroyed. We also experienced increased costs in the aftermath of the hurricanes, including higher fuel prices, nonproductive labor expenses, outsourced services and extra storage space. As a result of these hurricanes, we recorded charges totaling \$28 million, primarily related to (1) the write-off of damaged or destroyed fixed assets; (2) the estimated costs to retrieve and dispose of non-usable vending equipment; and (3) the loss of inventory. Approximately \$26 million of the charges were included in SD&A and the remainder were recorded in cost of sales. We are self-insured up to specified limits for casualty losses, property damage and business interruption. We intend to seek recovery of amounts paid in excess of our self-insurance limits, but at this time we have not recorded any recovery amounts since we are unable to determine the ultimate outcome of these claims.

### Bravo! Foods

In August 2005, we entered into a master distribution agreement ("MDA") with Bravo! Foods ("Bravo"). Bravo is a producer and distributor of branded, shelf stable, flavored milk products. The MDA is effective October 31, 2005 through August 15, 2015 and may be terminated by either party subsequent to August 15, 2006, subject to a twelve-month notification period. In conjunction with the execution of this agreement, we received from Bravo a warrant to purchase up to 30 million shares of Bravo common stock at \$0.36 per share. The warrant is exercisable in whole or in part at any time until August 31, 2008. The estimated fair value of the warrant on the date received was approximately \$14 million. This amount is being recognized on a straight-line basis as a reduction to cost of sales over the term of the related MDA. On the date the warrant was received, the 30 million shares represented approximately 19 percent of Bravo's outstanding common stock.

## NOTE 19 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table summarizes our quarterly financial information (in millions, except per share data):

| 2005  | First   | Second <sup>(A)</sup> | Third <sup>(B)</sup> | Fourth <sup>(C)</sup> | Fiscal Year |
|---|---------|-----------------------|----------------------|-----------------------|-------------|
| Net operating revenues  | \$4,196 | \$5,128               | \$4,895              | \$4,487               | \$18,706    |
| Gross profit  | 1,678   | 2,110                 | 1,973                | 1,760                 | 7,521       |
| Operating income  | 220     | 582                   | 423                  | 206                   | 1,431       |
| Net income (loss) applicable to common shareowners                                  | 46      | 333                   | 192                  | (57)                  | 514         |
| Basic net income (loss) per share applicable to common shareowners <sup>(D)</sup>   | \$ 0.10 | \$ 0.71               | \$ 0.41              | \$ (0.12)             | \$ 1.09     |
| Diluted net income (loss) per share applicable to common shareowners <sup>(D)</sup> | \$ 0.10 | \$ 0.70               | \$ 0.40              | \$ (0.12)             | \$ 1.08     |
| 2004  | First   | Second <sup>(A)</sup> | Third                | Fourth <sup>(C)</sup> | Fiscal Year |
| Net operating revenues  | \$4,240 | \$4,844               | \$4,670              | \$4,404               | \$18,158    |
| Gross profit  | 1,780   | 1,960                 | 1,909                | 1,738                 | 7,387       |
| Operating income  | 304     | 451                   | 449                  | 232                   | 1,436       |
| Net income applicable to common shareowners   | 104     | 203                   | 207                  | 82                    | 596         |
| Basic net income per share applicable to common shareowners <sup>(D)</sup>          | \$ 0.23 | \$ 0.44               | \$ 0.44              | \$ 0.17               | \$ 1.28     |
| Diluted net income per share applicable to common shareowners <sup>(D)</sup>        | \$ 0.22 | \$ 0.43               | \$ 0.44              | \$ 0.17               | \$ 1.26     |

<sup>(A)</sup> Net income in the second quarter of 2005 includes a \$48 million (\$30 million net of tax, or \$0.06 per diluted common share) decrease in our cost of sales from the receipt of proceeds related to the settlement of litigation against suppliers of HFCS; an \$8 million (\$5 million net of tax, or \$0.01 per diluted common share) charge for restructuring activities, primarily in North America; and a \$34 million (\$0.07 per diluted common share) tax benefit primarily due to state tax rate changes. Net income in the second quarter of 2004 includes a \$41 million (\$26 million net of tax, or \$0.05 per diluted common share) increase in our cost of sales from the transition to a new North American concentrate price structure with TCCC.

<sup>(B)</sup> Net income in the third quarter of 2005 includes a \$24 million (\$15 million net of tax, or \$0.04 per diluted common share) charge for restructuring activities, primarily in North America and a \$24 million (\$15 million net of tax, or \$0.03 per diluted common share) charge for asset write-offs associated with hurricane damage.

<sup>(C)</sup> Net income in the fourth quarter of 2005 includes (1) a \$5 million (\$3 million net of tax, or \$0.01 per diluted common share) decrease in our cost of sales from the receipt of proceeds related to the settlement of litigation against suppliers of HFCS; (2) a \$48 million (\$30 million net of tax, or \$0.06 per diluted common share) charge for restructuring activities, primarily in North America; (3) a \$4 million (\$2 million net of tax) charge for asset write-offs associated with damage caused by Hurricanes Katrina, Rita and Wilma; (4) a \$128 million (\$0.27 per diluted common share) income tax provision related to the repatriation of foreign earnings; (5) an \$8 million (\$5 million net of tax, or \$0.01 per diluted common share) net loss resulting from the early extinguishment of certain debt obligations in conjunction with the repatriation of foreign earnings; and (6) a \$32 million (\$0.06 per diluted common share) tax benefit primarily for state tax rate changes and for the revaluation of various income tax obligations. Net income in the fourth quarter of 2004 includes a \$19 million (\$0.04 per diluted common share) tax benefit as a result of tax rate changes in Europe.

<sup>(D)</sup> Basic and diluted earnings per share are computed independently for each of the quarters presented. As such, the summation of the quarterly amounts may not equal the total basic and diluted earnings per share reported for the year.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

### ITEM 9A. CONTROLS AND PROCEDURES

Coca-Cola Enterprises Inc., under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely making known to them material information required to be disclosed in our reports filed or submitted under the Exchange Act. There has been no change in our internal control over financial reporting during the quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

See "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Report of Management and Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting" in ITEM 8.

### ITEM 9B. OTHER INFORMATION

Not applicable.