

**Background calculations**

a)	Total Current Assets	7,171	2,876	9,939
	Total Current Liabilities	8,429	4,522	12,843
b)	Debt to equity			
	Loans and notes payable	3,743		3,743
	Current maturities of long-term debt	156	1,804	1,960
	Long-Term Debt	1,219	10,365	11,584
		<u>5,118</u>	<u>12,169</u>	<u>17,287</u>
	Common Share-Owners' Equity	11,366	2,783	11,366
c)	Debt to tangible equity			
	Trademarks And Other Intangible Assets	2,579	14,637	16,946
	Tangible equity	<u>8,787</u>	<u>(11,854)</u>	<u>(5,580)</u>
e)	Debt to tangible assets			
	Total Assets	22,417	23,719	44,460
	Trademarks And Other Intangible Assets	<u>2,579</u>	<u>14,637</u>	<u>16,946</u>
	Tangible assets	<u>19,838</u>	<u>9,082</u>	<u>27,514</u>

**(i) Short-term liquidity**

Current ratio	0.851	0.636	0.810
Quick ratio	0.453	0.403	0.436
Inventory turnover	5.729	14.116	6.584
Receivables turnover	10.676	10.195	9.129

**(ii) Capital structure & long-term solvency**

Debt to equity	0.450	4.373	1.521
Times interest earned	20.619	0.801	6.416

**(iii) Asset utilization**

Inventory turnover	5.729	14.116	6.584
Receivables turnover	10.676	10.195	9.129
PP&E turnover	4.512	2.530	2.898
Total asset turnover	0.896	0.662	0.695

**(iv) Operating profitability**

Gross profit	69.92%	37.96%	62.81%
Return on sales	19.80%	-0.12%	13.87%
ROA	23.87%	2.53%	13.39%
ROE	34.92%	-11.53%	34.95%

- (i) KO has better short-term liquidity as its current and quick ratios are higher. Its accounts receivable turnover is also higher. CCE, on the other hand, has a significantly higher inventory turnover ratio.
  - (ii) KO's ratio of long-term debt to equity is far lower than CCE's. Despite KO's substantial short-term debt, its total debt to equity ratio is still much lower. CCE's higher debt burden and lower profitability result in an interest coverage ratio that is far below that of KO.
  - (iii) As noted in (i), CCE's inventory turnover is far above KO's whereas its receivables turnover ratio is slightly lower. As CCE is more capital intensive than KO, its property and total asset turnover ratios are well below those of CCE.
  - (iv) KO is more profitable than CCE by all measures. Higher gross margins are carried down to net income. Given its lower capital requirements, KO's return ratios are far higher.
- b. & c.
- 1 The adjustment of KO investments from carrying amount to market value increases both assets and equity. The effect is to reduce leverage but also asset turnover and return ratios.
  - 2 KO and CCE's debt should be increased by the OBS debt. For KO, the adjustment equals the contingent guarantee of \$451 million. In CCE's case the adjustment is considerably larger, equal to the present value of the future payments to suppliers. Recognition of these obligations increases the leverage of CCE by a greater amount than KO, thus increasing the differences noted above.
  - 3 Additionally, as an offset to the debt, the companies' assets should be increased. The effect will be to decrease return and turnover ratios. Again, the effect is larger for CCE given the relatively large amount of OBS debt.
  - 4 KO's income should be reduced by the option costs. The effect will be to lower profitability and interest coverage ratios for KO. However, given the magnitude of these costs (relative to KO's income), the effects are not significant and will only minimally impact the KO-CCE comparison. Note: KO started expensing employee stock options in 2003
  - 5 Increase CCE debt to its market value. The adjustment raises its leverage even more. For comparison purposes, the fair value of KO's debt should also be obtained.
  - 6 Increase CCE's liabilities by \$361 million, lower its assets by \$1 million, and reduce equity by \$362 million to replace the pension asset with the economic liability for the underfunded pension plan. The effect will be to increase CCE's leverage - again widening the difference between itself and KO.

Coke owns only 38% of CCE. The rest of the share is represented by minority interest.

Coke share of CCE equity	38% x	2,783	=	1,058
Coke's carrying value of Coca-Cola Enterprises Inc.				788
Intangible assets				<u>(270)</u>
Minority interest in CCE	62% x	2,783	=	1,725
Coke share of CCE net income	38% x	(324)	=	(123)
Minority share of CCE net income	62% x	(324)	=	(201)
Coke share of CCE common dividends	38% x	69	=	26
Minority share of CCE common dividends	62% x	69	=	43
Coke Equity Income, Net Of Dividends	(123) -	26	=	(149)
Minority Equity Income, Net Of Dividends	(201) -	43	=	(244)

When preparing the consolidated income statement, we eliminate the intercompany sales from sales and COGS. Additionally, we assume that the marketing payments from Coke to Enterprises were recorded as revenues by Enterprises and adjust accordingly.

The cash flow eliminations are much simpler. The operating adjustments (intercompany sales and marketing payments) automatically offset as they are classified as CFO for both companies.

<b>Balance Sheet</b>	(In millions except share data)		31-Dec-01	
<b>ASSETS</b>	<b>Coke</b>	<b>CCE</b>	<b>Adjustments</b>	<b>Consolidated</b>
Cash and cash equivalents	1,866	284		
Marketable securities	68			
	1,934	284		2,218
Trade accounts receivable, less allowances:	1,882	1,540	(38)	3,384
- of \$59 in 2001 and \$62 in 2000	C			
- reserves of \$73 and \$62, respectively	CCE			
Finished goods		458		458
Raw materials and supplies		232		232
Inventories	1,055			1,055
Current deferred income tax assets		60		60
Prepaid expenses and other assets	2,300	302	(70)	2,532
<b>Total Current Assets</b>	<b>7,171</b>	<b>2,876</b>	<b>(108)</b>	<b>9,939</b>
<b>Investments And Other Assets</b>				
Equity method investments				
Coca-Cola Enterprises Inc.	788		(788)	
Coca-Cola Amatil Limited	432			432
Coca-Cola HBC S.A.	791			791
Other, principally bottling companies	3,117			3,117
Cost method investments, principally bottling companies	294			294
Other assets	2,792		(510)	2,282
	8,214		(1,298)	6,916
<b>Property, Plant And Equipment</b>				
Land	217	390		
Buildings and improvements	1,812	1,718		
Machinery and equipment	4,881	8,614		
Containers	195			
Construction in progress		210		
	7,105	10,932		
Less allowances for depreciation	2,652	4,726		
	4,453	6,206		10,659
Trademarks And Other Intangible Assets	2,579	14,637	(270)	16,946
<b>Total Assets</b>	<b>22,417</b>	<b>23,719</b>	<b>(1,676)</b>	<b>44,460</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	3,679	2,610		6,289
Amounts payable to The Coca-Cola Company, net		38	(38)	
Deferred cash payments from The Coca-Cola Company		70	(70)	
Loans and notes payable	3,743			3,743
Current maturities of long-term debt	156	1,804		1,960
Accrued income taxes	851			851
<b>Total Current Liabilities</b>	<b>8,429</b>	<b>4,522</b>	<b>(108)</b>	<b>12,843</b>

Long-Term Debt	1,219	10,365		11,584
Retirement and Insurance Programs and Other Long-Term Obligations		1,166		1,166
Other Liabilities	961			961
Deferred Cash Payments from The Coca-Cola Company		510	(510)	
Deferred Income Taxes	442	4,336		4,778
	<u>2,622</u>	<u>16,377</u>	<u>(510)</u>	<u>18,489</u>

**Share-Owners' Equity**

Minority interest			1,725	1,725
Preferred stock		37		37

**Common stock**

\$.25 par value Authorized: 5,600,000,000 shares

Issued: 3,491,465,016 shares in 2001; 3,481,882,834 shares in 2000

\$1 par value — Authorized — 1,000,000,000 shares; Issued — 453,262,107 and 449,730,126 shares, respectively

	873			873
Capital surplus	3,520	2,527	(2,527)	3,520
Reinvested earnings	23,443	220	(220)	23,443
Accumulated other comprehensive income and unearned compensation on restricted stock	(2,788)	(292)	292	(2,788)
Less treasury stock, at cost	<u>25,048</u>	<u>2,908</u>	<u>(2,908)</u>	<u>25,048</u>

Common stock in treasury, at cost

8,146,325 and 31,661,536 shares, respectively

(1,005,237,693 shares in 2001;

997,121,427 shares in 2000)

	(13,682)		125	(13,682)
<b>Common Share-Owners' Equity</b>	<u>11,366</u>	<u>2,783</u>	<u>(2,783)</u>	<u>11,366</u>

	<u>22,417</u>	<u>23,719</u>	<u>(1,676)</u>	<u>44,460</u>
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**Income statement**

	Coke	CCE	Adjustments	Consolidated
Adjustments			3900	
			395	
			606	
Net Operating Revenues	20,092	15,700	(4,901)	30,891
Cost Of Goods Sold	(6,044)	(9,740)	4,295	(11,489)
Gross Profit	14,048	5,960	(606)	19,402
Selling, Administrative And General Expenses	(8,696)	(5,359)	606	(13,449)
Operating Income	5,352	601		5,953
Interest Income	325			325
Equity Income (Loss)	152		123	275
Other Income-Net	39	2		41
Gains On Issuances Of Stock By Equity Investees	91			91
Income Before Income Taxes And Interest	5,959	603	123	6,685
Interest Expense	(289)	(753)		(1,042)
	5,670	(150)	123	5,643
Minority interest			201	201

Income Taxes	(1,691)	131		(1,560)
Income Before Cumulative Effect Of Accounting Change	3,979	(19)	324	4,284
Cumulative Effect Of Accounting Change, Net Of Income Taxes	(10)	(302)		(312)
Net Income	3,969	(321)		3,972
Preferred stock dividends		(3)		(3)
Net Income (Loss) Applicable to Common Shareo	3,969	(324)		3,969

### Statement of cash flows

#### Operating Activities

Net income	\$	3,969	(321)	324	3,972
Cumulative effect of accounting change			302		302
Minority interest				(201)	(201)
Depreciation and amortization		803			803
Depreciation			901		901
Amortization			452		452
Deferred income taxes		56	(242)		(186)
Equity income or loss, net of dividends		(54)		(149)	(203)
Foreign currency adjustments		(60)			(60)
Gains on issuances of stock by equity investees		(91)			(91)
Gains on sales of assets, including bottling interests		(85)			(85)
Other items		34			34
Net change in operating assets and liabilities		(462)	22		(440)
<b>Net cash provided by operating activities</b>		<b>4,110</b>	<b>1,114</b>	<b>(26)</b>	<b>5,198</b>

#### Investing Activities

Acquisitions and investments, principally trademarks and bottling companies		(651)	(1,011)		(1,662)
Purchases of investments and other assets		(456)			(456)
Proceeds from disposals of investments and other assets		455			455
Purchases of property, plant and equipment		(769)	(972)		(1,741)
Proceeds from disposals of property, plant and equipment		91	5		96
Other investing activities		142	(32)		110
<b>Net cash used in investing activities</b>		<b>(1,188)</b>	<b>(2,010)</b>		<b>(3,198)</b>

**Financing Activities**

Net increase (decrease) in commercial paper		325		325
Issuances of debt	3,011	1,297		4,308
Payments of debt	(3,937)	(676)		(4,613)
Issuances of stock	164			164
Purchases of stock for treasury	(277)	(8)		(285)
Exercise of employee stock options		20		20
Dividends	(1,791)	(72)	26	(1,837)
<b>Net cash used in financing activities</b>	<b>(2,830)</b>	<b>886</b>	<b>26</b>	<b>(1,918)</b>
Effect Of Exchange Rate Changes On Cash	(45)			(45)
Cash And Cash Equivalents: Net increase	47	(10)		37