

**THE COCA-COLA COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 15: STOCK COMPENSATION PLANS (Continued)**

Of the outstanding granted performance share unit awards as of December 31, 2006, 590,964; 787,576; and 820,700 awards are for the 2004-2006, 2005-2007 and 2006-2008 performance periods, respectively. In addition, 72,000 performance share unit awards, with predefined qualitative performance criteria and release criteria that differ from the program described above, were granted in 2004 and were outstanding as of December 31, 2006.

The following table summarizes information about performance share unit awards:

	2006		2005		2004	
	Share Units	Weighted-Average Grant-Date Fair Value	Share Units	Weighted-Average Grant-Date Fair Value	Share Units	Weighted-Average Grant-Date Fair Value
Outstanding on January 1	2,356,728	\$ 40.42	1,583,447	\$ 41.83	798,931	\$ 46.78
Granted	160,000	37.84	835,440	37.71	953,196	38.71
Converted to restricted stock <sup>1</sup>	(123,852)	42.07	—	—	—	—
Paid in cash equivalent <sup>2</sup>	(7,178)	41.87	—	—	—	—
Cancelled/Forfeited	(114,458)	43.45	(62,159)	40.06	(168,680)	47.62
Outstanding on December 31	2,271,240	\$ 39.99	2,356,728	\$ 40.42	1,583,447	\$ 41.83

<sup>1</sup> Represents performance share units converted to restricted stock for certain executives prior to retirement. The vesting of this restricted stock is subject to certification of the applicable performance periods.

<sup>2</sup> Represents share units that converted to cash equivalent payments to former executives who were ineligible for restricted stock grants due to certain events such as death, disability or termination.

December 31,	Number of Performance Share Units Outstanding		
	2006	2005	2004
Threshold Award	1,297,632	1,352,388	950,837
Target Award	2,271,240	2,356,728	1,583,447
Maximum Award	3,370,860	3,499,092	2,339,171

The Company recognizes compensation expense when it becomes probable that the performance criteria specified in the plan will be achieved. The compensation expense is recognized over the remaining performance period and is recorded in selling, general and administrative expenses.

**NOTE 16: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS**

Our Company sponsors and/or contributes to pension and postretirement health care and life insurance benefit plans covering substantially all U.S. employees. We also sponsor nonqualified, unfunded defined benefit pension plans for certain associates. In addition, our Company and its subsidiaries have various pension plans and other forms of postretirement arrangements outside the United States. We use a measurement date of December 31 for substantially all of our pension and postretirement benefit plans.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 16: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**

Effective December 31, 2006, the Company adopted SFAS No. 158, which required the recognition in pension obligations and AOCI of actuarial gains or losses, prior service costs or credits and transition assets or obligations that had previously been deferred under the reporting requirements of SFAS No. 87, SFAS No. 106 and SFAS No. 132(R). The following table reflects the effects of the adoption of SFAS No. 158 on our consolidated balance sheet as of December 31, 2006. SFAS No. 158 also impacted the reporting of equity method investees as described in Note 3.

December 31, 2006 (in millions)	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Equity method investments	\$ 6,460	\$ (150)	\$ 6,310
Other assets	2,776	(75)	2,701
Other intangible assets	1,699	(12)	1,687
Total assets	30,200	(237)	29,963
Other liabilities	2,039	192	2,231
Deferred income taxes	749	(141)	608
Total liabilities	12,992	51	13,043
Accumulated other comprehensive income	(1,003)	(288)	(1,291)
Total shareowners' equity	17,208	(288)	16,920
Total liabilities and shareowners' equity	30,200	(237)	29,963

Amounts recognized in AOCI consist of the following (in millions, pretax):

December 31,	Pension Benefits 2006	Other Benefits 2006
Net actuarial loss (gain)	\$ 267	\$ 97
Prior service cost (credit)	37	(5)
	\$ 304	\$ 92

Amounts in AOCI expected to be recognized as components of net periodic pension cost in 2007 are as follows (in millions, pretax):

	Pension Benefits 2007	Other Benefits 2007
Net actuarial loss (gain)	\$ 20	\$ 1
Prior service cost (credit)	6	—
	\$ 26	\$ 1

Certain amounts in the prior years' disclosure have been reclassified to conform to the current year presentation.

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**NOTE 16: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**

*Obligations and Funded Status*

The following table sets forth the change in benefit obligations for our benefit plans (in millions):

December 31,	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Benefit obligation at beginning of year <sup>1</sup>	\$ 2,806	\$ 2,592	\$ 787	\$ 801
Service cost	104	88	31	28
Interest cost	158	146	46	43
Foreign currency exchange rate changes	53	(56)	(1)	—
Amendments	4	2	—	—
Actuarial (gain) loss	(41)	186	(25)	(63)
Benefits paid <sup>2</sup>	(127)	(123)	(23)	(25)
Business combinations	95	—	10	—
Settlements	(10)	(28)	—	—
Curtailments	—	(7)	—	—
Other	3	6	3	3
<b>Benefit obligation at end of year<sup>1</sup></b>	<b>\$ 3,045</b>	<b>\$ 2,806</b>	<b>\$ 828</b>	<b>\$ 787</b>

<sup>1</sup> For pension benefit plans, the benefit obligation is the projected benefit obligation. For other benefit plans, the benefit obligation is the accumulated postretirement benefit obligation.

<sup>2</sup> Benefits paid from pension benefit plans during 2006 and 2005 included \$31 million and \$28 million, respectively, in payments related to unfunded pension plans that were paid from Company assets. All of the benefits paid from other benefit plans during 2006 and 2005 were paid from Company assets.

The accumulated benefit obligation for our pension plans was \$2,648 million and \$2,428 million at December 31, 2006 and 2005, respectively.

For pension plans with projected benefit obligations in excess of plan assets, the total projected benefit obligation and fair value of plan assets were \$1,339 million and \$642 million, respectively, as of December 31, 2006, and \$1,156 million and \$470 million, respectively, as of December 31, 2005. For pension plans with accumulated benefit obligations in excess of plan assets, the total accumulated benefit obligation and fair value of plan assets were \$852 million and \$278 million, respectively, as of December 31, 2006, and \$875 million and \$331 million, respectively, as of December 31, 2005.

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**NOTE 16: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**

The following table sets forth the change in the fair value of plan assets for our benefit plans (in millions):

December 31,	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Fair value of plan assets at beginning of year <sup>1</sup>	\$ 2,406	\$ 2,166	\$ 19	\$ 10
Actual return on plan assets	339	213	5	1
Employer contributions	94	161	224	8
Foreign currency exchange rate changes	36	(35)	—	—
Benefits paid	(96)	(95)	—	—
Business combinations	68	—	—	—
Other	(4)	(4)	—	—
<b>Fair value of plan assets at end of year<sup>1</sup></b>	<b>\$ 2,843</b>	<b>\$ 2,406</b>	<b>\$ 248</b>	<b>\$ 19</b>

<sup>1</sup> Plan assets include 1.6 million shares of common stock of our Company with a fair value of \$77 million and \$65 million as of December 31, 2006 and 2005, respectively. Dividends received on common stock of our Company during 2006 and 2005 were \$2.0 million and \$1.8 million, respectively.

The pension and other benefit amounts recognized in our consolidated balance sheets are as follows (in millions):

December 31,	Pension Benefits		Other Benefits	
	2006 <sup>1</sup>	2005	2006 <sup>1</sup>	2005
Funded status — plan assets less than benefit obligations	\$ (202)	\$ (400)	\$ (580)	\$ (768)
Unrecognized net actuarial loss	—	512	—	123
Unrecognized prior service cost (credit)	—	39	—	(6)
Fourth quarter contribution	3	—	—	—
<b>Net prepaid asset (liability) recognized</b>	<b>\$ (199)</b>	<b>\$ 151</b>	<b>\$ (580)</b>	<b>\$ (651)</b>
Prepaid benefit cost	\$ 494	\$ 581	\$ —	\$ —
Accrued benefit liability	(693)	(570)	(580)	(651)
Intangible asset	—	12	—	—
Accumulated other comprehensive income	—	128	—	—
<b>Net prepaid asset (liability) recognized</b>	<b>\$ (199)</b>	<b>\$ 151</b>	<b>\$ (580)</b>	<b>\$ (651)</b>

<sup>1</sup> Effective December 31, 2006, the Company adopted SFAS No. 158.

**THE COCA-COLA COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 16: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**

*Components of Net Periodic Benefit Cost*

Net periodic benefit cost for our pension and other postretirement benefit plans consisted of the following (in millions):

December 31,	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Service cost	\$ 104	\$ 88	\$ 82	\$ 31	\$ 28	\$ 27
Interest cost	158	146	136	46	43	44
Expected return on plan assets	(179)	(154)	(141)	(5)	(1)	—
Amortization of prior service cost (credit)	7	7	8	—	—	(1)
Recognized net actuarial loss	46	42	35	3	1	3
Net periodic benefit cost <sup>1</sup>	\$ 136	\$ 129	\$ 120	\$ 75	\$ 71	\$ 73

<sup>1</sup> During 2004, net periodic benefit cost for our other postretirement benefit plans was reduced by \$12 million due to our adoption of FSP 106-2. Refer to Note 1.

*Assumptions*

Certain weighted-average assumptions used in computing the benefit obligations are as follows:

December 31,	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Discount rate	5¾%	5½%	6%	5¾%
Rate of increase in compensation levels	4¼%	4¼%	4½%	4½%

Certain weighted-average assumptions used in computing net periodic benefit cost are as follows:

Year Ended December 31,	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Discount rate	5½%	5½%	6%	5¾%	6%	6¼%
Rate of increase in compensation levels	4¼%	4%	4¼%	4½%	4½%	4½%
Expected long-term rate of return on plan assets	8%	8%	8%	8½%	8½%	8½%

The assumed health care cost trend rates are as follows:

December 31,	2006	2005
Health care cost trend rate assumed for next year	9%	9%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5%	5¼%
Year that the rate reaches the ultimate trend rate	2011	2010

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**NOTE 16: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plans. A one percentage point change in the assumed health care cost trend rate would have the following effects (in millions):

	One Percentage Point Increase	One Percentage Point Decrease
Effect on accumulated postretirement benefit obligation as of December 31, 2006	\$ 117	\$ (95)
Effect on total of service cost and interest cost in 2006	\$ 15	\$ (12)

The discount rate assumptions used to account for pension and other postretirement benefit plans reflect the rates at which the benefit obligations could be effectively settled. These rates were determined using a cash flow matching technique whereby a hypothetical portfolio of high quality debt securities was constructed that mirrors the specific benefit obligations for each of our primary U.S. plans. The rate of compensation increase assumption is determined by the Company based upon annual reviews. We review external data and our own historical trends for health care costs to determine the health care cost trend rate assumptions.

***Plan Assets***

***Pension Benefit Plans***

The following table sets forth the actual asset allocation and weighted-average target asset allocation for our U.S. and non-U.S. pension plan assets:

December 31,	2006	2005	Target Asset Allocation
Equity securities <sup>1</sup>	62%	63%	61%
Debt securities	27	24	29
Real estate and other <sup>2</sup>	11	13	10
Total	100%	100%	100%

<sup>1</sup> As of December 31, 2006 and 2005, 3 percent of total pension plan assets were invested in common stock of our Company.

<sup>2</sup> As of December 31, 2006 and 2005, 6 percent of total pension plan assets were invested in real estate.

Investment objectives for the Company's U.S. pension plan assets, which comprise 75 percent of total pension plan assets as of December 31, 2006, are to:

- (1) optimize the long-term return on plan assets at an acceptable level of risk;
- (2) maintain a broad diversification across asset classes and among investment managers;
- (3) maintain careful control of the risk level within each asset class; and
- (4) focus on a long-term return objective.

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**NOTE 16: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**

Asset allocation targets promote optimal expected return and volatility characteristics given the long-term time horizon for fulfilling the obligations of the pension plans. Selection of the targeted asset allocation for U.S. plan assets was based upon a review of the expected return and risk characteristics of each asset class, as well as the correlation of returns among asset classes.

Investment guidelines are established with each investment manager. These guidelines provide the parameters within which the investment managers agree to operate, including criteria that determine eligible and ineligible securities, diversification requirements and credit quality standards, where applicable. Unless exceptions have been approved, investment managers are prohibited from buying or selling commodities, futures or option contracts, as well as from short selling of securities. Furthermore, investment managers agree to obtain written approval for deviations from stated investment style or guidelines.

As of December 31, 2006, no investment manager was responsible for more than 10 percent of total U.S. plan assets. In addition, diversification requirements for each investment manager prevent a single security or other investment from exceeding 10 percent, at historical cost, of the individual manager's portfolio.

The expected long-term rate of return assumption for U.S. plan assets is based upon the target asset allocation and is determined using forward-looking assumptions in the context of historical returns and volatilities for each asset class, as well as correlations among asset classes. We evaluate the rate of return assumption on an annual basis. The expected long-term rate of return assumption used in computing 2006 net periodic pension cost for the U.S. plans was 8.5 percent. As of December 31, 2006, the 10-year annualized return on U.S. plan assets was 9.0 percent, the 15-year annualized return was 11.0 percent, and the annualized return since inception was 12.8 percent.

Plan assets for our pension plans outside the United States are insignificant on an individual plan basis.

*Other Benefit Plans*

Plan assets associated with other benefits represent funding of the primary U.S. postretirement benefit plans. In late 2006, we established and contributed \$216 million to a U.S. Voluntary Employee Beneficiary Association, a tax-qualified trust. As of December 31, 2006, the majority of these funds were held in short-term investments pending the implementation of long-term asset allocation strategies. While these assets will remain segregated from the primary U.S. pension master trust, the investment objectives, asset allocation targets and investment guidelines will be determined in a methodology similar to that applied to the U.S. pension plans described above.

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**NOTE 16: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**

*Cash Flows*

Information about the expected cash flows for our pension and other postretirement benefit plans is as follows (in millions):

	Pension Benefits	Other Benefits
Expected employer contributions:		
2007	\$ 49	\$ —
Expected benefit payments <sup>1</sup> :		
2007	\$ 135	\$ 30
2008	133	33
2009	134	36
2010	145	39
2011	142	42
2012-2016	834	253

<sup>1</sup> The expected benefit payments for our other postretirement benefit plans are net of estimated federal subsidies expected to be received under the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Federal subsidies are estimated to range from \$2 million to \$3 million in 2007 to 2011 and are estimated to be \$23 million for the period 2012-2016.

**Defined Contribution Plans**

Our Company sponsors a qualified defined contribution plan covering substantially all U.S. employees. Under this plan, we match 100 percent of participants' contributions up to a maximum of 3 percent of compensation. Company contributions to the U.S. plan were approximately \$25 million, \$21 million and \$18 million in 2006, 2005 and 2004, respectively. We also sponsor defined contribution plans in certain locations outside the United States. Company contributions to those plans were approximately \$18 million, \$16 million and \$13 million in 2006, 2005 and 2004, respectively.

**NOTE 17: INCOME TAXES**

Income before income taxes consisted of the following (in millions):

Year Ended December 31,	2006	2005	2004
United States	\$ 2,126	\$ 2,268	\$ 2,535
International	4,452	4,422	3,687
	\$ 6,578	\$ 6,690	\$ 6,222