

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

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand The Coca-Cola Company, our operations and our present business environment. MD&A is provided as a supplement to—and should be read in conjunction with—our consolidated financial statements and the accompanying notes thereto contained in "Item 8. Financial Statements and Supplementary Data" of this report. This overview summarizes the MD&A, which includes the following sections:

- *Our Business*—a general description of our business and the nonalcoholic beverages segment of the commercial beverages industry, our objective, our strategic priorities, our core capabilities, and challenges and risks of our business.
- *Critical Accounting Policies and Estimates*—a discussion of accounting policies that require critical judgments and estimates.
- *Operations Review*—an analysis of our Company's consolidated results of operations for the three years presented in our consolidated financial statements. Except to the extent that differences among our operating segments are material to an understanding of our business as a whole, we present the discussion in the MD&A on a consolidated basis.
- *Liquidity, Capital Resources and Financial Position*—an analysis of cash flows; off-balance sheet arrangements and aggregate contractual obligations; foreign exchange; an overview of financial position; and the impact of inflation and changing prices.

Our Business

General

We are the largest manufacturer, distributor and marketer of nonalcoholic beverage concentrates and syrups in the world. Along with Coca-Cola, which is recognized as the world's most valuable brand, we market four of the world's top five nonalcoholic sparkling brands, including Diet Coke, Fanta and Sprite. Our Company owns or licenses more than 450 brands, including diet and light beverages, waters, enhanced waters, juices and juice drinks, teas, coffees, and energy and sports drinks. Through the world's largest beverage distribution system, consumers in more than 200 countries enjoy the Company's beverages at a rate of approximately 1.5 billion servings each day. Our Company generates revenues, income and cash flows by selling beverage concentrates and syrups as well as finished beverages. We generally sell these products to bottling and canning operations, fountain wholesalers and some fountain retailers, and, in the case of finished products, to distributors. Our bottlers sell our branded products to businesses and institutions including retail chains, supermarkets, restaurants, small neighborhood grocers, sports and entertainment venues, and schools and colleges. We continue to expand our marketing presence and increase our unit case volume in both developed and emerging markets. Our strong and stable system helps us to capture growth by manufacturing, distributing and marketing existing, enhanced and new innovative products to our consumers throughout the world.

We have three types of bottling relationships: bottlers in which our Company has no ownership interest, bottlers in which our Company has a noncontrolling ownership interest and bottlers in which our Company has a controlling ownership interest. We authorize our bottling partners to manufacture and package products made from our concentrates and syrups into branded finished products that they then distribute and sell. In 2007, bottling partners in which our Company has no ownership interest or a noncontrolling ownership interest produced and distributed approximately 79 percent of our worldwide unit case volume.

We make significant marketing expenditures in support of our brands, including expenditures for advertising, sponsorship fees and special promotional events. As part of our marketing activities, we, at our discretion, provide retailers and distributors with promotions and point-of-sale displays; our bottling partners with advertising support and funds designated for the purchase of cold-drink equipment; and our consumers with coupons, discounts and promotional incentives. These marketing expenditures help to enhance awareness of and increase consumer preference for our brands. We believe that greater awareness and preference promote long-term growth in unit case volume, per capita consumption and our share of worldwide nonalcoholic beverage sales.

The Nonalcoholic Beverages Segment of the Commercial Beverages Industry

We operate in the highly competitive nonalcoholic beverages segment of the commercial beverages industry. We face strong competition from numerous other general and specialty beverage companies. We, along with other beverage companies, are affected by a number of factors, including, but not limited to, cost to manufacture and distribute products, consumer spending, economic conditions, availability and quality of water, consumer preferences, inflation, political climate, local and national laws and regulations, foreign currency exchange fluctuations, fuel prices and weather patterns.

Our Objective

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

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

Strategic Priorities

We have five strategic priorities designed to create long-term sustainable growth for our Company and the Coca-Cola system and value for our shareowners. These strategic priorities are growing sparkling beverage leadership; rapidly growing still beverages; leveraging a balanced geographic portfolio; accelerating the innovation pipeline; and strengthening Coca-Cola system capability. To enable the entire Coca-Cola system so that we can deliver on these strategic priorities, we must further enhance our core capabilities of consumer marketing; commercial leadership; and franchise leadership.

Core Capabilities

Consumer Marketing

Marketing investments are designed to enhance consumer awareness and increase consumer preference for our brands. This produces long-term growth in unit case volume, per capita consumption and our share of worldwide nonalcoholic beverage sales. We heighten consumer awareness of and product appeal for our brands using integrated marketing programs. Through our relationships with our bottling partners and those who sell our products in the marketplace, we create and implement marketing programs both globally and locally. In developing a strategy for a Company brand, we conduct product and packaging research, establish brand positioning, develop precise consumer communications and solicit consumer feedback. Our integrated global and local marketing programs include activities such as advertising, point-of-sale merchandising and sales promotions.

Commercial Leadership

The Coca-Cola system has millions of customers around the world who sell or serve our products directly to consumers. We focus on enhancing value for our customers and providing solutions to grow their beverage businesses. Our approach includes understanding each customer's business and needs, whether that customer is a sophisticated retailer in a developed market or a kiosk owner in an emerging market. We focus on ensuring that our customers have the right product and package offerings and the right promotional tools to deliver enhanced value to themselves and the Company. We are constantly looking to build new beverage consumption occasions in our customers' outlets through unique and innovative consumer experiences, product availability and delivery systems, and beverage merchandising and displays.

Franchise Leadership

We must continue to improve our franchise leadership capabilities to give our Company and our bottling partners the ability to grow together through shared values, aligned incentives and a sense of urgency and flexibility that supports consumers' always changing needs and tastes. The financial health and success of our bottling partners are critical components of the Company's success. We work with our bottling partners to continuously look for ways to improve system economics, and we share best practices throughout the bottling system. We also design business models for still beverages in specific markets to ensure that we appropriately share the value created by these beverages with our bottling partners. We will continue to build a supply chain network that leverages the size and scale of the Coca-Cola system to gain a competitive advantage.

Challenges and Risks

Being a global company provides unique opportunities for our Company. Challenges and risks accompany those opportunities.

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

Obesity and Inactive Lifestyles. Increasing awareness among consumers, public health professionals and government agencies of the potential health problems associated with obesity and inactive lifestyles represents a significant challenge to our industry. We recognize that obesity is a complex public health problem. Our commitment to consumers begins with our broad product line, which includes a wide selection of diet and light beverages, juices and juice drinks, sports drinks and water products. Our commitment also includes adhering to responsible policies in schools and in the marketplace; supporting programs to encourage physical activity and promote nutrition education; and continuously meeting changing consumer needs through beverage innovation, choice and variety. We are committed to playing an appropriate role in helping address this issue in cooperation with governments, educators and consumers through science-based solutions and programs.

Water Quality and Quantity. Water quality and quantity is an issue that increasingly requires our Company's attention and collaboration with the nonalcoholic beverages segment of the commercial beverages industry, governments, nongovernmental organizations and communities where we operate. Water is the main ingredient in substantially all of our products. It is also a limited natural resource facing unprecedented challenges from overexploitation, increasing pollution and poor management. Our Company is in an excellent position to share the water-related knowledge we have developed in the communities we serve—water-resource management, water treatment, wastewater treatment systems, and models for working with communities and partners in addressing water and sanitation needs. We are actively engaged in assessing the specific water-related risks that we and many of our bottling partners face and have implemented a formal water risk management program. We are working with our global partners to develop water sustainability projects. We are actively encouraging improved water efficiency and conservation efforts throughout our system. As demand for water continues to increase around the world, we expect commitment and continued action on our part will be crucial in the successful long-term stewardship of this critical natural resource.

Evolving Consumer Preferences. Consumers want more choices. We are impacted by shifting consumer demographics and needs, on-the-go lifestyles, aging populations in developed markets and consumers who are empowered with more information than ever. We are committed to generating new avenues for growth through our core brands with a focus on diet and light products. We are also committed to continuing to expand the variety of choices we provide to consumers to meet their needs, desires and lifestyle choices.

Increased Competition and Capabilities in the Marketplace. Our Company is facing strong competition from some well-established global companies and many local participants. We must continue to selectively expand into other profitable segments of the nonalcoholic beverages segment of the commercial beverages industry and strengthen our capabilities in marketing and innovation in order to maintain our brand loyalty and market share.

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

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

Critical Accounting Policies and Estimates

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

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

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

Basis of Presentation and Consolidation

Our Company consolidates all entities that we control by ownership of a majority voting interest as well as variable interest entities for which our Company is the primary beneficiary. Our judgment in determining if we are the primary beneficiary of the variable interest entities includes assessing our Company’s level of involvement in setting up the entity, determining if the activities of the entity are substantially conducted on behalf of our Company, determining whether the Company provides more than half of the subordinated financial support to the entity, and determining if we absorb the majority of the entity’s expected losses or returns.

We use the equity method to account for investments for which we have the ability to exercise significant influence over operating and financial policies of the investee. Our consolidated net income includes our Company’s proportionate share of the net income or loss of these companies. Our judgment regarding the level of influence over

each equity method investment includes considering key factors such as our ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions.

We use the cost method to account for investments in companies that we do not control and for which we do not have the ability to exercise significant influence over operating and financial policies. In accordance with the cost method, these investments are recorded at cost or fair value, as appropriate. We record dividend income when applicable dividends are declared.

Our Company eliminates all significant intercompany transactions, including the intercompany portion of transactions with equity method investees, from our financial results.

Recoverability of Noncurrent Assets

Management's assessments of the recoverability of noncurrent assets involve critical accounting estimates. These assessments reflect management's best assumptions, which, we believe, are consistent with the assumptions that hypothetical marketplace participants would use. Factors that management must estimate when performing recoverability and impairment tests include, among others, the economic life of the asset, sales volume, prices, inflation, cost of capital, marketing spending, foreign currency exchange rates, tax rates and capital spending. These factors are often interdependent and therefore do not change in isolation. These factors include inherent uncertainties, and significant management judgment is involved in estimating their impact. However, the assumptions we use for financial reporting purposes are consistent with those we use in our internal planning, and we believe they are consistent with those that a hypothetical marketplace participant would use. Management periodically evaluates and updates the estimates based on the conditions that influence these factors. The variability of these factors depends on a number of conditions, including uncertainty about future events, and thus our accounting estimates may change from period to period. If other assumptions and estimates had been used in the current period, the balances for noncurrent assets could have been materially impacted. Furthermore, if management uses different assumptions or if different conditions occur in future periods, future operating results could be materially impacted.

Our Company faces many uncertainties and risks related to various economic, political and regulatory environments in the countries in which we operate, particularly in developing or emerging markets. Refer to the heading "Our Business—Challenges and Risks," above, and "Item 1A. Risk Factors" in Part I of this report. As a result, management must make numerous assumptions which involve a significant amount of judgment when determining the recoverability of noncurrent assets in various regions around the world.

For the noncurrent assets listed in the table below, we perform tests of impairment as appropriate. For applicable assets, we perform these tests when certain conditions exist that indicate the carrying value may not be recoverable. For other applicable assets, we perform these tests at least annually or more frequently if events or circumstances indicate that an asset may be impaired:

December 31, 2007 (In millions except percentages)	Carrying Value	Percentage of Total Assets
Tested for impairment when conditions indicate carrying value may be impaired:		
Equity method investments	\$ 7,289	17%
Cost method investments, principally bottling companies	488	1
Other assets	2,675	6
Property, plant and equipment, net	8,493	20
Amortized intangible assets, net	493	1
Total	\$ 19,438	45%
Tested for impairment at least annually or when events indicate that an asset may be impaired:		
Trademarks with indefinite lives	\$ 5,153	12%
Goodwill	4,256	10
Bottlers' franchise rights	2,184	5
Other intangible assets not subject to amortization	133	—
Total	\$ 11,726	27%

During 2007, operating losses incurred in several quarters by certain consolidated bottling operations in Asia and Europe were considered impairment indicators. Therefore, the Company completed impairment reviews of our noncurrent assets in these bottling operations. In 2007, as a result of these impairment reviews, the Company did not record any impairment charges related to these bottling operations. As of December 31, 2007, the remaining carrying values of our noncurrent assets in bottling operations subject to these impairment reviews in Asia and Europe were approximately \$386 million and \$2,829 million, respectively. The Company will continue to monitor the recoverability of these noncurrent assets and investments in bottling operations in 2008.

Equity Method and Cost Method Investments

We review our equity and cost method investments in every reporting period to determine whether a significant event or change in circumstances has occurred that may have an adverse effect on the fair value of each investment. When such events or changes occur, we evaluate the fair value compared to the carrying value of the related investment. We also perform this evaluation every reporting period for each investment for which the carrying value has exceeded the fair value in the prior period. The fair values of most of our Company's investments in publicly traded companies are often readily available based on quoted market prices. For investments in nonpublicly traded companies, management's assessment of fair value is based on valuation methodologies including discounted cash flows, estimates of sales proceeds and appraisals, as appropriate. We consider the assumptions that we believe hypothetical marketplace participants would use in evaluating estimated future cash flows when employing the discounted cash flow or estimates of sales proceeds valuation methodologies. The ability to accurately predict future cash flows, especially in developing and unstable markets, may impact the determination of fair value.

In the event a decline in fair value of an investment occurs, management may be required to determine if the decline in fair value is other than temporary. Management's assessment as to the nature of a decline in fair value is based on the valuation methodologies discussed above, our ability and intent to hold the investment, and whether evidence indicating the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. We consider most of our equity method investees to be strategic long-term investments. If the fair value of

an investment is less than its carrying value and the decline in value is considered to be other than temporary, a write-down is recorded. Management's assessments of fair value represent our best estimates as of the time of the impairment review and are consistent with the assumptions that we believe hypothetical marketplace participants would use. If different assessments were made, this could have a material impact on our consolidated financial statements.

The following table presents the difference between calculated fair values, based on quoted closing prices of publicly traded shares, and our Company's carrying values for significant investments in publicly traded bottlers accounted for as equity method investees (in millions):

December 31, 2007	Fair Value	Carrying Value	Difference
Coca-Cola Enterprises Inc.	\$ 4,398	\$ 1,637	\$ 2,761
Coca-Cola Hellenic Bottling Company S.A.	3,647	1,549	2,098
Coca-Cola FEMSA, S.A.B. de C.V.	2,853	996	1,857
Coca-Cola Amatil Limited	1,860	806	1,054
Coca-Cola Icecek A.S.	578	156	422
Grupo Continental, S.A.	369	176	193
Coca-Cola Embonor S.A.	271	208	63
Coca-Cola Bottling Company Consolidated	146	73	73
Embotelladoras Polar S.A.	115	67	48
	\$ 14,237	\$ 5,668	\$ 8,569

Other Assets

Our Company invests in infrastructure programs with our bottlers that are directed at strengthening our bottling system and increasing unit case volume. Additionally, our Company advances payments to certain customers to fund future marketing activities intended to generate profitable volume and expenses such payments over the periods benefited. Advance payments are also made to certain customers for distribution rights. Payments under these programs are generally capitalized and reported as other assets in our consolidated balance sheets. When facts and circumstances indicate that the carrying value of these assets may not be recoverable, management evaluates the recoverability of the carrying value of these assets by preparing estimates of sales volume and the resulting gross profit and cash flows. If the carrying value of these assets is assessed to be recoverable, it is amortized over the periods benefited. If the carrying value of these assets is considered to be not recoverable, an impairment is recognized, resulting in a write-down of assets.

Property, Plant and Equipment

Certain events or changes in circumstances may indicate that the recoverability of the carrying amount of property, plant and equipment should be assessed. Such events or changes may include a significant decrease in market value, a significant change in the business climate in a particular market, or a current-period operating or cash flow loss combined with historical losses or projected future losses. If an event occurs or changes in circumstances are present, we estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount, we recognize an impairment loss. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value. We use a variety of methodologies to determine the fair value of property, plant and equipment, including appraisals and cash flow analyses, that are consistent with the assumptions we believe hypothetical marketplace participants would use.

In 2007, our Company recorded a charge of approximately \$99 million in the line item equity income—net resulting from the impact of our proportionate share of asset write-downs primarily related to excess and obsolete bottles and cases at CCBPI, which impacted Bottling Investments. Refer to the heading "Operations Review—Equity Income—Net" and Note 3 of Notes to Consolidated Financial Statements.

Goodwill, Trademarks and Other Intangible Assets

SFAS No. 142, “Goodwill and Other Intangible Assets,” classifies intangible assets into three categories: (1) intangible assets with definite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization; and (3) goodwill. For intangible assets with definite lives, tests for impairment must be performed if conditions exist that indicate the carrying value may not be recoverable. For intangible assets with indefinite lives and goodwill, tests for impairment must be performed at least annually or more frequently if events or circumstances indicate that assets might be impaired. Our equity method investees also perform such tests for impairment for intangible assets and/or goodwill. If an impairment charge was recorded by one of our equity method investees, the Company would record its proportionate share of such charge.

In 2006, our Company recorded a charge of approximately \$602 million in the line item equity income—net resulting from the impact of our proportionate share of an impairment charge recorded by CCE, which impacted Bottling Investments. Refer to the heading “Operations Review—Equity Income—Net” and Note 3 of Notes to Consolidated Financial Statements.

Our trademarks and other intangible assets determined to have definite lives are amortized over their useful lives. In accordance with SFAS No. 142, if conditions exist that indicate the carrying value may not be recoverable, we review such trademarks and other intangible assets with definite lives for impairment. Such conditions may include an economic downturn in a market or a change in the assessment of future operations. Trademarks and other intangible assets determined to have indefinite useful lives are not amortized. We test such trademarks and other intangible assets with indefinite useful lives for impairment annually, or more frequently if events or circumstances indicate that assets might be impaired. Goodwill is not amortized. We also perform tests for impairment of goodwill annually, or more frequently if events or circumstances indicate it might be impaired. All goodwill is assigned to reporting units, which are one level below our operating segments. Goodwill is assigned to the reporting unit that benefits from the synergies arising from each business combination. We perform our impairment tests of goodwill at our reporting unit level. Impairment tests for goodwill include comparing the fair value of the respective reporting unit with its carrying value, including goodwill. We use a variety of methodologies in conducting these impairment assessments, including cash flow analyses that are consistent with the assumptions we believe hypothetical marketplace participants would use, estimates of sales proceeds and appraisals. Where applicable, we use an appropriate discount rate that is commensurate with the risk inherent in the projected cash flows.

In 2006, our Company recorded impairment charges of approximately \$41 million primarily related to trademarks for beverages sold in the Philippines and Indonesia. The Philippines and Indonesia are components of the Pacific. The amount of these impairment charges was determined by comparing the fair values of the intangible assets to their respective carrying values. The fair values were determined using discounted cash flow analyses. Because the fair values were less than the carrying values of the assets, we recorded impairment charges to reduce the carrying values of the assets to their respective fair values. These impairment charges were recorded in the line item other operating charges in the consolidated statement of income.

In 2005, our Company recorded impairment charges of approximately \$84 million related to intangible assets. These intangible assets were related to trademarks for beverages sold in the Philippines. The carrying value of our trademarks in the Philippines, prior to the recording of the impairment charges in 2005, was approximately \$268 million. The impairments were the result of our revised outlook for the Philippines, which had been unfavorably impacted by declines in volume and income before income taxes resulting from the continued lack of an affordable package offering and the continued limited availability of these trademark beverages in the marketplace. We determined the amounts of the impairment charges by comparing the fair values of the intangible assets to their then carrying values. Fair values were derived using discounted cash flow analyses with a number of scenarios that were weighted based on the probability of different outcomes. Because the fair values were less than the carrying values of the assets, we recorded impairment charges to reduce the carrying values of the assets to fair values. In addition, in 2005, we recorded an impairment charge of approximately \$4 million in the line item equity income—net related to our proportionate share of a write-down of intangible assets recorded by our equity method investee bottler in the Philippines.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery of products has occurred, the sales price is fixed or determinable, and collectibility is reasonably assured. For our Company, this generally means that we recognize revenue when title to our products is transferred to our bottling partners, resellers or other customers. In particular, title usually transfers upon shipment to or receipt at our customers' locations, as determined by the specific sales terms of each transaction. Our sales terms do not allow for a right of return except for matters related to any manufacturing defects on our part.

In addition, our customers can earn certain incentives, which are included in deductions from revenue, a component of net operating revenues in the consolidated statements of income. These incentives include, but are not limited to, cash discounts, funds for promotional and marketing activities, volume-based incentive programs and support for infrastructure programs. Refer to Note 1 of Notes to Consolidated Financial Statements. The aggregate deductions from revenue recorded by the Company in relation to these programs, including amortization expense on infrastructure programs, was approximately \$4.1 billion, \$3.8 billion and \$3.7 billion for the years ended December 31, 2007, 2006 and 2005, respectively.

Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("Interpretation No. 48"). Interpretation No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." Interpretation No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Interpretation No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Our Company adopted the provisions of Interpretation No. 48 effective January 1, 2007. As a result of the adoption of Interpretation No. 48, we recorded an approximate \$65 million increase in accrued income taxes in our consolidated balance sheet for unrecognized tax benefits, which was accounted for as a cumulative effect adjustment to the January 1, 2007 balance of reinvested earnings.

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax expense and in evaluating our tax positions. We establish reserves to remove some or all of the tax benefit of any of our tax positions at the time we determine that the positions become uncertain based upon one of the following: (1) the tax position is not "more likely than not" to be sustained, (2) the tax position is "more likely than not" to be sustained, but for a lesser amount, (3) the tax position is "more likely than not" to be sustained, but not in the financial period in which the tax position was originally taken. For purposes of evaluating whether or not a tax position is uncertain, (1) we presume the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information, (2) the technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position, and (3) each tax position is evaluated without considerations of the possibility of offset or aggregation with other tax positions taken. We adjust these reserves, including any impact on the related interest and penalties, in light of changing facts and circumstances, such as the progress of a tax audit.

A number of years may elapse before a particular matter for which we have established a reserve is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. The tax benefit that has been previously reserved because of a failure to meet the "more likely than not" recognition threshold would be recognized in our income tax expense in the first interim period when the uncertainty disappears under any one of the following conditions: (1) the tax position is "more likely than not" to be sustained, (2) the tax position, amount, and/or timing is ultimately settled through negotiation or litigation, or (3) the statute of limitations for the tax position has expired. Settlement of any particular issue would usually require the use of cash.

Tax law requires items to be included in the tax return at different times than when these items are reflected in the consolidated financial statements. As a result, the annual tax rate reflected in our consolidated financial statements is different than that reported in our tax return (our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences reverse over time, such as depreciation expense. These timing differences create deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities. The tax rates used to determine deferred tax assets or liabilities are the enacted tax rates in effect for the year in which the differences are expected to reverse. Based on the evaluation of all available information, the Company recognizes future tax benefits, such as net operating loss carryforwards, to the extent that realizing these benefits is considered more likely than not.

We evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing our forecasted taxable income using both historical and projected future operating results, the reversal of existing temporary differences, taxable income in prior carryback years (if permitted) and the availability of tax planning strategies. A valuation allowance is required to be established unless management determines that it is more likely than not that the Company will ultimately realize the tax benefit associated with a deferred tax asset.

Additionally, undistributed earnings of a subsidiary are accounted for as a temporary difference, except that deferred tax liabilities are not recorded for undistributed earnings of a foreign subsidiary that are deemed to be indefinitely reinvested in the foreign jurisdiction. The Company has formulated a specific plan for reinvestment of undistributed earnings of its foreign subsidiaries which demonstrates that such earnings will be indefinitely reinvested in the applicable tax jurisdictions. Should we change our plans, we would be required to record a significant amount of deferred tax liabilities.

The American Jobs Creation Act of 2004 (the "Jobs Creation Act") was enacted in October 2004. Among other things, it provided a one-time benefit related to foreign tax credits generated by equity investments in prior years. In 2004, the Company recorded an income tax benefit of approximately \$50 million as a result of this new law. The Jobs Creation Act also included a temporary incentive for U.S. multinationals to repatriate foreign earnings at an approximate 5.25 percent effective tax rate. During 2005, the Company repatriated approximately \$6.1 billion in previously unremitted foreign earnings, with an associated tax liability of approximately \$315 million. The reinvestment requirements of this repatriation have been fulfilled at December 31, 2007. Refer to Note 1 and Note 17 of Notes to Consolidated Financial Statements.

The Company's effective tax rate is expected to be approximately 22.0 to 22.5 percent in 2008. This estimated tax rate does not reflect the impact of any unusual or special items that may affect our tax rate in 2008.

Contingencies

Our Company is subject to various claims and contingencies, mostly related to legal proceedings and tax matters (both income taxes and indirect taxes). Due to their nature, such legal proceedings and tax matters involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management assesses the probability of loss for such contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. Management believes that any liability to the Company that may arise as a result of currently pending legal proceedings, tax matters or other contingencies will not have a material adverse effect on the financial condition of the Company taken as a whole. Refer to Note 13 of Notes to Consolidated Financial Statements.

Recent Accounting Standards and Pronouncements

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

Operations Review

We manufacture, distribute and market nonalcoholic beverage concentrates and syrups. We also manufacture, distribute and market finished beverages. Our organizational structure as of January 1, 2007 consisted of the following operating segments, the first seven of which are sometimes referred to as “operating groups” or “groups”: Africa; Eurasia; European Union; Latin America; North America; Pacific; Bottling Investments; and Corporate. We revised previously reported group information to conform to our operating structure as of January 1, 2007. For further information regarding our operating segments, including a discussion of changes made to our operating segments effective January 1, 2007, refer to Note 21 of Notes to Consolidated Financial Statements.

Beverage Volume

We measure our sales volume in two ways: (1) unit cases of finished products and (2) concentrate sales. A “unit case” is a unit of measurement equal to 192 U.S. fluid ounces of finished beverage (24 eight-ounce servings). Unit case volume represents the number of unit cases of Company beverage products directly or indirectly sold by the Company and its bottling partners to customers. Unit case volume primarily consists of beverage products bearing Company trademarks. Also included in unit case volume are certain products licensed to, or distributed by, our Company, and brands owned by Coca-Cola system bottlers for which our Company provides marketing support and from the sale of which we derive economic benefit. Such products licensed to, or distributed by, our Company or owned by Coca-Cola system bottlers account for a minimal portion of total unit case volume. In addition, unit case volume includes sales by joint ventures in which the Company is a partner. Unit case volume is derived based on estimates supplied by our bottling partners and distributors. Concentrate sales volume represents the amount of concentrates, syrups, beverage bases and powders (in all cases expressed in equivalent unit cases) sold by, or used in finished beverages sold by, the Company to its bottling partners or other customers. “Concentrate sales” replaced the “gallon sales” concept beginning with the first quarter of 2007. We made this change primarily to replace “equivalent gallons” with “equivalent unit cases” as a unit of measurement for concentrates, syrups, beverage bases and powders, which better reflects how our Company conducts its operations. Most of our revenues are based on concentrate sales, a primarily wholesale activity. Unit case volume and concentrate sales growth rates are not necessarily equal during any given period. Items such as seasonality, bottlers’ inventory practices, supply point changes, timing of price increases, new product introductions and changes in product mix can impact unit case volume and concentrate sales and can create differences between unit case volume and concentrate sales growth rates.

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

Year Ended December 31,	Percentage Change			
	2007 vs. 2006		2006 vs. 2005	
	Unit Cases ^{1,2}	Concentrate Sales	Unit Cases ^{1,2}	Concentrate Sales
Worldwide	6%	6%	4%	4%
Africa	10	11	4	4
Eurasia	16	15	14	11
European Union	3	3	6	4
Latin America	9	9	7	7
North America	(1)	—	—	—
Pacific	7	7	1	1
Bottling Investments	64	N/A	16	N/A

¹ Bottling Investments operating segment data reflects unit case volume growth for consolidated bottlers only.

² Geographic segment data reflects unit case volume growth for all bottlers in the applicable geographic areas, both consolidated and unconsolidated.

Unit Case Volume

Although most of our Company's revenues are not based directly on unit case volume, we believe unit case volume is one of the measures of the underlying strength of the Coca-Cola system because it measures our product trends at the consumer level. The Coca-Cola system sold approximately 22.7 billion unit cases of our products in 2007, approximately 21.4 billion unit cases in 2006, and approximately 20.6 billion unit cases in 2005.

In Africa, unit case volume increased 10 percent in 2007 compared to 2006. The increase in 2007 reflected growth across all divisions, led by growth in South Africa. South Africa unit case volume increased 13 percent in 2007, driven by strong marketing, the replenishment of trade inventory resulting from the carbon dioxide shortage in the fourth quarter of 2006, and favorable weather. Solid growth in North and West Africa, and in East and Central Africa, driven primarily by strong marketing and bottler execution, also favorably impacted the results in 2007.

In Eurasia, unit case volume grew 16 percent in 2007 versus 2006. Double-digit unit case volume growth in Russia, India, Turkey, Middle East, Eastern Europe and southern Eurasia drove the results. In India, continued investment in marketing initiatives on the quality and safety of our products and focus on improved execution by the consolidated bottling operations resulted in 14 percent unit case volume growth in 2007.

Unit case volume in the European Union increased 3 percent in 2007 compared to 2006, primarily due to growth in most key countries. The results reflected the benefits of key initiatives across the group, including Coca-Cola Zero launches and the three-cola strategy (focusing on driving unit case volume growth for Coca-Cola, Coca-Cola Zero and Diet Coke or Coca-Cola light.), The Coke Side of Life Campaign, Christmas programs and activation of the Rugby World Cup. In addition, the full-year impact of the 2006 acquisition of Apollinaris GmbH, a German premium source water brand ("Apollinaris"), and the 2006 joint acquisition of Fonti del Vulture S.r.l. ("Fonti del Vulture"), an Italian mineral water company, with Coca-Cola Hellenic contributed to unit case volume growth in 2007. Unit case volume growth in the European Union was negatively impacted by the unseasonably cool and rainy summer weather compared to 2006 and the impact of World Cup in 2006.

In Latin America, unit case volume increased 9 percent in 2007 versus 2006, including 7 percent growth in Trademark Coca-Cola, reflecting the introduction of Coca-Cola Zero during the first quarter of 2007. The acquisition of Leao Junior in Brazil also favorably impacted the unit case volume growth in 2007. Unit case volume increased 16 percent in Brazil, 6 percent in Mexico and 9 percent in Argentina in 2007 versus 2006. In December 2006, the Company and Coca-Cola FEMSA entered into an agreement to jointly acquire Jugos del Valle, the second largest producer of packaged juices, nectars and fruit-flavored beverages in Mexico and the largest producer of such products in Brazil. In July 2007, the Mexican Federal Competition Commission approved the acquisition of Jugos del Valle. The transfer of ownership was completed in November 2007. Full-year 2006 unit case volume of Jugos del Valle was approximately 117 million.

Unit case volume in North America decreased 1 percent in 2007 versus 2006, reflecting a 1 percent decline in the Foodservice and Hospitality Division due to the challenging restaurant industry environment. Unit case volume in the Retail Division was even in 2007, reflecting a 1 percent favorable impact from acquisitions primarily related to glacéau. In 2007, the Company transferred the majority of the distribution of glacéau branded products to its existing bottling system with the exception of certain regional glacéau distributors and certain channels. Refer to Note 20 of Notes to Consolidated Financial Statements. Unit case volume for glacéau beverages was 56 million unit cases in 2006. The Retail Division's unit case volume result was unfavorably impacted by the difficult sparkling beverage industry environment and by a unit case volume decline in warehouse-delivered water resulting from the strategic decision to refocus resources behind the more profitable Dasani business. Sparkling beverage unit case volume declined 2 percent in 2007 compared to 2006, reflecting the expected difficult category environment resulting from increased retail pricing. Coca-Cola Zero unit case volume continued to increase by double digits in 2007. In 2007, both Trademark Dasani and Trademark Powerade unit case volume continued to grow. Warehouse-delivered juice unit case volume declined due to retail price increases taken to cover higher ingredient costs. This decline was partially offset by continued unit case volume growth in Trademark Odwalla and Trademark Simply juices. In February 2008, the

Company and Honest Tea, Inc. completed an agreement resulting in the Company holding an approximate 40 percent interest in Honest Tea, Inc., the maker of organic beverages, including beverages sold under the Honest Tea trademark. Refer to Note 22 of Notes to Consolidated Financial Statements.

Unit case volume in the Pacific increased 7 percent in 2007 compared to 2006. The increase includes 18 percent growth in China, 5 percent growth in the Philippines, and 3 percent growth in Japan. The increase in unit case volume in China was led by double-digit growth in sparkling beverages, Minute Maid and Nestea. The increase in unit case volume in Japan was primarily due to growth in Trademarks Coca-Cola, Sprite, Sokenbicha and water brands. Georgia Coffee volume declined 1 percent in 2007 compared to 2006; however, as a result of success with a new marketing campaign, it returned to growth in the fourth quarter of 2007. The increase in unit case volume in the Philippines was primarily due to strong sparkling unit case volume growth reflecting the investment in key marketing initiatives, the focus on improving the route-to-market, and reshaping and streamlining the supply chain and building sales capabilities. On February 22, 2007, the Company acquired the remaining 65 percent ownership interest in Coca-Cola Bottlers Philippines, Inc. ("CCBPI") held by San Miguel Corporation and two of its subsidiaries (collectively, "SMC") and began to implement certain initiatives to address business performance. Refer to Note 20 of Notes to Consolidated Financial Statements.

Unit case volume for Bottling Investments increased 64 percent in 2007 versus 2006, primarily due to acquisitions of certain bottlers and unit case volume growth across the bottling group. Refer to Note 20 of Notes to Consolidated Financial Statements.

In Africa, unit case volume increased 4 percent in 2006 compared to 2005, reflecting growth across the majority of divisions, which was partially offset by a slight decline in Nigeria primarily related to affordability issues and competitive and economic pressures. The unit case volume increase in Africa was also partially offset by an industrywide temporary shortage in the supply of carbon dioxide in South Africa in the fourth quarter of 2006.

In Eurasia, unit case volume grew 14 percent in 2006 compared to 2005, led by double-digit growth in Russia and Turkey, partially offset by a 5 percent decline in India. The unit case volume growth in Russia and Turkey was the result of improving macroeconomic trends, strong bottler execution and successful marketing programs. Unit case volume in Russia also benefited from the full-year impact of the joint acquisition of Multon, a Russian juice business, compared to a partial year in 2005. The Company and Coca-Cola Hellenic jointly acquired Multon in April 2005. The decline in India was primarily due to price increases in the second half of 2005 and steps taken to drive revenue growth and improve operating and working capital efficiency. The results in India reflected high single-digit declines in sparkling beverages which were partially offset by growth in still beverages. Continued investment in marketing initiatives around the quality and safety of our products and focus on execution in the consolidated bottling operations delivered positive results during the second half of 2006, despite the renewed unfounded allegations of unsafe pesticide levels in the Company's products.

Unit case volume in the European Union increased 6 percent in 2006 compared to 2005, primarily due to solid growth across all divisions driven by successful marketing campaigns, launches of Coca-Cola Zero in nine countries and favorable weather in the second half of 2006. In addition, the acquisition of Apollinaris, and the joint acquisition of Fonti del Vulture, also known as Traficante, an Italian mineral water company, with Coca-Cola Hellenic during 2006 contributed approximately 2 percentage points of unit case volume growth in 2006. Unit case volume in Germany increased 5 percent in 2006 versus 2005, and reflected strong growth of Trademark Coca-Cola in 2006 compared to 2005. The results were driven by improved marketplace execution capabilities, the launch of Coca-Cola Zero in July 2006, increased availability in the discounter channel and generally favorable weather. The acquisition of Apollinaris also contributed to unit case volume growth in Germany. Unit case volume in Northwest Europe increased 3 percent in 2006 versus 2005 as performance stabilized. The results reflected 3 percent unit case volume growth in sparkling beverages, led by growth of Trademark Coca-Cola, and solid growth in still beverages. In addition, the successful launch of Coca-Cola Zero in Great Britain at the end of June 2006 and generally favorable weather during the second half of the year contributed to the performance. Unit case volume in Iberia increased 6 percent in 2006 versus 2005, led by strong growth in Spain.

In Latin America, unit case volume increased 7 percent in 2006 versus 2005, primarily due to growth in sparkling beverages led by growth of Trademark Coca-Cola. This performance was seen in all key markets, especially Brazil, Mexico and Argentina. In Mexico, the increase in unit case volume was driven by strong growth in Trademark Coca-Cola. In Brazil, strong marketing and bottler execution led to unit case volume growth in sparkling beverages. In Argentina, consumer marketing activities and bottler execution drove unit case volume growth.

Unit case volume in North America was even in 2006 versus 2005. Foodservice and Hospitality unit case volume increased 1 percent in 2006, reflecting growth in all key beverage categories. Unit case volume in Retail decreased 1 percent primarily driven by weak sparkling beverage trends in the second half of 2006, declines in the warehouse-delivered water business resulting from the strategic decision to refocus resources behind the more profitable Dasani business and declines in the warehouse-delivered juice business as a result of price increases to cover higher ingredient costs. These declines in Retail were partially offset by the continued success of Dasani, Coca-Cola Zero and Powerade, as well as the introduction of Black Cherry Vanilla Coca-Cola and the national rollout of Vault.

Unit case volume in the Pacific increased 1 percent in 2006 versus 2005, primarily due to double-digit growth in China, partially offset by a double-digit decline in the Philippines and a 3 percent decline in Japan. The increase in unit case volume in China was led by significant growth in both sparkling and still beverages. The double-digit decline in the Philippines was mainly driven by the continued impact of affordability and availability issues. The decrease in unit case volume in Japan was primarily due to weakness across core brands including Trademark Coca-Cola, Georgia Coffee and our green tea brands. However, results in Japan gradually improved during 2006.

Unit case volume for Bottling Investments increased 16 percent in 2006 versus 2005, primarily due to the acquisition of Kerry Beverages Limited, which was subsequently renamed Coca-Cola China Industries Limited (“CCCIL”), and the acquisitions of TJC Holdings (Pty) Ltd., a South African bottling company (“TJC”), and Apollinaris. Unit case volume for Bottling Investments also increased due to the consolidation of Brucephil, Inc. (“Brucephil”), the parent company of The Philadelphia Coca-Cola Bottling Company. In the third quarter of 2006, our Company signed agreements with J. Bruce Llewellyn and Brucephil for the potential purchase of the remaining shares of Brucephil not currently owned by the Company. The agreements provide for the Company’s purchase of the shares upon the election of Mr. Llewellyn or the election of the Company. Based on the terms of these agreements, the Company concluded that it must consolidate Brucephil under Interpretation No. 46(R). Brucephil’s financial statements were consolidated effective September 29, 2006. The acquisition of the German bottling company Bremer Erfrischungsgetraenke GmbH (“Bremer”) during the third quarter of 2005 also contributed to unit case volume increases in 2006, reflecting the impact of full-year unit case volume in 2006 for Bremer compared to a partial year in 2005. Refer to Note 20 of Notes to Consolidated Financial Statements. The unit case volume increase was partially offset by a decline in India.

Concentrate Sales Volume

Company-wide concentrate sales volume and unit case volume both grew 6 percent in 2007 when compared to 2006. For 2007, differences between unit case volume and concentrate sales volume growth rates for all segments were primarily due to timing of concentrate shipments.

Company-wide concentrate sales volume and unit case volume both grew 4 percent in 2006 when compared to 2005. For 2006, differences between unit case volume and concentrate sales volume growth rates for all segments were primarily due to timing of concentrate shipments. In Eurasia, unit case volume increased ahead of concentrate sales volume primarily due to inventory reductions in Russia and partially offset by the timing of concentrate sales in India. Unit case volume growth also reflected the impact of a full-year of unit case volume compared to a partial year in 2005 due to the joint acquisition of Multon with Coca-Cola Hellenic in the second quarter of 2005. The Company only reports unit case volume related to Multon, as the Company does not sell concentrates or syrups to Multon.

Analysis of Consolidated Statements of Income

Year Ended December 31, (In millions except per share data and percentages)	2007	2006	2005	Percent Change	
				2007 vs. 2006	2006 vs. 2005
NET OPERATING REVENUES	\$ 28,857	\$ 24,088	\$ 23,104	20%	4%
Cost of goods sold	10,406	8,164	8,195	27	—
GROSS PROFIT	18,451	15,924	14,909	16	7
GROSS PROFIT MARGIN	63.9%	66.1%	64.5%		
Selling, general and administrative expenses	10,945	9,431	8,739	16	8
Other operating charges	254	185	85	*	*
OPERATING INCOME	7,252	6,308	6,085	15	4
OPERATING MARGIN	25.1%	26.2%	26.3%		
Interest income	236	193	235	22	(18)
Interest expense	456	220	240	107	(8)
Equity income—net	668	102	680	555	(85)
Other income (loss)—net	173	195	(93)	*	*
Gains on issuances of stock by equity investees	—	—	23	*	*
INCOME BEFORE INCOME TAXES	7,873	6,578	6,690	20	(2)
Income taxes	1,892	1,498	1,818	26	(18)
Effective tax rate	24.0%	22.8%	27.2%		
NET INCOME	\$ 5,981	\$ 5,080	\$ 4,872	18%	4%
PERCENTAGE OF NET OPERATING REVENUES	20.7%	21.1%	21.1%		
NET INCOME PER SHARE:					
Basic	\$ 2.59	\$ 2.16	\$ 2.04	20%	6%
Diluted	\$ 2.57	\$ 2.16	\$ 2.04	19%	6%

* Calculation is not meaningful.

Net Operating Revenues

Net operating revenues increased by \$4.8 billion or 20 percent in 2007 versus 2006. Net operating revenues increased by \$984 million or 4 percent in 2006 versus 2005.

The following table indicates, on a percentage basis, the estimated impact of key factors resulting in significant increases (decreases) in net operating revenues:

Year Ended December 31,	Percent Change	
	2007 vs. 2006	2006 vs. 2005
Increase in concentrate sales volume	6%	4%
Structural changes	8	(2)
Price and product/geographic mix	2	2
Impact of currency fluctuations versus the U.S. dollar	4	0
Total percentage increase	20%	4%

Refer to the heading "Beverage Volume" for a detailed discussion on concentrate sales volume.

"Structural changes" refers to acquisitions or dispositions of bottling, distribution or canning operations and consolidation or deconsolidation of bottling and distribution entities for accounting purposes. In 2007, structural changes increased net operating revenues by 8 percent compared to 2006. These structural changes included the impact of the acquisition of CCBPI in the first quarter of 2007, the acquisition of the 18 remaining German bottling and distribution operations in September 2007, the acquisition of CCCIL in the third quarter of 2006, the consolidation of Brucephil effective September 29, 2006 and the acquisition of several other individually insignificant bottling operations. Refer to Note 20 of Notes to Consolidated Financial Statements.

Price and product/geographic mix increased net operating revenues by 2 percent in 2007 versus 2006, primarily due to favorable pricing and product/package mix across the majority of the operating segments.

The favorable impact of currency fluctuations in 2007 compared to 2006 resulted from a weaker U.S. dollar versus most key currencies, especially a stronger euro, which favorably impacted the European Union and Bottling Investments, a stronger Brazilian real, which favorably impacted Latin America and Bottling Investments, and a stronger Australian dollar which favorably impacted Pacific and Bottling Investments. The favorable impact of the fluctuation in these currencies was partially offset by a weaker Japanese yen and South African rand, which unfavorably impacted the Pacific, Africa and Bottling Investments. Refer to the heading "Foreign Exchange."

In 2006, structural changes decreased net operating revenues by 2 percent compared to 2005, primarily due to the change of the business model in Spain, partially offset by the acquisitions of Bremer in the third quarter of 2005, TJC in the first quarter of 2006, CCCIL in the third quarter of 2006 and the consolidation of Brucephil under Interpretation No. 46(R) effective September 29, 2006. Refer to Note 20 of Notes to Consolidated Financial Statements. Effective January 1, 2006, the Company granted our bottling partners in Spain the rights to manufacture and distribute Company trademarked products in can packages. Prior to granting these rights to our bottling partners, the Company held the manufacturing and distribution rights for these can packages in Spain. In connection with granting these rights, the Company reduced our planned future annual marketing support payments to our bottling partners in Spain. These changes resulted in a reduction of net operating revenues and cost of goods sold. This change did not materially impact gross profit for 2006. If the change had occurred as of January 1, 2005, net operating revenues for 2005 would have been reduced by approximately \$779 million.

Price and product/geographic mix increased net operating revenues by 2 percent in 2006 compared to 2005, primarily due to price increases across the majority of the operating segments and improved pricing and product/package mix in Bottling Investments partially offset by an unfavorable product mix primarily in Japan.

Information about our net operating revenues by operating segment as a percentage of Company net operating revenues is as follows:

Year Ended December 31,	2007	2006	2005
Africa	4.4%	4.6%	4.8%
Eurasia	3.4	3.3	2.8
European Union	14.4	15.2	18.4
Latin America	10.6	10.3	8.9
North America	26.9	29.1	28.9
Pacific	13.9	16.5	18.0
Bottling Investments	26.2	20.6	17.8
Corporate	0.2	0.4	0.4
	100.0%	100.0%	100.0%

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

The size and timing of structural changes, including acquisitions or dispositions of bottling and canning operations, do not occur consistently from period to period. As a result, anticipating the impact of such events on future increases or decreases in net operating revenues (and other financial statement line items) usually is not possible. However, we expect to continue to buy and sell bottling interests in limited circumstances and, as a result, structural changes will continue to affect our consolidated financial statements in future periods.

Gross Profit

Our gross profit margin decreased to 63.9 percent in 2007 from 66.1 percent in 2006. Our gross profit margin decreased as a result of acquisitions and consolidations of certain bottling operations. Refer to the heading “Beverage Volume” and Note 20 of Notes to Consolidated Financial Statements. Generally, bottling and finished product operations produce higher net revenues but lower gross profit margins compared to concentrate and syrup operations. Our gross profit margins were also unfavorably impacted by increases in the cost of raw materials and freight. In 2008, we expect to see a moderation in commodity cost pressures.

Our gross profit margin increased to 66.1 percent in 2006 from 64.5 percent in 2005. Our gross margin was favorably impacted by the change in the business model in Spain, as discussed above. Other structural changes, which included the consolidation of Brucephil under Interpretation No. 46(R) in 2006, the acquisitions of CCCIL and TJC in 2006, and the acquisition of Bremer in 2005, unfavorably impacted our gross profit margin. Our gross margin in 2006 was also impacted favorably by price increases, partially offset by increases in the cost of raw materials and freight, primarily in North America, and by an unfavorable product mix, primarily in Japan. Gross profit margin in 2005 was favorably impacted by the receipt of approximately \$109 million in proceeds related to a class action lawsuit settlement concerning price-fixing in the sale of high fructose corn syrup (“HFCS”) purchased by the Company during the years 1991 to 1995. Subsequent to the receipt of this settlement, the Company distributed approximately \$62 million to certain bottlers in North America. From 1991 to 1995, the Company purchased HFCS on behalf of those bottlers. Therefore, those bottlers ultimately were entitled to a portion of the proceeds. The Company’s portion of the settlement was approximately \$47 million, which was recorded as a reduction of cost of goods sold and impacted Corporate. Refer to Note 19 of Notes to Consolidated Financial Statements.

Selling, General and Administrative Expenses

The following table sets forth the significant components of selling, general and administrative expenses (in millions):

Year Ended December 31,	2007	2006	2005
Selling expenses	\$ 5,029	\$ 3,924	\$ 3,453
Advertising expenses	2,774	2,553	2,475
General and administrative expenses	2,829	2,630	2,487
Stock-based compensation expense	313	324	324
Selling, general and administrative expenses	\$ 10,945	\$ 9,431	\$ 8,739

Total selling, general and administrative expenses were approximately 16 percent higher in 2007 versus 2006. The increases were primarily related to continued investments in marketing, increased costs to drive growth in our consolidated bottling operations, including a 6 percent increase related to the acquisitions and consolidations of certain bottling operations (refer to Note 20 of Notes to Consolidated Financial Statements), increased sales and service costs for certain brand acquisitions and a 4 percent increase due to foreign currency fluctuations. Selling and advertising expenses increased 20 percent in 2007 compared to 2006, on a combined basis. The increases in selling and advertising expenses were primarily related to increased investments in marketing and innovation activities, including the reinvestment of certain general and administrative expense savings derived from productivity initiatives. Selling and advertising expenses also increased due to costs to drive growth in our consolidated bottling operations, including a 6 percent increase related to the acquisitions and consolidations of certain bottling operations and a 4 percent increase due to foreign currency fluctuations. General and administrative expenses increased 8 percent in 2007 compared to 2006, primarily due to increased costs in our consolidated bottling operations, including a 4 percent impact relating to the acquisitions and consolidations of certain bottling operations, increased costs of long-term incentive plans based on the Company's financial performance over the plan periods, and a 3 percent increase due to foreign currency fluctuations. These increases in general and administrative expenses were partially offset by expense savings generated through productivity initiatives. In February and October of 2007, the Company amended its U.S. retiree medical plan to limit the Company's exposure to increases in retiree medical costs associated with current and future retirees. Based on the materiality of the change in liability resulting from the amendments, we remeasured the assets and liabilities of the U.S. retiree medical plan effective February 28, 2007 and October 31, 2007. As a result of the amendments and remeasurements, the Company reduced its liabilities for the U.S. retiree medical plan by approximately \$435 million. In accordance with SFAS No. 158, the Company also recognized the appropriate effects of the change in accumulated other comprehensive income (loss) and deferred taxes. In addition, annual net periodic benefits costs decreased by approximately \$82 million compared to 2006, primarily due to changes to the U.S. retiree medical plan. This reduced expense impacted the general and administrative expenses line item. The Company anticipates receiving a similar benefit, as a result of the changes to the U.S. retiree medical plan, in each of the five years beginning January 1, 2008. Refer to Note 16.

As of December 31, 2007, we had approximately \$441 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under our plans. This cost is expected to be recognized over a weighted-average period of 1.8 years as stock-based compensation expense. This expected cost does not include the impact of any future stock-based compensation awards. Refer to Note 15 of Notes to Consolidated Financial Statements.

Total selling, general and administrative expenses were approximately 8 percent higher in 2006 versus 2005. The increases in selling and advertising expenses were primarily related to increased investments in marketing activities, including World Cup and Winter Olympics promotions in the European Union, combined with new product innovation activities and increased costs in our consolidated bottling investments as a result of acquisitions and consolidation of certain bottling operations. General and administrative expenses increased due to higher costs in Bottling Investments related to the acquisitions of CCCIL and TJC and the consolidation of Brucephil under Interpretation No. 46(R). The acquisition of Bremer during the third quarter of 2005 also increased general and administrative expenses in 2006,

reflecting a full-year impact in 2006 for Bremer compared to a partial year in 2005. General and administrative expenses in 2006 also reflected the impact of a \$100 million donation made to The Coca-Cola Foundation, which impacted Corporate. Stock-based compensation expense was flat in 2006 compared to 2005. Stock-based compensation expense in 2005 included approximately \$50 million of expense due to a change in our estimated service period for retirement-eligible participants in our plans. This amount was offset primarily by the impact of the timing of stock-based compensation grants in prior years.

Other Operating Charges

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

Year Ended December 31,	2007	2006	2005
Africa	\$ 34	\$ 3	\$ —
Eurasia	3	—	—
European Union	33	36	—
Latin America	4	—	—
North America	23	—	—
Pacific	3	62	85
Bottling Investments	33	83	—
Corporate	121	1	—
Total	\$ 254	\$ 185	\$ 85

Other operating charges in 2007 were primarily related to restructuring costs and asset write-downs. These restructuring costs and asset write-downs included the reorganization of the North American business around three main business units: Sparkling Beverages, Still Beverages and Emerging Brands. They also included the plan to close a beverage concentrate manufacturing and distribution plant in Drogheda, Ireland, as well as individually insignificant streamlining activities throughout many other business units. The total cost of these restructuring activities is expected to be approximately \$342 million. These costs are expected to be incurred through mid-2008. The expected payback period is three to four years. Refer to Note 18 of Notes to Consolidated Financial Statements. Also in 2007, other operating charges included charges related to the impairment of certain assets, none of which was individually significant.

During 2006, our Company recorded other operating charges of \$185 million. Of these charges, approximately \$108 million were primarily related to the impairment of assets and investments in our bottling operations, approximately \$53 million were for contract termination costs related to production capacity efficiencies and approximately \$24 million were related to other restructuring costs. None of these charges was individually significant. The impairment charges were primarily the result of a revised outlook for certain assets and bottling operations in Asia, which have been impacted by unfavorable market conditions and declines in volume. Refer to the discussion under “Critical Accounting Policies and Estimates—Goodwill, Trademarks and Other Intangible Assets,” above.

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

Operating Income and Operating Margin

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

Year Ended December 31,	2007	2006	2005
Africa	6.2%	6.7%	6.5%
Eurasia	5.3	4.3	3.3
European Union	36.0	35.7	36.5
Latin America	24.1	22.8	19.3
North America	23.4	26.7	25.5
Pacific	23.4	26.2	29.9
Bottling Investments	2.1	0.3	(0.6)
Corporate	(20.5)	(22.7)	(20.4)
	100.0%	100.0%	100.0%

Information about our operating margin on a consolidated basis and by operating segment is as follows:

Year Ended December 31,	2007	2006	2005
Consolidated	25.1%	26.2%	26.3%
Africa	35.3%	38.4%	35.8%
Eurasia	39.2	34.8	30.5
European Union	63.0	61.6	52.1
Latin America	57.0	57.9	57.0
North America	21.9	24.0	23.3
Pacific	42.5	41.4	43.8
Bottling Investments	2.0	0.4	0.9
Corporate	*	*	*

* Calculation is not meaningful.

As demonstrated by the tables above, the percentage contribution to operating income and operating margin by each operating segment fluctuated from year to year. Operating income and operating margin by operating segment were influenced by a variety of factors and events including the following:

- In 2007, foreign currency exchange rates favorably impacted operating income by approximately 4 percent, primarily related to a stronger euro, which impacted the European Union and Bottling Investments, a stronger Brazilian real, which impacted Latin America and Bottling Investments, and a stronger Australian dollar, which impacted the Pacific and Bottling Investments. The favorable impact of the fluctuation in these currencies was partially offset by a weaker Japanese yen, which impacted the Pacific, and a weaker South African rand, which impacted Africa and Bottling Investments. Refer to the heading "Foreign Exchange."
- In 2007, price increases across the majority of operating segments favorably impacted both operating income and operating margins.
- In 2007, increased spending on marketing and innovation activities impacted the majority of the operating segments' operating income. Refer to the heading "Selling, General and Administrative Expenses."
- In 2007, operating income was reduced by approximately \$34 million for Africa, \$3 million for Eurasia, \$33 million for the European Union, \$4 million for Latin America, \$23 million for North America, \$3 million for the Pacific, \$47 million for Bottling Investments and \$121 million for Corporate, primarily due to restructuring costs and asset write-downs, included in other operating charges and cost of goods sold. Refer to Note 18 of Notes to Consolidated Financial Statements.

- In 2007, operating income and operating margin for Latin America, North America and the Pacific reflected the impact of increases in the cost of raw materials primarily in the finished goods businesses.
- In 2007, operating income and operating margin for Bottling Investments reflected the impact of acquisitions and the consolidation of certain bottling operations.
- In 2006, foreign currency exchange rates unfavorably impacted operating income by approximately 1 percent, primarily related to a weaker Japanese yen, which impacted the Pacific. The unfavorable impact from the weaker Japanese yen was partially offset by favorable foreign currency exchange rate changes primarily related to the euro, which impacted the European Union and Bottling Investments, and the Brazilian real, which impacted Latin America and Bottling Investments. Refer to the heading “Foreign Exchange.”
- In 2006, price increases across the majority of operating segments favorably impacted both operating income and operating margins.
- In 2006, increased spending on marketing and innovation activities impacted the majority of the operating segments’ operating income and operating margins. Refer to the heading “Selling, General and Administrative Expenses.”
- In 2006, operating income was reduced by approximately \$3 million for Africa, \$36 million for the European Union, \$62 million for the Pacific, \$87 million for Bottling Investments and \$1 million for Corporate primarily due to contract termination costs related to production capacity efficiencies, asset impairments and other restructuring costs. Refer to Note 19 and Note 21 of Notes to Consolidated Financial Statements.
- In 2006, the increase in operating margin for the European Union was primarily due to a change in the business model in Spain. Refer to the headings “Net Operating Revenues” and “Gross Profit,” above.
- In 2006, the decrease in operating income and operating margin for the Pacific was primarily due to an unfavorable product mix in Japan.
- In 2006, the increase in operating income and operating margin for Bottling Investments was primarily due to price increases, favorable package mix and actions to improve efficiency.
- In 2006, operating income was reduced by \$100 million for Corporate as a result of a donation made to The Coca-Cola Foundation.
- In 2005, the Pacific operating segment reflected impairment charges totaling approximately \$85 million related to the Philippines. Refer to the heading “Other Operating Charges.”
- In 2005, operating income in Corporate reflected our receipt of a net settlement of approximately \$47 million related to a class action lawsuit concerning the purchase of HFCS. Refer to the heading “Gross Profit.”

Interest Income and Interest Expense

Our Company monitors our mix of fixed-rate and variable-rate debt as well as our mix of short-term debt versus long-term debt. This monitoring includes a review of business and other financial risks. From time to time, we enter into interest rate swap agreements and other related instruments to manage our mix of fixed-rate and variable-rate debt.

In 2007, interest income increased by \$43 million compared to 2006, primarily due to higher average short-term investment balances, partially offset by a decline in interest rates.

Interest expense in 2007 increased by \$236 million compared to 2006, primarily due to issuance of \$1,750 million of notes due November 15, 2017, and higher average balances on commercial paper borrowings in the United States, partially offset by a decline in interest rates. The proceeds from this \$1,747 million long-term debt issuance and commercial paper borrowings were primarily used to finance current-year acquisitions. We expect 2008 net interest expense to increase due to forecasted higher average debt balances for the year, partially offset by an expected decline in U.S. interest rates. The increase in higher average forecasted debt balances is due to carrying indebtedness incurred in connection with 2007 acquisitions for a full year versus a partial year in 2007.

In 2006, interest income decreased by \$42 million compared to 2005, primarily due to lower average short-term investment balances, partially offset by higher average interest rates. Interest expense in 2006 decreased by \$20 million compared to 2005. This decrease is primarily the result of lower average balances on commercial paper borrowings, partially offset by higher average interest rates.

Equity Income—Net

Our Company's proportionate share of income from equity method investments for 2007 totaled \$668 million, compared to \$102 million in 2006, an increase of \$566 million. The increase in equity income—net reflected the impact of impairment charges recorded by CCE in 2006. Refer to the heading "Critical Accounting Policies and Estimates—Goodwill, Trademarks and Other Intangible Assets." Equity income—net also increased due to our proportionate share of increased net income from certain of our equity method investees as a result of the overall improving health of the Coca-Cola bottling system in most of the world, our proportionate share of tax benefits recorded by CCE and the favorable impact of foreign exchange fluctuations. The increase in equity income—net was partially offset by our proportionate share of restructuring costs recorded by CCE in 2007, the write-off of assets related to excess bottles and cases at CCBPI in 2007, the sale of our ownership interest in Vonpar Refrescos S.A. ("Vonpar"), a bottler headquartered in Brazil, in January 2007, and the sale of a portion of our investment in Coca-Cola Amatil in September 2007. In February 2007, CCE announced that it would restructure segments of its Corporate, North America and European operations. As a part of the restructuring, CCE expects a net job reduction of approximately 3,500 positions, or 5 percent of its total workforce. CCE expects this restructuring will result in a charge of approximately \$300 million, with the majority to be recognized in 2007 and 2008. The Company's equity income in 2008 will reflect our proportionate share of the restructuring charges recorded by CCE. In addition, impairment charges related to investments by Coca-Cola Amatil in bottling operations in South Korea unfavorably impacted our equity income—net by approximately \$62 million in 2007. The reduction in the Company's ownership position in Coca-Cola FEMSA in November 2006, as well as the sale of a portion of our investment in Coca-Cola Icecek A.S. ("Coca-Cola Icecek") in an initial public offering during the second quarter of 2006, also impacted our equity income—net. Our ownership interest in Coca-Cola FEMSA was reduced from approximately 40 percent to approximately 32 percent, and our Company's interest in Coca-Cola Icecek decreased from approximately 36 percent to approximately 20 percent. In 2007, the Company acquired a 50 percent interest in Jugos del Valle and a 34 percent interest in Tokyo Coca-Cola Bottling Company ("Tokyo CCBC") which are accounted for under the equity method. The Company expects that these investments in Jugos del Valle and Tokyo CCBC will favorably impact our future equity income—net.

Our Company's share of income from equity method investments for 2006 totaled \$102 million, compared to \$680 million in 2005, a decrease of \$578 million. Equity income in 2006 was reduced by approximately \$602 million resulting from the impact of our proportionate share of an impairment charge recorded by CCE. CCE recorded a \$2.9 billion pretax (\$1.8 billion after tax) impairment of its North American franchise rights. The decline in the estimated fair value of CCE's North American franchise rights was the result of several factors, including but not limited to (1) CCE's revised outlook on 2007 raw material costs driven by significant increases in aluminum and HFCS; (2) a challenging marketplace environment with increased pricing pressures in several high-growth beverage categories; and (3) increased interest rates contributing to a higher discount rate and corresponding capital charge. Our 2006 equity income—net also reflected a net decrease of approximately \$37 million primarily related to other impairment and restructuring charges recorded by CCE and certain other equity method investees, partially offset by approximately \$33 million related to our proportionate share of favorable changes in certain of CCE's state and Canadian federal and provincial tax rates. In addition, our 2006 equity income was slightly impacted by the Company's sale of shares representing 8 percent of the capital stock of Coca-Cola FEMSA. The Company sold these shares to Fomento Economico Mexicano, S.A.B. de C.V. ("FEMSA"), the major shareowner of Coca-Cola FEMSA, in November 2006. As a result of this sale, our ownership interest in Coca-Cola FEMSA was reduced from approximately 40 percent to approximately 32 percent. The decrease in 2006 equity income was also the result of the sale of a portion of our investment in Coca-Cola Icecek in an initial public offering during the second quarter of 2006. As a result of this public offering, our Company's interest in Coca-Cola Icecek decreased from approximately 36 percent to approximately 20 percent. These reductions in ownership of Coca-Cola FEMSA and Coca-Cola Icecek reduced our

equity income for the years ended December 31, 2007 and 2006. Refer to Note 3 of Notes to Consolidated Financial Statements. The decrease in equity income for 2006 was partially offset by our Company's proportionate share of increased net income from certain of the equity method investees and our proportionate share of the net income of the Multon juice joint venture in Russia.

Other Income (Loss)—Net

Other income (loss)—net was income of \$173 million for 2007 compared to income of \$195 million for 2006, a decrease of \$22 million. In 2007, other income (loss)—net included a gain of approximately \$73 million resulting from the sale of a portion of the Company's ownership interest in Coca-Cola Amatil. Our ownership interest in Coca-Cola Amatil was reduced from approximately 32 percent to 30 percent. In 2007, other income (loss)—net also included a gain of approximately \$70 million resulting from the sale of our equity investment in Vonpar and gains of approximately \$84 million resulting from the sale of real estate in Spain and the United States. Refer to Note 19 of Notes to Consolidated Financial Statements. Other income (loss)—net also included the impact of foreign currency exchange gains and losses, accretion expenses related to certain acquisitions and the minority shareowners' proportionate share of net income of certain consolidated subsidiaries. None of these items was individually significant in 2007.

Other income (loss)—net was a net income of \$195 million for 2006 compared to a net loss of \$93 million for 2005, a difference of \$288 million. In 2006, other income (loss)—net included a gain of approximately \$175 million resulting from the sale of a portion of our Coca-Cola FEMSA shares to FEMSA and a gain of approximately \$123 million resulting from the sale of a portion of our investment in Coca-Cola Icecek shares in an initial public offering. Refer to Note 19 of Notes to Consolidated Financial Statements. This line item in 2006 also included \$15 million in foreign currency exchange losses, the accretion of \$58 million for the discounted value of our liability to purchase Coca-Cola Erfrischungsgetraenke AG ("CCEAG") shares (refer to Note 8 of Notes to Consolidated Financial Statements) and the minority shareowners' proportional share of net income of certain consolidated subsidiaries.

Gains on Issuances of Stock by Equity Method Investees

When one of our equity method investees issues additional shares to third parties, our percentage ownership interest in the investee decreases. In the event the issuance price per share is higher or lower than our average carrying amount per share, we recognize a noncash gain or loss on the issuance, when appropriate. This noncash gain or loss, net of any deferred taxes, is recognized in our net income in the period the change of ownership interest occurs.

In 2007 and 2006, our equity method investees did not issue any additional shares to third parties that resulted in our Company recording any noncash pretax gains or losses.

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

Income Taxes

Our effective tax rate reflects tax benefits derived from significant operations outside the United States, which are generally taxed at rates lower than the U.S. statutory rate of 35 percent. A change in the mix of pretax income from these various tax jurisdictions can have a significant impact on the Company's periodic effective tax rate.

Our effective tax rate of approximately 24.0 percent for the year ended December 31, 2007, included the following:

- a tax charge of approximately \$96 million related to amounts required to be recorded for changes to our uncertain tax positions under Interpretation No. 48, including interest and penalties;
- a tax benefit of approximately \$19 million related to tax rate changes in Germany;

- a tax charge related to the gains on the sale of a portion of our equity interest in Coca-Cola Amatil and Vonpar, at a combined effective tax rate of 58 percent, or approximately \$83 million;
- a tax benefit related to restructuring charges and asset write-downs recorded by the Company, at an effective tax rate of 18 percent, or approximately \$49 million; and
- the impact of an approximate 14 percent combined effective tax rate on our proportionate share of restructuring charges and tax rate changes recorded by CCE and the impairment of assets recorded by CCBPI and Coca-Cola Amatil. Refer to Note 19 of Notes to Consolidated Financial Statements.

Our effective tax rate of approximately 22.8 percent for the year ended December 31, 2006, included the following:

- a tax benefit of approximately 1.8 percent primarily related to the sale of a portion of our investments in Coca-Cola Icecek and Coca-Cola FEMSA. The tax benefit was a result of the reversal of a valuation allowance that covered certain deferred tax assets recorded on capital loss carryforwards. The reversal of the valuation allowance was offset by a reduction of deferred tax assets due to the utilization of these capital loss carryforwards. These capital loss carryforwards offset the taxable gain on the sale of a portion of our investments in Coca-Cola Icecek and Coca-Cola FEMSA. Also included in this tax benefit is the reversal of the deferred tax liability recorded for the differences between the financial reporting and tax bases in the stock sold;
- an income tax benefit primarily related to the impairment of assets and investments in our bottling operations, contract termination costs related to production capacity efficiencies and other restructuring charges at a rate of approximately 16 percent;
- a tax charge of approximately \$24 million related to the resolution of certain tax matters; and
- an income tax benefit related to our proportionate share of CCE's charges recorded at a rate of approximately 8.8 percent. Refer to Note 3 and Note 19 of Notes to Consolidated Financial Statements.

Our effective tax rate of approximately 27.2 percent for the year ended December 31, 2005, included the following:

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

The Company adopted the provisions of Interpretation No. 48 effective January 1, 2007. As a result of the implementation of Interpretation No. 48, the Company recorded an increase of approximately \$65 million in liabilities for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of reinvested earnings. As of December 31, 2007, the gross amount of unrecognized tax benefits was approximately \$643 million. If the Company were to prevail on all uncertain tax positions, the net effect would be a benefit to the Company's effective tax rate of approximately \$147 million. The remaining approximately \$496 million, which was recorded as a deferred tax asset, primarily represents tax benefits that would be received in different tax jurisdictions in the event that the Company did not prevail on all uncertain tax positions. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company had approximately \$272 million in interest and penalties related to unrecognized tax benefits accrued as of December 31, 2007. If the Company were to prevail on all uncertain tax positions, the reversal of this accrual would also be a benefit to the Company's effective tax rate.

Based on current tax laws, the Company's effective tax rate in 2008 is expected to be approximately 22.0 to 22.5 percent before considering the effect of any unusual or special items that may affect our tax rate in future years.

Liquidity, Capital Resources and Financial Position

We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. Our Company expects to meet all of our financial commitments and operating needs for the foreseeable future. We expect to use cash generated from operating activities primarily for dividends, share repurchases, acquisitions and aggregate contractual obligations.

Cash Flows from Operating Activities

Net cash provided by operating activities for the years ended December 31, 2007, 2006 and 2005 was approximately \$7.1 billion, \$6.0 billion and \$6.4 billion, respectively.

Cash flows from operating activities increased 20 percent in 2007 compared to 2006. This increase was primarily related to increased cash receipts from customers in 2007, which was driven by a 20 percent rise in net operating revenues. These higher cash collections were offset in part by increased payments to suppliers and vendors in 2007, primarily related to the increased cost of goods sold to support the higher sales volumes, and secondarily related to higher cash payments for selling, general and administrative related costs. Cash flows from operating activities in 2007 were also reduced due to an increase in interest payments of \$193 million and an increase in cash payments for streamlining initiatives of \$83 million. Cash flows from operating activities in 2006 reflected the contribution and donation discussed below.

Cash flows from operating activities decreased 7 percent in 2006 compared to 2005. This decrease was primarily the result of payments in 2006 of marketing accruals recorded in 2005 related to increased marketing and innovation activities and increased tax payments made in the first quarter of 2006 related to the 2005 repatriation of foreign earnings under the Jobs Creation Act. This decrease was partially offset by an increase in cash receipts in 2006 from customers, which was driven by a 4 percent growth in net operating revenues. Our cash flows from operating activities in 2006 also decreased versus 2005 as a result of a contribution of approximately \$216 million to a U.S. Voluntary Employee Beneficiary Association ("VEBA"), a tax-qualified trust to fund retiree medical benefits (refer to Note 16 of Notes to Consolidated Financial Statements) and a \$100 million donation made to The Coca-Cola Foundation.

Cash Flows from Investing Activities

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

Year Ended December 31,	2007	2006	2005
Cash flows (used in) provided by investing activities:			
Acquisitions and investments, principally beverage and bottling companies	\$ (5,653)	\$ (901)	\$ (637)
Purchases of other investments	(99)	(82)	(53)
Proceeds from disposals of other investments	448	640	33
Purchases of property, plant and equipment	(1,648)	(1,407)	(899)
Proceeds from disposals of property, plant and equipment	239	112	88
Other investing activities	(6)	(62)	(28)
Net cash used in investing activities	\$ (6,719)	\$ (1,700)	\$ (1,496)

Net purchases of property, plant and equipment for the years ended December 31, 2007, 2006 and 2005 were approximately \$1,409 million, \$1,295 million and \$811 million, respectively. The increase is primarily related to acquisitions of certain bottling operations in 2007 and 2006. Generally, bottling and finished product operations are more capital intensive compared to concentrate and syrup operations. Our Company currently estimates that net purchases of property, plant and equipment in 2008 will be approximately \$1.6 billion to \$1.7 billion.

Total capital expenditures for property, plant and equipment (including our investments in information technology) and the percentage of such totals by operating segment for 2007, 2006 and 2005 were as follows:

Year Ended December 31,	2007	2006	2005
Capital expenditures (in millions)	\$ 1,648	\$ 1,407	\$ 899
Africa	2.4%	2.7%	2.5%
Eurasia	2.3	0.4	0.6
European Union	4.6	6.6	8.6
Latin America	2.8	3.1	2.7
North America	20.9	29.9	29.5
Pacific	11.6	9.5	10.1
Bottling Investments	39.1	29.7	29.4
Corporate	16.3	18.1	16.6

Acquisitions and investments accounted for approximately \$5,653 million in 2007, \$901 million in 2006 and \$637 million in 2005.

In 2007, our Company acquired glacéau, 18 German bottling and distribution operations, Fuze and Leao Junior. Our Company also completed the acquisition of the remaining 65 percent of the shares of capital stock of CCBPI not previously owned by our Company. In addition, the Company acquired a 50 percent interest in Jugos del Valle, a 34 percent interest in Tokyo CCBC and an 11 percent interest in Nordeste Refrigerantes S.A. (“NORSA”). Refer to Note 20 of Notes to Consolidated Financial Statements. The remaining amount of cash used for acquisitions and investments was primarily related to the acquisition of various trademarks and brands, none of which was individually significant.

In 2006, our Company acquired a controlling interest in CCCIL and acquired Apollinaris and TJC. Refer to Note 20 of Notes to Consolidated Financial Statements. The remaining amount of cash used for acquisitions and investments was primarily related to the acquisition of various trademarks and brands, none of which was individually significant.

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

Investing activities in 2007 also included proceeds of approximately \$238 million received from the sale of our 49 percent equity interest in Vonpar, approximately \$143 million received from the sale of a portion of our interest in Coca-Cola Amatil, and approximately \$106 million in proceeds from the sales of real estate in Spain and in the United States.

Investing activities in 2006 also included proceeds of approximately \$198 million received from the sale of shares in connection with the initial public offering of Coca-Cola Icecek and proceeds of approximately \$427 million received from the sale of a portion of Coca-Cola FEMSA shares to FEMSA. Refer to Note 3 of Notes to Consolidated Financial Statements.

Cash Flows from Financing Activities

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

Year Ended December 31,	2007	2006	2005
Cash flows provided by (used in) financing activities:			
Issuances of debt	\$ 9,979	\$ 617	\$ 178
Payments of debt	(5,638)	(2,021)	(2,460)
Issuances of stock	1,619	148	230
Purchases of stock for treasury	(1,838)	(2,416)	(2,055)
Dividends	(3,149)	(2,911)	(2,678)
Net cash provided by (used in) financing activities	\$ 973	\$ (6,583)	\$ (6,785)

Debt Financing

Our Company maintains debt levels we consider prudent based on our cash flows, interest coverage ratio and percentage of debt to capital. We use debt financing to lower our overall cost of capital, which increases our return on shareowners' equity. This exposes us to adverse changes in interest rates. Our interest expense may also be affected by our credit ratings.

As of December 31, 2007, our long-term debt was rated "A+" by Standard & Poor's and "Aa3" by Moody's, and our commercial paper program was rated "A-1" and "P-1" by Standard & Poor's and Moody's, respectively. In assessing our credit strength, both Standard & Poor's and Moody's consider our capital structure and financial policies as well as the aggregated balance sheet and other financial information for the Company and certain bottlers, including CCE and Coca-Cola Hellenic. While the Company has no legal obligation for the debt of these bottlers, the rating agencies believe the strategic importance of the bottlers to the Company's business model provides the Company with an incentive to keep these bottlers viable. It is our expectation that the credit rating agencies will continue using this methodology. If our credit ratings were to be downgraded as a result of changes in our capital structure, our major bottlers' financial performance, changes in the credit rating agencies' methodology in assessing our credit strength or for any other reason, our cost of borrowing could increase. Additionally, if certain bottlers' credit ratings were to decline, the Company's share of equity income could be reduced as a result of the potential increase in interest expense for these bottlers.

We monitor our interest coverage ratio and, as indicated above, the rating agencies consider our ratio in assessing our credit ratings. However, the rating agencies aggregate financial data for certain bottlers along with our Company when assessing our debt rating. As such, the key measure to rating agencies is the aggregate interest coverage ratio of the Company and certain bottlers. Both Standard & Poor's and Moody's employ different aggregation methodologies and have different thresholds for the aggregate interest coverage ratio. These thresholds are not necessarily permanent, nor are they fully disclosed to our Company.

Our global presence and strong capital position give us access to key financial markets around the world, enabling us to raise funds at a low effective cost. This posture, coupled with active management of our mix of short-term and long-term debt and our mix of fixed-rate and variable-rate debt, results in a lower overall cost of borrowing. Our debt management policies, in conjunction with our share repurchase programs and investment activity, can result in current liabilities exceeding current assets.

Issuances and payments of debt included both short-term and long-term financing activities. On December 31, 2007, we had approximately \$4,963 million in lines of credit and other short-term credit facilities available, of which approximately \$499 million was outstanding. The outstanding amount of \$499 million was primarily related to our international operations.

The issuances of debt in 2007 primarily included approximately \$6,024 million of issuances of commercial paper and short-term debt with maturities of greater than 90 days, approximately \$1,750 million in issuances of long-term notes due November 15, 2017, and approximately \$2,024 million of net issuances of commercial paper and short-term

debt with maturities of 90 days or less. The increases in debt were primarily due to our acquisitions of 18 German bottling and distribution operations, glacéau, CCBPI, Fuze, Leao Junior, Jugos del Valle and our investment in Tokyo CCBC in 2007. During the fourth quarter of 2007, the Company decided to replace a certain amount of commercial paper and short-term debt with longer-term debt. Refer to Note 9 of Notes to Consolidated Financial Statements. The Company continues to review its optimal mix of short-term and long-term debt. We may replace a certain amount of commercial paper and short-term debt with longer term debt in the future. The payments of debt in 2007 primarily included approximately \$5,514 million related to commercial paper and short-term debt with maturities of greater than 90 days. Included in these payments was the payment of the outstanding liability to CCEAG shareowners in January 2007 of \$1,068 million.

The issuances of debt in 2006 primarily included approximately \$484 million of issuances of commercial paper and short-term debt with maturities of greater than 90 days. The payments of debt in 2006 primarily included approximately \$580 million related to commercial paper and short-term debt with maturities of greater than 90 days and approximately \$1,383 million of net repayments of commercial paper and short-term debt with maturities of 90 days or less.

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

Issuances of Stock

The issuances of stock in 2007 primarily related to the exercise of stock options by Company employees. In addition, certain executive officers and former shareholders of glacéau invested approximately \$179 million of their proceeds from the sale of glacéau in common stock of the Company at then current market prices. These shares of Company common stock were placed in escrow pursuant to the glacéau acquisition agreement.

Share Repurchases

In October 1996, our Board of Directors authorized a plan ("1996 Plan") to repurchase up to 206 million shares of our Company's common stock through 2006. On July 20, 2006, the Board of Directors of the Company authorized a new share repurchase program of up to 300 million shares of the Company's common stock. The new program took effect upon the expiration of the 1996 Plan on October 31, 2006. The table below presents annual shares repurchased and average price per share:

Year Ended December 31,	2007	2006	2005
Number of shares repurchased (in millions)	34	55	46
Average price per share	\$ 51.66	\$ 45.19	\$ 43.26

Since the inception of our initial share repurchase program in 1984 through our current program as of December 31, 2007, we have purchased approximately 1.3 billion shares of our Company's common stock at an average price per share of \$18.45.

As strong cash flows are expected to continue in the future, the Company currently expects 2008 share repurchases to be in the range of \$1.5 billion to \$2.0 billion.

Dividends

At its February 2008 meeting, our Board of Directors increased our quarterly dividend by 12 percent, raising it to \$0.38 per share, equivalent to a full-year dividend of \$1.52 per share in 2008. This is our 46th consecutive annual increase. Our annual common stock dividend was \$1.36 per share, \$1.24 per share and \$1.12 per share in 2007, 2006

and 2005, respectively. The 2007 dividend represented a 10 percent increase from 2006, and the 2006 dividend represented a 10 percent increase from 2005.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-Balance Sheet Arrangements

In accordance with the definition under SEC rules, the following qualify as off-balance sheet arrangements:

- any obligation under certain guarantee contracts;
- a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;
- any obligation under certain derivative instruments; and
- any obligation arising out of a material variable interest held by the registrant in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

As of December 31, 2007, we were contingently liable for guarantees of indebtedness owed by third parties in the amount of approximately \$267 million. These guarantees primarily are related to third-party customers, bottlers and vendors and have arisen through the normal course of business. These guarantees have various terms, and none of these guarantees was individually significant. The amount represents the maximum potential future payments that we could be required to make under the guarantees; however, we do not consider it probable that we will be required to satisfy these guarantees. Management concluded that the likelihood of any material amounts being paid by our Company under these guarantees is not probable. As of December 31, 2007, we were not directly liable for the debt of any unconsolidated entity, and we did not have any retained or contingent interest in assets as defined above.

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

Aggregate Contractual Obligations

As of December 31, 2007, the Company's contractual obligations, including payments due by period, were as follows (in millions):

	Payments Due by Period				
	Total	2008	2009-2010	2011-2012	2013 and Thereafter
Short-term loans and notes payable ¹ :					
Commercial paper borrowings	\$ 5,420	\$ 5,420	\$ —	\$ —	\$ —
Lines of credit and other short-term borrowings	499	499	—	—	—
Current maturities of long-term debt ²	133	133	—	—	—
Long-term debt, net of current maturities ²	3,277	—	649	749	1,879
Estimated interest payments ³	1,955	197	339	265	1,154
Accrued income taxes ⁴	258	258	—	—	—
Purchase obligations ⁵	13,445	6,891	2,247	815	3,492
Marketing obligations ⁶	4,219	1,708	868	591	1,052
Lease obligations	601	171	203	112	115
Total contractual obligations⁴	\$ 29,807	\$ 15,277	\$ 4,306	\$ 2,532	\$ 7,692

¹ Refer to Note 8 of Notes to Consolidated Financial Statements for information regarding short-term loans and notes payable. Upon payment of outstanding commercial paper, we typically issue new commercial paper. Lines of credit and other short-term borrowings are expected to fluctuate depending upon current liquidity needs, especially at international subsidiaries.

- ² Refer to Note 9 of Notes to Consolidated Financial Statements for information regarding long-term debt. We will consider several alternatives to settle this long-term debt, including the use of cash flows from operating activities, issuance of commercial paper or issuance of other long-term debt.
- ³ We calculated estimated interest payments for long-term debt as follows: for fixed-rate debt, we calculated interest based on the applicable rates and payment dates; for variable-rate debt, we estimated interest rates and payment dates based on our determination of the most likely scenarios for each relevant debt instrument. We typically expect to settle such interest payments with cash flows from operating activities and/or short-term borrowings.
- ⁴ Refer to Note 17 of Notes to Consolidated Financial Statements for information regarding income taxes. As of December 31, 2007, the noncurrent portion of our income tax liability, including accrued interest and penalties related to unrecognized tax benefits, was approximately \$883 million, which was not included in the total above. At this time, the settlement period for the noncurrent portion of our income tax liability cannot be determined. In addition, any payments related to unrecognized tax benefits would be partially offset by reductions in payments in other jurisdictions.
- ⁵ The purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including long-term contractual obligations, open purchase orders, accounts payable and certain accrued liabilities. We expect to fund these obligations with cash flows from operating activities.
- ⁶ We expect to fund these marketing obligations with cash flows from operating activities.

In accordance with SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," as amended by SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)," the total accrued benefit liability for pension and other postretirement benefit plans recognized as of December 31, 2007 was \$873 million. Refer to Note 16 of Notes to Consolidated Financial Statements. This amount is impacted by, among other items, pension expense, funding levels, plan amendments, changes in plan demographics and assumptions, investment return on plan assets, and the application of SFAS No. 158. Because the accrued liability does not represent expected liquidity needs, we did not include this amount in the contractual obligations table.

The Pension Protection Act of 2006 ("PPA") was enacted in August 2006 and established, among other things, new standards for funding of U.S. defined benefit pension plans. One of the primary objectives of the PPA is to improve the financial integrity of underfunded plans through the requirement of additional contributions. The requirements of the PPA will not have a significant impact on our financial condition because, under the provisions of the PPA, required contributions for the primary funded U.S. plan are projected to be zero through 2017 as a result of contributions we have made to the plan since 2001. Therefore, we did not include any amounts as a contractual obligation in the above table. We may, however, decide to make additional discretionary contributions to our pension and other benefit plans in future years. In addition, as a result of contributions totaling approximately \$224 million in 2006 to fund a portion of our U.S. postretirement healthcare obligation, including a contribution of \$216 million to a VEBA trust, we do not expect to contribute to our U.S. postretirement healthcare plan in 2008. We generally expect to fund all future contributions with cash flows from operating activities.

Our international pension plans are funded in accordance with local laws and income tax regulations. We do not expect contributions to these plans to be material in 2008 or thereafter. Therefore, no amounts have been included in the table above.

As of December 31, 2007, the projected benefit obligation of the U.S. qualified pension plans was \$1,725 million, and the fair value of plan assets was approximately \$2,255 million. As of December 31, 2007, the projected benefit obligation of all pension plans other than the U.S. qualified pension plans was approximately \$1,792 million, and the fair value of all other pension plan assets was approximately \$1,173 million. The majority of this underfunding is attributable to an international pension plan for certain non-U.S. employees that is unfunded due to tax law restrictions, as well as our unfunded U.S. nonqualified pension plans. These U.S. nonqualified pension plans provide, for certain associates, benefits that are not permitted to be funded through a qualified plan because of limits imposed by the

Internal Revenue Code of 1986. Disclosure of amounts is not included in the above table regarding expected benefit payments for these unfunded pension plans. However, we anticipate annual benefit payments to be approximately \$40 million in 2008, reduce to approximately \$30 million in 2009 and remain near that level through 2032, decreasing annually thereafter. Refer to Note 16 of Notes to Consolidated Financial Statements.

Deferred income tax liabilities as of December 31, 2007 were approximately \$1,919 million. Refer to Note 17 of Notes to Consolidated Financial Statements. This amount is not included in the total contractual obligations table because we believe this presentation would not be meaningful. Deferred income tax liabilities are calculated based on temporary differences between the tax bases of assets and liabilities and their respective book bases, which will result in taxable amounts in future years when the liabilities are settled at their reported financial statement amounts. The results of these calculations do not have a direct connection with the amount of cash taxes to be paid in any future periods. As a result, scheduling deferred income tax liabilities as payments due by period could be misleading, because this scheduling would not relate to liquidity needs.

Minority interests of approximately \$358 million as of December 31, 2007, for consolidated entities in which we do not have a 100 percent ownership interest were recorded in the consolidated balance sheet line item other liabilities. Such minority interests are not liabilities requiring the use of cash or other resources; therefore, this amount is excluded from the contractual obligations table.

Foreign Exchange

Our international operations are subject to certain opportunities and risks, including currency fluctuations and governmental actions. We closely monitor our operations in each country and seek to adopt appropriate strategies that are responsive to changing economic and political environments, and to fluctuations in foreign currencies.

We use 68 functional currencies. Due to our global operations, weaknesses in some of these currencies might be offset by strength in others. In 2007, 2006 and 2005, the weighted-average exchange rates for foreign currencies in which the Company conducted operations (all operating currencies), and for certain individual currencies, strengthened (weakened) against the U.S. dollar as follows:

Year Ended December 31,	2007	2006	2005
All operating currencies	4 %	(1)%	2 %
Brazilian real	11 %	10 %	21 %
Mexican peso	0 %	0 %	4 %
Australian dollar	10 %	(1)%	3 %
South African rand	(3)%	(7)%	1 %
British pound	9 %	1 %	0 %
Euro	8 %	1 %	1 %
Japanese yen	(2)%	(6)%	(1)%

These percentages do not include the effects of our hedging activities and, therefore, do not reflect the actual impact of fluctuations in exchange rates on our operating results. Our foreign currency management program is designed to mitigate, over time, a portion of the impact of exchange rate changes on our net income and earnings per share. The total currency impact on operating income, including the effect of our hedging activities, was an increase of approximately 4 percent in 2007. The impact of a stronger U.S. dollar reduced our operating income by approximately 1 percent in 2006. The impact of a weaker U.S. dollar increased our operating income by approximately 4 percent in 2005. Based on the anticipated benefits of hedging coverage in place, the Company currently expects currencies to have a minimal impact on operating income in 2008.

Exchange losses—net amounted to approximately \$10 million in 2007, \$15 million in 2006 and \$23 million in 2005 and were recorded in other income (loss)—net in our consolidated statements of income. Exchange losses—net

include the remeasurement of monetary assets and liabilities from certain currencies into functional currencies and the costs of hedging certain exposures of our consolidated balance sheets. Refer to Note 12 of Notes to Consolidated Financial Statements.

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

Overview of Financial Position

Our consolidated balance sheet as of December 31, 2007, compared to our consolidated balance sheet as of December 31, 2006, was impacted by the effects of translation adjustments and the following:

- increases in trade accounts receivable, inventories, and prepaid expenses and other assets of \$730 million, \$579 million and \$637 million, respectively, primarily due to 2007 acquisitions, including glacéau, 18 German bottling and distribution operations, CCBPI, Fuze and Leao Junior (refer to Note 20 of Notes to Consolidated Financial Statements);
- increases in trademarks with indefinite lives, goodwill and other intangible assets of \$3,108 million, \$2,853 million and \$1,123 million, respectively, primarily due to 2007 acquisitions, including glacéau, 18 German bottling and distribution operations, CCBPI, Fuze and Leao Junior (refer to Note 20 of Notes to Consolidated Financial Statements);
- an increase in the cost of property, plant and equipment of \$2,533 million, primarily due to 2007 capital expenditures and acquisitions, including 18 German bottling and distribution operations and CCBPI (refer to Note 20 of Notes to Consolidated Financial Statements);
- an increase in accounts payable and accrued expenses of \$1,860 million, primarily due to 2007 acquisitions, including glacéau, 18 German bottling and distribution operations, CCBPI, Fuze and Leao Junior (refer to Note 20 of Notes to Consolidated Financial Statements);
- an increase in loans and notes payable of \$2,684 million, primarily due to net borrowings of commercial paper and short-term debt during 2007 to fund current-year acquisitions (refer to Note 20 of Notes to Consolidated Financial Statements);
- an increase in long-term debt of \$1,963 million, primarily due to issuance of \$1,750 million of notes due November 15, 2017, to repay short-term debt used to fund current-year acquisitions (refer to Note 20 of Notes to Consolidated Financial Statements);
- an increase in other liabilities of \$902 million, primarily due to tax liabilities related to Interpretation No. 48 (refer to Note 17 of Notes to Consolidated Financial Statements) and additional liabilities related to 2007 acquisitions (refer to Note 20 of Notes to Consolidated Financial Statements); and
- an increase in deferred tax liabilities of \$1,282 million, primarily due to 2007 acquisitions, including glacéau, 18 German bottling and distribution operations, CCBPI, Fuze and Leao Junior. Refer to Note 20 of Notes to Consolidated Financial Statements.

Impact of Inflation and Changing Prices

Inflation affects the way we operate in many markets around the world. In general, we believe that, over time, we are able to increase prices to counteract the majority of the inflationary effects of increasing costs and to generate sufficient cash flows to maintain our productive capability.