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 nearly 500 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 1.6 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 developed, developing 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.

While we primarily manufacture, market and sell concentrates and syrups to our bottling partners, from time to time we have viewed it as advantageous to acquire a controlling interest in a bottling operation, often on a temporary basis. Often, though not always, these acquired bottling operations are in underperforming markets where we believe we can use our resources and expertise to improve performance. Owning such a controlling interest has allowed us to compensate for limited local resources and has enabled us to help focus the bottler's sales and marketing programs and assist in the development of the bottler's business and information systems and the establishment of appropriate capital structures. Acquisitions and consolidation of controlled bottling

operations during 2008 and 2007 have resulted in a substantial increase in the number of Company-owned bottling plants included in our consolidated financial statements and in the number of our associates. In 2008, net operating revenues generated by Company-owned and consolidated bottling operations (which are included in the Bottling Investments operating segment) represented approximately 27 percent of our Company's consolidated net operating revenues and distributed approximately 11 percent of our worldwide unit case volume.

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 2008, bottling partners in which our Company has no ownership interest or a noncontrolling ownership interest produced and distributed approximately 78 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.
- Productivity: Managing our people, time and money for greatest effectiveness.

Strategic Priorities

We have four 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 driving global beverage leadership; accelerating innovation; leveraging our balanced geographic portfolio; and leading the Coca-Cola

system for growth. 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. Through our relationships with our bottling partners and those who sell our products in the marketplace, we create and implement integrated marketing programs, both globally and locally, that are designed to heighten consumer awareness of and product appeal for our brands. 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 marketing activities include, but are not limited to, advertising, point-of-sale merchandising and sales promotions.

We have disciplined marketing strategies that focus on driving volume in emerging markets, increasing our brand value in developing markets and growing profit in our most developed markets. In emerging markets, we are investing in infrastructure programs that drive volume through increased access to consumers. In developing markets, where consumer access has largely been established, our focus is on differentiating our brands. In our most developed markets, we continue to invest in brands and infrastructure programs, but at a slower rate than revenue growth.

We are focused on affordability and ensuring we are communicating the appropriate message based on the current economic environment.

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. We participate in joint brand-building initiatives with our customers in order to drive customer preference for our brands. Through our commercial leadership initiatives, we embed ourselves further into our retail customers' businesses while developing strategies for better execution at the point-of-sale.

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 identify system requirements that enable us to quickly achieve scale and efficiencies, and we share best practices throughout the bottling system. Our system leadership allows us to leverage recent acquisitions to expand our volume base and enhance margins. With our bottling partners, we work to produce differentiated beverages and packages that are appropriate for the right channels and consumers. We also design business models for sparkling and 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 concern 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 accounting principles generally accepted 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 in companies, if our investment provides us with 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 account for investments in companies that we do not control or account for under the equity method either at fair value or under the cost method, as applicable. Investments in equity securities are carried at fair value, if the fair value of the security is readily determinable as defined by and in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” Equity investments carried at fair value are classified as either trading or available-for-sale securities. Realized and unrealized gains and losses on trading securities and realized gains and losses on available-for-sale securities are included in net income. Unrealized gains and losses, net of deferred taxes, on available-for-sale securities are included in our consolidated balance sheets as a component of accumulated other comprehensive income (loss) (“AOCI”). Trading securities are reported as marketable securities in our consolidated balance sheets. Securities classified as available-for-sale are reported as either marketable securities or other investments in our consolidated balance sheets, depending on the length of time we intend to hold the investment. The Company has currently chosen not to elect the fair value option as permitted by SFAS

No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115," which provides entities the option to measure many financial instruments and certain other items at fair value. Investments in equity securities that do not qualify for fair value accounting, or for which the Company has not elected the fair value option, are accounted for under the cost method. In accordance with the cost method, our initial investment is recorded at cost and we record dividend income when applicable dividends are declared. Cost method investments are reported as other investments in our consolidated balance sheets.

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 and impairment tests of noncurrent assets involve critical accounting estimates. These estimates require significant management judgment, include inherent uncertainties and are often interdependent; therefore, they do not change in isolation. Factors that management must estimate 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 even more difficult to predict when global financial markets are highly volatile. The estimates we use when assessing the recoverability of noncurrent assets are consistent with those we use in our internal planning. The estimates we use when performing impairment tests are management's best assumptions 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, impairment charges could have resulted. As mentioned above, these factors do not change in isolation; and therefore, it is not practicable to present the impact of changing a single factor. Furthermore, if management uses different assumptions or if different conditions occur in future periods, future impairment charges could result.

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 completing recoverability and impairment tests of noncurrent assets in various regions around the world.

We perform recoverability and impairment tests of noncurrent assets in accordance with accounting principles generally accepted in the United States. For certain assets, recoverability and/or impairment tests are required only when conditions exist that indicate the carrying value may not be recoverable. For other assets, impairment tests are required at least annually, or more frequently, if events or circumstances indicate that an asset may be impaired.

Investments in Equity and Debt Securities

The carrying values of our investments in equity securities are determined using the equity method or the cost method, or at fair value. Refer to the heading "Critical Accounting Policies and Estimates—Basis of Presentation and Consolidation," above. Our investments in debt securities are carried at either amortized cost or fair value. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are carried at amortized cost and classified as held-to-maturity. Investments in debt securities that are not classified as held-to-maturity are carried at fair value, and classified as either trading or available-for-sale.

The following table presents the carrying values of our investments in equity and debt securities (in millions):

December 31, 2008	Carrying Value	Percentage of Total Assets
Equity method investments	$ 5,316	13%
Securities classified as available-for-sale	522	1
Cost method investments	176	*
Securities classified as held-to-maturity	74	*
Securities classified as trading	49	*
Total	$ 6,137	15%

* Accounts for less than 1 percent of the Company's total assets.

Investments classified as trading securities are not assessed for impairment, since they are carried at fair value with the change in fair value included in net income. We review our investments in equity and debt securities that are accounted for using the equity method or cost method or that are classified as available-for-sale or held-to-maturity each 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 our cost basis in the investment. We also perform this evaluation every reporting period for each investment for which our cost basis 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 emerging markets, may impact the determination of fair value.

In the event the fair value of an investment declines below our cost basis, management is required to determine if the decline in fair value is other than temporary. If management determines the decline is other than temporary, an impairment charge is recorded. Management's assessment as to the nature of a decline in fair value is based on, among other things, the length of time and the extent to which the market value has been less than our cost basis, the financial condition and near-term prospects of the issuer, and our intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

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

December 31, 2008	Fair Value	Carrying Value	Difference
Coca-Cola FEMSA, S.A.B. de C.V.	$ 2,616	$ 877	**$ 1,739**
Coca-Cola Enterprises Inc.[1]	2,032	—	**2,032**
Coca-Cola Amatil Limited	1,326	638	**688**
Coca-Cola Hellenic Bottling Company S.A.	1,231	1,487	**(256)**
Grupo Continental, S.A.B.	267	152	**115**
Coca-Cola Icecek A.S.	205	114	**91**
Coca-Cola Embonor S.A.[2]	153	162	**(9)**
Coca-Cola Bottling Co. Consolidated	114	76	**38**
Embotelladoras Coca-Cola Polar S.A.	78	61	**17**
	$ 8,022	$ 3,567	**$ 4,455**

[1] The carrying value of our investment in CCE was reduced to zero as of December 31, 2008, primarily as a result of recording our proportionate share of impairment charges and items impacting AOCI recorded by CCE.

[2] The carrying value of our investment in Coca-Cola Embonor S.A. exceeded its fair value as of December 31, 2008. Management has concluded that this decline in fair value is temporary in nature.

The carrying value of our investment in Coca-Cola Hellenic has exceeded its fair value in each of the last three months of 2008; however, the amount by which our carrying value has exceeded its fair value has decreased in each of those three months. As is the case with most of our equity method investees, we have both the ability and intent to hold our investment in Coca-Cola Hellenic as a long-term investment. Furthermore, under the terms of a shareholders agreement between the Company and another significant shareholder of Coca-Cola Hellenic, the Company is required, unless both parties agree to the contrary, to maintain no less than a 20 percent ownership interest in Coca-Cola Hellenic through at least December 31, 2018. Additionally, we believe that the countries in which Coca-Cola Hellenic has bottling and distribution rights, through direct ownership or joint ventures, have positive growth opportunities. We also believe that the recent volatility of Coca-Cola Hellenic's fair value is at least partly attributable to the volatility in the global financial markets and not necessarily indicative of a change in long-term value. Based on these factors, management has concluded that the decline in fair value of our investment in Coca-Cola Hellenic is temporary in nature. We will continue to monitor our investments in future periods.

As of December 31, 2008, the Company had several investments classified as available-for-sale securities in which our cost basis exceeded the fair value of the investment, each of which initially occurred between the end of the second quarter and the beginning of the third quarter of 2008. Management assessed each individual investment to determine if the decline in fair value was other than temporary. Based on these assessments, management determined that the decline in fair value of each investment was other than temporary based on a number of factors, including, but not limited to, uncertainty regarding our intent to hold certain of these investments for a period of time that would be sufficient to recover our cost basis in the event of a market recovery; the fact that the fair value of each investment has continued to decline since the time that our cost basis initially exceeded its fair value; and the Company's uncertainty around the near-term prospects for certain of the investments. As a result of the other-than-temporary decline in fair value of these investments, the Company recognized impairment charges of approximately $81 million during the fourth quarter of 2008. Certain of these investments are classified as marketable securities, while others are classified as other investments in the consolidated balance sheets. These impairment charges were recorded to other income (loss)—net in the consolidated statement of income. Refer to the heading "Operations Review—Other Income (Loss)—Net," and Note 10 and Note 19 of Notes to Consolidated Financial Statements.

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. As of December 31, 2008, the carrying value of these assets was approximately $1,733 million, or 4 percent of our total assets. When facts and circumstances indicate that the carrying value of these assets may not be recoverable, management assesses the recoverability of the carrying value by preparing estimates of sales volume and the resulting gross profit and cash flows. These estimated future cash flows are consistent with those we use in our internal planning. 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.

Property, Plant and Equipment

As of December 31, 2008, the carrying value of our property, plant and equipment, net of depreciation, was approximately $8,326 million, or 21 percent of our total assets. Certain events or changes in circumstances may indicate that the recoverability of the carrying amount of property, plant and equipment should be assessed, including, among others, 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. When such events 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. These estimated future cash flows are consistent with those we use in our internal planning. 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 discounted cash flow models, which are consistent with the assumptions we believe hypothetical marketplace participants would use.

In 2007, our Company recorded a charge of approximately $99 million in equity income (loss)—net. This charge was primarily related to our proportionate share of asset impairments recorded by Coca-Cola Bottlers Philippines, Inc. ("CCBPI") due to excess and obsolete bottles and cases. These charges impacted the Bottling Investments operating segment. Refer to the heading "Operations Review—Equity Income (Loss)—Net," and Note 3 and Note 19 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 of 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. However, the actual amount we record with respect to our proportionate share of such charges may be impacted by items such as basis differences, deferred taxes and deferred gains.

The following table presents the carrying values of intangible assets included in our consolidated balance sheet (in millions):

December 31, 2008	Carrying Value	Percentage of Total Assets
Trademarks with indefinite lives	$ 6,059	15%
Goodwill	4,029	10
Bottlers' franchise rights	1,840	5
Definite-lived intangible assets, net	385	1
Other intangible assets not subject to amortization	192	*
Total	$ 12,505	31%

* Accounts for less than 1 percent of the Company's total assets.

When facts and circumstances indicate that the carrying value of definite-lived intangible assets may not be recoverable, management assesses the recoverability of the carrying value by preparing estimates of sales volume and the resulting gross profit and cash flows. These estimated future cash flows are consistent with those we use in our internal planning. 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 these assets, including discounted cash flow models, which are consistent with the assumptions we believe hypothetical marketplace participants would use.

We test intangible assets determined to have indefinite useful lives, including trademarks, franchise rights and goodwill, for impairment annually, or more frequently if events or circumstances indicate that assets might be impaired. We use a variety of methodologies in conducting impairment assessments of indefinite-lived intangible assets, including, but not limited to, discounted cash flow models, which are consistent with the assumptions we believe hypothetical marketplace participants would use. For indefinite-lived intangible assets, other than goodwill, if the fair value is less than the carrying amount, an impairment charge is recognized in an amount equal to that excess.

We perform impairment tests of goodwill at our reporting unit level, which is one level below our operating segments. The goodwill impairment test consists of a two-step process, if necessary. The first step is to compare the fair value of a reporting unit to its carrying value, including goodwill. We typically use discounted cash flow models to determine the fair value of a reporting unit. The assumptions used in these models are consistent with those we believe hypothetical marketplace participants would use. If the fair value of the reporting unit is less than its carrying value, the second step of the impairment test must be performed in order to determine the amount of impairment loss, if any. The second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill, which is assigned to the reporting unit or units that benefit from the synergies arising from each business combination.

Intangible assets acquired in recent transactions are naturally more susceptible to impairment, primarily due to the fact that they are recorded at fair value based on recent operating plans and macroeconomic conditions present at the time of acquisition. Consequently, if operating results and/or macroeconomic conditions deteriorate shortly after an acquisition, it could result in the impairment of the acquired assets. A deterioration of macroeconomic conditions may not only negatively impact the estimated operating cash flows used in our cash flow models, but may also negatively impact other assumptions used in our analyses, including, but not limited to, the estimated cost of capital and/or discount rates. Additionally, as discussed above, in accordance with accounting principles generally accepted in the United States, we are required to ensure that

assumptions used to determine fair value in our analyses are consistent with the assumptions a hypothetical marketplace participant would use. As a result, the cost of capital and/or discount rates used in our analyses may increase or decrease based on market conditions and trends, regardless of whether our Company's actual cost of capital has changed. Therefore, our Company may recognize an impairment of an intangible asset or assets in spite of realizing actual cash flows that are approximately equal to or greater than our previously forecasted amounts. The Company has acquired significant intangible assets in the past several years through asset acquisitions and business combinations, including, among others, the acquisition of brands and licenses in Denmark and Finland from Carlsberg; 18 German bottling and distribution operations; Energy Brands Inc., also known as glacéau; CCBPI; and Kerry Beverages Limited, which was subsequently renamed Coca-Cola China Industries Limited ("CCCIL"). Refer to Note 20 of Notes to Consolidated Financial Statements for more detailed information about recently acquired intangible assets.

As of our most recent annual SFAS No. 142 impairment review, the Company had no significant impairments of its intangible assets, individually or in the aggregate. However, if macroeconomic conditions continue to worsen, it is possible that we may experience significant impairments of some of our intangible assets, which would require us to recognize impairment charges. Management will continue to monitor the fair value of our intangible assets in future periods.

As mentioned above, the Company is required to record its proportionate share of impairment charges recorded by our equity method investees. In 2008, we recorded our proportionate share of approximately $7.6 billion pretax ($4.9 billion after-tax) of charges recorded by CCE due to impairments of its North American franchise rights in the second quarter and fourth quarter of 2008. The Company's proportionate share of these charges was approximately $1.6 billion. The decline in the estimated fair value of CCE's North American franchise rights during the second quarter was the result of several factors including, but not limited to, (1) challenging macroeconomic conditions which contributed to lower than anticipated volume for higher-margin packages and certain higher-margin beverage categories; (2) increases in raw material costs including significant increases in aluminum, high fructose corn syrup ("HFCS") and resin; and (3) increased delivery costs as a result of higher fuel costs. The decline in the estimated fair value of CCE's North American franchise rights during the fourth quarter was primarily driven by financial market conditions as of the measurement date that caused (1) a dramatic increase in market debt rates, which impacted the capital charge, and (2) a significant decline in the funded status of CCE's defined benefit pension plans. In addition, the market price of CCE's common stock declined by more than 50 percent between the date of CCE's interim impairment test (May 23, 2008) and the date of CCE's annual impairment test (October 24, 2008). Our proportionate share of these charges was recorded to equity income (loss)—net in our consolidated statement of income and impacted the Bottling Investments operating segment. Refer to the heading "Operations Review—Equity Income (Loss)—Net" and Note 3 and Note 19 of Notes to Consolidated Financial Statements.

In 2006, our Company recorded a charge of approximately $602 million in equity income (loss)—net, which primarily represented our proportionate share of impairment charges recorded by CCE. These charges impacted the Bottling Investments operating segment. Refer to the heading "Operations Review—Equity Income (Loss)—Net" and Note 3 and Note 19 of Notes to Consolidated Financial Statements.

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 operating segment. 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 models. 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.

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 $4.4 billion, $4.1 billion and $3.8 billion for the years ended December 31, 2008, 2007 and 2006, respectively. In preparing the financial statements, management must make estimates related to the contractual terms, customer performance and sales volume to determine the total amounts recorded as deductions from revenue. Management also considers past results in making such estimates. The actual amounts ultimately paid may be different from our estimates. Such differences are recorded once they have been determined and have historically not been significant.

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, or (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 and manner 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 taxable 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 Company's effective tax rate is expected to be approximately 23.0 percent to 24.0 percent in 2009. This estimated tax rate does not reflect the impact of any unusual or special items that may affect our tax rate in 2009.

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 December 31, 2008, consisted of the following operating segments, the first six of which are sometimes referred to as "operating groups" or "groups": Eurasia and Africa; Europe; Latin America; North America; Pacific; Bottling Investments; and Corporate. We revised previously reported group information to conform to our operating structure in effect as of December 31, 2008. For further information regarding our operating segments, including a discussion of changes made to our operating segments effective July 1, 2008, 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 ("Coca-Cola system") to customers. Unit case volume primarily consists of beverage products bearing Company trademarks. Also included in unit case volume are certain products licensed to, or distributed by, our Company, and brands owned by Coca-Cola system bottlers for which our Company provides marketing support and from the sale of which 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 has an equity interest. 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. 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. Factors 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. In addition to the items mentioned above, the impact of unit case volume from certain joint ventures, in which the Company has an equity interest, but to which the Company does not sell concentrates, may give rise to differences between unit case volume and concentrate sales growth rates.

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

	Percentage Change			
	2008 vs. 2007		2007 vs. 2006	
Year Ended December 31,	Unit Cases[1,2]	Concentrate Sales	Unit Cases[1,2]	Concentrate Sales
Worldwide	5%	4%	6%	6%
Eurasia & Africa	7	7	12	12
Europe	3	0	5	5
Latin America	8	6	9	9
North America	(1)	(2)	(1)	—
Pacific	8	8	7	7
Bottling Investments	14	N/A	64	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 23.7 billion unit cases of our products in 2008, approximately 22.7 billion unit cases in 2007 and approximately 21.4 billion unit cases in 2006.

In Eurasia and Africa, unit case volume increased 7 percent in 2008 versus 2007, which reflected growth in sparkling and still beverages of 4 percent and 21 percent, respectively. Unit case volume growth of 15 percent in Turkey, 14 percent in India and 11 percent in Southern Eurasia drove current year growth. Acquisitions contributed 6 percent of the unit case volume growth in Turkey during 2008. High single-digit volume growth in North and West Africa and 7 percent volume growth in Nigeria also significantly contributed to the group's current year growth. South Africa's unit case volume increased 1 percent for the year, which included the impact of supply chain issues related to carbon dioxide shortages in the early portion of 2008. Our system has invested in manufacturing capabilities that allow us to produce our own supply of carbon dioxide to mitigate the risk of future shortages. Russia's unit case volume was even for the year, primarily due to a more challenging economic environment and unseasonable weather during the summer.

Unit case volume in Europe increased 3 percent in 2008 compared to 2007, primarily attributable to high single-digit volume growth in Eastern Europe. The group's unit case volume growth reflected 1 percent growth in sparkling beverages and 11 percent growth in still beverages. The unit case volume growth in sparkling beverages included 1 percent growth in Trademark Coca-Cola. Also included in the group's 2008 volume growth was the impact of a low single-digit volume decline in Iberia, primarily due to the slowing Western European economy and a truckers' strike in Spain during the second quarter of 2008.

In Latin America, unit case volume increased 8 percent in 2008 versus 2007. The group benefited from strong volume growth in all key markets, including 9 percent in Mexico, 7 percent in Brazil and 5 percent in Argentina. Acquisitions contributed 3 percent of the group's total unit case volume growth in 2008. The group's unit case volume growth consisted of 4 percent growth in sparkling beverages and 40 percent growth in still beverages. Sparkling beverage unit case volume growth was primarily attributable to a 4 percent volume growth in Coca-Cola. The successful integration of Jugos del Valle, S.A.B. de C.V. ("Jugos del Valle"), which we acquired jointly with Coca-Cola FEMSA in 2007, drove still beverage volume growth. Still beverage unit case volume grew 21 percent during the year, excluding the impact of acquisitions.

Unit case volume in North America decreased 1 percent in 2008 compared to 2007, which reflected the impact of a difficult U.S. economic environment and significant bottler price increases during the fourth quarter of 2008. The overall unit case volume decline in North America during 2008 consisted of a 3 percent unit case volume decline in sparkling beverages, partially offset by a 5 percent increase in still beverages. The current year decline in sparkling beverages was partly attributable to the softness of our Foodservice business and other on-premise channels, both of which were negatively impacted by the current economic conditions. The negative impact of current macro-economic conditions and bottler price increases was tempered by the successful execution of the three-cola strategy (focusing on driving unit case volume growth for Coca-Cola, Coca-Cola Zero and Diet Coke). Coca-Cola Zero continued its strong performance, increasing unit case volume 36 percent in 2008. Still beverage unit case volume increased 5 percent in the current year, primarily due to the strong performance of glacéau, Fuze, Trademark Simply and Minute Maid Enhanced Juices. Acquisitions contributed 4 percent of the volume growth in still beverages during 2008. The overall 5 percent unit case volume growth in still beverages also included the impact of volume declines in Trademark Dasani and Trademark Powerade during 2008, primarily due to the slowing water and sports drink categories.

In the Pacific, unit case volume increased 8 percent in 2008 versus 2007. The current year unit case volume growth was driven by 19 percent volume growth in China, which consisted of growth in both sparkling and still beverages. China's sparkling unit case volume increased 15 percent, primarily attributable to double-digit volume growth in both Trademark Coca-Cola and Trademark Sprite. Double-digit unit case volume growth in

Minute Maid accounted for the majority of China's 30 percent unit case volume growth in still beverages. Also contributing to the volume growth of still beverages in China was the impact of Yuan Ye, an original leaf tea, which was launched earlier in the year. The strong performance in China across our brands is partly attributable to our successful activation of the Beijing 2008 Olympic Games. In Japan, unit case volume was even in 2008. Sparkling beverage unit case volume grew 5 percent for the year, led by 6 percent growth in Trademark Coca-Cola and 13 percent growth in Trademark Fanta. Unit case volume growth in Trademark Coca-Cola was primarily attributable to the continued success of Coca-Cola Zero and the successful execution of the three-cola strategy (focusing on driving unit case volume growth for Coca-Cola, Coca-Cola Zero and Diet Coke or Coca-Cola light). Still beverage unit case volume declined 1 percent in 2008, primarily due to declines in Sokenbicha and Aquarius. The impact of these volume declines on still beverages was partially offset by a 2 percent unit case volume increase in Georgia Coffee.

Unit case volume for Bottling Investments increased 14 percent in 2008 compared to 2007. The current year unit case volume growth was primarily attributable to the full year impact of prior year acquisitions, including, but not limited to, 18 bottling and distribution operations in Germany, Nordeste Refrigerantes S.A. ("NORSA") and CCBPI. Refer to Note 20 of Notes to Consolidated Financial Statements. Additionally, the unit case volume growth reflected the overall improving health of the Company's consolidated bottling operations. The favorable impact that the previously mentioned items had on unit case volume growth was partially offset by the sale of Refrigerantes Minas Gerais Ltda. ("Remil"), a bottler in Brazil, and the sale of a portion of our ownership interest in Coca-Cola Beverages Pakistan Ltd. ("Coca-Cola Pakistan"), which resulted in its deconsolidation. Refer to the heading "Operations Review—Other Income (Loss)—Net" and Note 3 and Note 19 of Notes to Consolidated Financial Statements.

In Eurasia and Africa, unit case volume increased 12 percent in 2007 compared to 2006. Double-digit unit case volume growth in South Africa, Russia, India, Turkey, Middle East and Southern Eurasia drove the results. South Africa unit case volume increased 13 percent in 2007, primarily attributable to strong marketing, the replenishment of trade inventory resulting from the carbon dioxide shortage in the fourth quarter of 2006 and favorable weather. 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 addition, strong marketing and bottler execution resulted in solid volume growth in North and West Africa and in East and Central Africa during 2007.

Unit case volume in Europe increased 5 percent in 2007 compared to 2006, primarily due to unit case volume growth in most key countries, including double-digit unit case volume growth in Eastern Europe. The results reflected the benefits of key initiatives across the group, including Coca-Cola Zero launches and the three-cola strategy, 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. The group's 2007 unit case volume growth reflected the negative impact of unseasonably cool and rainy summer weather and the favorable impact the World Cup had on volume in 2006.

In Latin America, unit case volume increased 9 percent in 2007 versus 2006, which reflected volume growth of 16 percent in Brazil, 6 percent in Mexico and 9 percent in Argentina. The group's unit case volume growth included a 7 percent growth in Trademark Coca-Cola, primarily due to the introduction of Coca-Cola Zero during the first quarter of 2007. The acquisition of Leao Junior, S.A. ("Leao Junior") in Brazil also favorably impacted the unit case volume in 2007.

Unit case volume in North America decreased 1 percent in 2007 versus 2006, reflecting a 1 percent decline in the Foodservice and Hospitality business due to the challenging restaurant industry environment. Unit case volume in Retail 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. Retail unit case volume 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. In 2007, Coca-Cola Zero had double-digit unit case volume growth and both Trademark Dasani and Trademark Powerade 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.

Unit case volume in the Pacific increased 7 percent in 2007 compared to 2006, which reflected volume growth of 18 percent in China, 5 percent in the Philippines and 3 percent in Japan. Unit case volume growth in China was led by double-digit growth in sparkling beverages, Minute Maid and Nestea. In Japan, the increase in unit case volume was primarily due to growth in Trademark Coca-Cola, Trademark Sprite, Sokenbicha and water brands. Georgia Coffee volume declined 1 percent in 2007; however, as a result of success with a new marketing campaign, it returned to growth in the fourth quarter of 2007. Unit case volume growth in the Philippines was largely attributable to strong volume growth in sparkling beverages, primarily due to investments in key marketing initiatives, the focus on improving the route-to-market, reshaping and streamlining the supply chain and building sales capabilities. On February 22, 2007, the Company acquired the remaining 65 percent ownership interest in 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. The unit case volume growth was primarily attributable to the impact of acquisitions made during 2007, including, but not limited to, 18 bottling and distribution operations in Germany, NORSA and CCBPI. Refer to Note 20 of Notes to Consolidated Financial Statements. Unit case volume growth in 2007 also reflected growth across the group.

Concentrate Sales Volume

Company-wide concentrate sales volume and unit case volume grew 4 percent and 5 percent, respectively, in 2008 compared to 2007. The differences between unit case volume and concentrate sales volume growth rates for all segments were primarily due to timing of concentrate shipments and the impact of unit case volume from certain joint ventures, in which the Company is a partner but to which the Company does not sell concentrate.

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

Analysis of Consolidated Statements of Income

Year Ended December 31,	**2008**	2007	2006	Percent Change 2008 vs. 2007	Percent Change 2007 vs. 2006
(In millions except per share data)					
NET OPERATING REVENUES	**$ 31,944**	$ 28,857	$ 24,088	11%	20%
Cost of goods sold	**11,374**	10,406	8,164	9	27
GROSS PROFIT	**20,570**	18,451	15,924	11	16
GROSS PROFIT MARGIN	**64.4%**	63.9%	66.1%		
Selling, general and administrative expenses	**11,774**	10,945	9,431	8	16
Other operating charges	**350**	254	185	*	*
OPERATING INCOME	**8,446**	7,252	6,308	16	15
OPERATING MARGIN	**26.4%**	25.1%	26.2%		
Interest income	**333**	236	193	41	22
Interest expense	**438**	456	220	(4)	107
Equity income (loss) — net	**(874)**	668	102	*	555
Other income (loss) — net	**(28)**	173	195	*	*
INCOME BEFORE INCOME TAXES	**7,439**	7,873	6,578	(6)	20
Income taxes	**1,632**	1,892	1,498	(14)	26
Effective tax rate	**21.9%**	24.0%	22.8%		
NET INCOME	**$ 5,807**	$ 5,981	$ 5,080	(3)%	18%
PERCENTAGE OF NET OPERATING REVENUES	**18.2%**	20.7%	21.1%		
NET INCOME PER SHARE:					
Basic	**$ 2.51**	$ 2.59	$ 2.16	(3)%	20%
Diluted	**$ 2.49**	$ 2.57	$ 2.16	(3)%	19%

* Calculation is not meaningful.

Net Operating Revenues

Net operating revenues increased by $3,087 million, or 11 percent, in 2008 compared to 2007 and by $4,769 million, or 20 percent, in 2007 compared to 2006. The following table illustrates, on a percentage basis, the estimated impact of key factors resulting in increases in net operating revenues:

	Percent Change	
Year Ended December 31,	2008 vs. 2007	2007 vs. 2006
Increase in concentrate sales volume	4%	6%
Structural changes	—	8
Price and product/geographic mix	3	2
Impact of currency fluctuations versus the U.S. dollar	4	4
Total percentage increase	11%	20%

Refer to the heading "Beverage Volume" for a discussion of concentrate sales volume. Also included in concentrate sales volume is the impact of acquired beverage companies, including, among others, glacéau, and the acquisition of trademarks.

"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. Structural changes had a net zero percent impact on net operating revenues in 2008 compared to 2007. The increase in net operating revenues attributable to the full year impact of prior year acquisitions, including, but not limited to, 18 German bottling and distribution operations, NORSA and CCBPI was offset by the sale of Remil and the sale of a portion of our ownership interest in Coca-Cola Pakistan, which resulted in its deconsolidation. Refer to Note 3 and Note 20 of Notes to Consolidated Financial Statements.

Price and product/geographic mix increased net operating revenues by 3 percent in 2008 compared to 2007, primarily due to favorable pricing and product/package mix across the majority of the operating segments.

The favorable impact of currency fluctuations increased net operating revenues by 4 percent in 2008 compared to 2007. The U.S. dollar weakened against certain key currencies in 2008 including, but not limited to, the euro, Japanese yen and Brazilian real. The fluctuations in these currencies favorably impacted the Europe, Pacific, Latin America and Bottling Investments operating segments. The favorable impact of fluctuations in the aforementioned currencies was partially offset by the unfavorable impact of the U.S. dollar strengthening against the South African rand and the British pound during 2008. The fluctuations in these currencies unfavorably impacted the Eurasia and Africa, Europe and Bottling Investments operating segments. Refer to the heading "Liquidity, Capital Resources and Financial Position—Foreign Exchange."

In 2007, structural changes increased net operating revenues by 8 percent compared to 2006. The increase in net operating revenues attributable to structural changes was primarily due to the impact of acquisitions made during 2007, including, but not limited to, 18 German bottling and distribution operations, NORSA and CCBPI. In addition to the partial year impact of 2007 acquisitions, the full year impact of the acquisition of CCCIL and the consolidation of Brucephil, Inc. ("Brucephil"), the parent company of The Philadelphia Coca-Cola Bottling Company, during 2006 also contributed to increased net operating revenues during 2007. 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 increased net operating revenues by 4 percent in 2007 compared to 2006. The U.S. dollar weakened against most key currencies during 2007 including, but not limited to, the euro, Brazilian real and Australian dollar. The fluctuations in these currencies favorably impacted the Europe, Latin America, Pacific and Bottling Investments operating segments. The favorable impact of fluctuations in the aforementioned currencies was partially offset by the unfavorable impact of the U.S. dollar

strengthening against the Japanese yen and South African rand, which unfavorably impacted the Pacific, Eurasia and Africa and Bottling Investments operating segments. Refer to the heading "Liquidity, Capital Resources and Financial Position—Foreign Exchange."

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

Year Ended December 31,	**2008**	2007	2006
Eurasia & Africa	**6.7%**	6.8%	7.0%
Europe	**15.0**	15.4	16.1
Latin America	**11.3**	10.6	10.3
North America	**25.7**	26.9	29.1
Pacific	**13.7**	13.9	16.5
Bottling Investments	**27.3**	26.2	20.6
Corporate	**0.3**	0.2	0.4
	100.0%	100.0%	100.0%

The percentage contribution of each operating segment has changed due to net operating revenues in certain operating segments growing at a faster rate compared to the other operating segments. Net operating revenue growth rates are impacted by concentrate sales volume growth rates, structural changes, price and product/geographic mix and foreign currency fluctuations.

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 increased to 64.4 percent in 2008 from 63.9 percent in 2007. The increase in our gross profit margin was primarily attributable to favorable price and product mix across the majority of our operating segments, as well as the favorable impact of the sale of Remil and the sale of a portion of our ownership interest in Coca-Cola Pakistan, which resulted in its deconsolidation. Refer to Note 19 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. The favorable impact of the previously mentioned items was partially offset by the full year impact of 2007 acquisitions, including, but not limited to, 18 German bottling and distribution operations, NORSA, glacéau, CCBPI and Leao Junior. Refer to Note 20 of Notes to Consolidated Financial Statements. In addition to the full year impact of prior year acquisitions, our 2008 gross profit margin was also unfavorably impacted by increases in the cost of raw materials and freight.

Our gross profit margin decreased to 63.9 percent in 2007 from 66.1 percent in 2006. The decrease in our gross profit margin in 2007 was primarily due to the partial year impact of acquisitions made during 2007, including, but not limited to, 18 German bottling and distribution operations, NORSA, glacéau, CCBPI and Leao Junior. In addition to the partial year impact of 2007 acquisitions, the full year impact of the acquisition of CCCIL and the consolidation of Brucephil during 2006 also contributed to the decline in our 2007 gross profit margin. Refer to Note 20 of Notes to Consolidated Financial Statements. Our 2007 gross profit margin was also unfavorably impacted by increases in the cost of raw materials and freight.

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,	**2008**	2007	2006
Selling expenses	**$ 5,776**	$ 5,029	$ 3,924
Advertising expenses	**2,998**	2,774	2,553
General and administrative expenses	**2,734**	2,829	2,630
Stock-based compensation expense	**266**	313	324
Selling, general and administrative expenses	**$ 11,774**	$ 10,945	$ 9,431

Selling, general and administrative expenses increased $829 million, or 8 percent, in 2008 compared to 2007. This increase was primarily attributable to the impact of foreign currency fluctuations, which accounted for approximately 4 percent of the total increase in selling, general and administrative expenses. In addition to the impact of foreign currency fluctuations, the increase in advertising expenses reflected the Company's continued investment in our brands and building market execution capabilities. Selling expenses increased primarily to support our bottling operations. In addition to the previously mentioned items, the increase in selling, general and administrative expenses in 2008 was also partially attributable to the full year impact of bottlers and brands acquired during 2007. Refer to Note 20 of Notes to Consolidated Financial Statements. These increases were partially offset by a decline in general and administrative expenses, primarily due to expense management and productivity initiatives. In addition, general and administrative expenses during 2008 also benefited from the full year impact of amendments made to the U.S. retiree medical plan and other employee benefit related costs during 2007. Refer to Note 16 of Notes to Consolidated Financial Statements for further discussion of the amendments made to the U.S. retiree medical plan during 2007.

Stock-based compensation expense benefited from the reversal of previously recognized expenses related to performance based long-term incentive plans due to our revised outlook of the impact of foreign currency fluctuations in future years. Refer to the heading "Liquidity, Capital Resources and Financial Position—Foreign Exchange" for further discussion of the anticipated impact of foreign currency fluctuations.

As of December 31, 2008, we had approximately $368 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 1.7 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.

The significant decline in the equity markets precipitated by the recent credit crisis and financial system instability has negatively affected the value of our pension plan assets. As a result of this decline, along with a decrease in the discount rate, our 2009 pension cost will increase by approximately $100 million. Our pension cost in years beyond 2009 may also be impacted by these changes. In addition, as a result of the decline in fair value of our pension plans assets and a decrease in the discount rate used to calculate pension benefit obligations, we have made and will consider making additional contributions to our U.S. and international pension plans in 2009. Refer to the heading "Liquidity, Capital Resources and Financial Position—Off-Balance Sheet Arrangements and Aggregate Contractual Obligations" and Note 16 of Notes to Consolidated Financial Statements for further discussion.

Selling, general and administrative expenses increased $1,514 million, or 16 percent, in 2007 compared to 2006. This increase was 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, 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 related to our short-term incentive plan based on the Company's financial performance, 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 and a decrease of approximately $82 million in our annual net periodic benefits costs, primarily due to the impact of amendments made to the U.S. retiree medical plan during 2007. Refer to Note 16 of Notes to Consolidated Financial Statements for further discussion of the amendments made to the U.S. retiree medical plan during 2007.

Other Operating Charges

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

Year Ended December 31,	**2008**	2007	2006
Eurasia & Africa	**$ 1**	$ 37	$ 3
Europe	**—**	33	36
Latin America	**1**	4	—
North America	**56**	23	—
Pacific	**—**	3	62
Bottling Investments	**46**	33	83
Corporate	**246**	121	1
Total	**$ 350**	$ 254	$ 185

During 2008, the Company incurred other operating charges of approximately $350 million, consisting of restructuring charges, contract termination fees, expenses related to productivity initiatives and asset impairments.

The Company incurred restructuring costs of approximately $194 million during 2008. These costs were primarily related to steps the Company took in 2007 to streamline and simplify its operations globally, which included the closing of a beverage concentrate manufacturing and distribution plant in Drogheda, Ireland, as well as streamlining activities in other selected business units. The Company has incurred total pretax expenses of approximately $410 million related to these restructuring activities since they commenced. The Company does not anticipate recognizing any additional significant expenses as part of this plan. The expected payback period for this plan is three to four years. Refer to Note 18 of Notes to Consolidated Financial Statements.

The Company incurred total pretax expenses of approximately $55 million related to productivity initiatives since they commenced in the first quarter of 2008. The Company is targeting $500 million in annualized savings from productivity initiatives by the end of 2011 to provide additional flexibility to invest for growth. The savings are expected to be generated in a number of areas, and include aggressively managing operating expenses supported by lean techniques; redesigning key processes to drive standardization and effectiveness; better leveraging our size and scale; and driving savings in indirect costs through the implementation of a "procure-to-pay" program. In realizing these savings, the Company expects to incur total costs of approximately $500 million by the end of 2011. Refer to Note 18 of Notes to Consolidated Financial Statements.

Other operating charges in 2008 also included approximately $63 million of costs associated with contract termination fees and approximately $38 million related to asset impairments. The contract termination fees were primarily the result of penalties incurred by the Company to terminate existing supply and co-packer agreements. Charges related to asset impairments were primarily due to the write-down of manufacturing lines that produce product packaging materials. Refer to Note 19 of Notes to Consolidated Financial Statements.

In 2007, the Company incurred other operating charges of approximately $254 million, primarily related to restructuring costs and asset impairments. These restructuring costs and asset impairments 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. Refer to Note 18 of Notes to Consolidated Financial Statements. Also in 2007, other operating charges included charges related to asset impairments, 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 the result of contract termination fees 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 had 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," and Note 19 of Notes to Consolidated Financial Statements.

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,	**2008**	2007	2006
Eurasia & Africa	**9.9%**	9.2%	9.3%
Europe	**37.6**	38.3	37.4
Latin America	**24.8**	24.1	22.8
North America	**18.8**	23.4	26.7
Pacific	**22.0**	23.4	26.2
Bottling Investments	**3.1**	2.1	0.3
Corporate	**(16.2)**	(20.5)	(22.7)
	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,	**2008**	2007	2006
Consolidated	**26.4%**	25.1%	26.2%
Eurasia & Africa	**39.1%**	34.4%	35.2%
Europe	**66.4**	62.4	60.9
Latin America	**57.9**	57.0	57.9
North America	**19.3**	21.9	24.0
Pacific	**42.6**	42.5	41.4
Bottling Investments	**3.0**	2.0	0.4
Corporate	*****	*	*

* Calculation is not meaningful.

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

- In 2008, foreign currency exchange rates favorably impacted operating income by approximately 6 percent, primarily due to a weaker U.S. dollar compared to the euro, Japanese yen and Brazilian real, which had a favorable impact on the Europe, Pacific, Latin America and Bottling Investments operating segments. The favorable impact of a weaker U.S. dollar compared to the aforementioned currencies was partially offset by the impact of a stronger U.S. dollar compared to the South African rand and the British pound, which had an unfavorable impact on the Eurasia and Africa, Europe and Bottling Investments operating segments. Refer to the heading "Liquidity, Capital Resources and Financial Position—Foreign Exchange."
- In 2008, price increases across the majority of operating segments had a favorable impact on both operating income and operating margins.
- In 2008, 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," above.
- In 2008, increases in the cost of raw materials and product mix, primarily as a result of finished goods businesses, adversely impacted North America's operating income and operating margin.
- In 2008, our operating margin was unfavorably impacted by the full year impact of acquisitions made during 2007, including, but not limited to, 18 German bottling and distribution operations, NORSA, glacéau, CCBPI and Leao Junior. Refer to the heading "Gross Profit," above. These acquisitions impacted the Latin America, North America and Bottling Investments operating segments.
- In 2008, operating income was reduced by approximately $1 million for Eurasia and Africa, $1 million for Latin America, $56 million for North America, $46 million for Bottling Investments and $246 million for Corporate, primarily due to restructuring costs, contract termination fees, productivity initiatives and asset impairments. Refer to the heading "Other Operating Charges," above.
- In 2007, foreign currency exchange rates favorably impacted operating income by approximately 4 percent, primarily related to a weaker U.S. dollar compared to the euro, Brazilian real and Australian dollar, which had a favorable impact on the Europe, Latin America and Bottling Investments operating segments. The favorable impact of a weaker U.S. dollar compared to the aforementioned currencies was partially offset by the impact of a stronger U.S. dollar compared to the Japanese yen and South African rand, which had an unfavorable impact on the Eurasia and Africa, Pacific and Bottling Investments operating segments. Refer to the heading "Liquidity, Capital Resources and Financial Position—Foreign Exchange."
- In 2007, price increases across the majority of operating segments had a favorable impact on 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," above.
- In 2007, operating income was reduced by approximately $37 million for Eurasia and Africa, $33 million for Europe, $4 million for Latin America, $23 million for North America, $3 million for Pacific, $47 million for Bottling Investments and $121 million for Corporate, primarily due to restructuring costs and asset impairments, included in other operating charges and cost of goods sold. Refer to the heading "Other Operating Charges," above.

- In 2007, operating income and operating margin for Latin America, North America and 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. Refer to the heading "Gross Profit," above.
- In 2006, operating income was reduced by approximately $3 million for Eurasia and Africa, $36 million for Europe, $62 million for Pacific, $87 million for Bottling Investments and $1 million for Corporate primarily due to contract termination fees related to production capacity efficiencies, asset impairments and other restructuring costs. Refer to the heading "Other Operating Charges," above.
- In 2006, operating income was reduced by $100 million for Corporate as a result of a donation made to The Coca-Cola Foundation.

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. Refer to Note 11 of Notes to Consolidated Financial Statements.

Interest income increased by $97 million in 2008 compared to 2007. This increase was primarily due to higher average short-term investment balances, partially offset by lower interest rates.

Interest expense decreased by $18 million in 2008 compared to 2007. This decrease was primarily attributable to lower interest rates on short-term debt and a net benefit of approximately $8 million related to the reclassification of gains and losses on interest rate locks from AOCI to interest expense. This net benefit consisted of approximately $17 million of previously unrecognized gains related to cash flow hedges that were discontinued during the second quarter of 2008, as it was no longer probable that we would issue the long-term debt for which these hedges were designated, which was partially offset by approximately $9 million of losses related to the portion of cash flow hedges that were deemed to be ineffective during 2008. The favorable impact of aforementioned items was partially offset by the impact of higher average short-term and long-term debt balances. We expect net interest expense to increase in 2009 due to forecasted higher debt balances. Refer to the heading "Liquidity, Capital Resources and Financial Position."

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 U.S., partially offset by a decline in interest rates. The net proceeds of approximately $1,747 million from this long-term debt issuance and the increase in commercial paper borrowings were primarily used to finance 2007 acquisitions.

Equity Income (Loss)—Net

Equity income (loss)—net represents our Company's proportionate share of net income or loss from each of our equity method investments. In 2008, equity income (loss)—net was an equity loss of approximately $874 million compared to equity income of approximately $668 million in 2007, a decrease of $1,542 million. This decrease was primarily attributable to impairment charges recorded by CCE during 2008, of which our Company's proportionate share was approximately $1.6 billion. Refer to the heading "Critical Accounting Policies and Estimates—Goodwill, Trademarks and Other Intangible Assets" and Note 3 of Notes to Consolidated Financial Statements. In addition to our proportionate share of the charges discussed above, the Company recorded charges of approximately $60 million to equity income (loss)—net, primarily related to our

proportionate share of restructuring charges and asset impairments recorded by certain equity method investees. Refer to Note 3 of Notes to Consolidated Financial Statements. The impact of these charges was partially offset by our proportionate share of increased net income from certain of our equity method investees, which included the favorable impact of foreign exchange fluctuations.

In 2007, equity income (loss)—net was an equity income of approximately $668 million compared to $102 million in 2006, an increase of $566 million. This increase was primarily attributable to an impairment charge recorded by CCE during 2006, of which our Company's proportionate share was approximately $602 million. Refer to heading "Critical Accounting Policies and Estimates—Goodwill, Trademarks and Other Intangible Assets," and Note 3 and Note 19 of Notes to Consolidated Financial Statements. Additionally, the increase in 2007 also reflected 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 currency fluctuations. The favorable impact of these items was partially offset by our proportionate share of impairment charges recorded by Coca-Cola Amatil, restructuring charges recorded by CCE, the write-off of excess bottles and cases at CCBPI and the net impact of acquisitions and divestitures of equity method investments during 2007 and 2006. Refer to Note 3 and Note 20 of Notes to Consolidated Financial Statements.

Other Income (Loss)—Net

Other income (loss)—net includes, among other things, the impact of foreign exchange gains and losses, dividend income, rental income, gains and losses related to the disposal of property, plant and equipment, realized and unrealized gains and losses on trading securities, realized gains and losses on available-for-sale securities, other-than-temporary impairments of available-for-sale securities, the accretion of expense related to certain acquisitions and minority shareowners' proportionate share of net income of certain consolidated subsidiaries.

In 2008, other income (loss)—net was a loss of $28 million. The Company recognized other-than-temporary impairment charges of approximately $81 million on available-for-sale securities. Refer to the heading "Critical Accounting Policies and Estimates—Investments in Equity and Debt Securities" and Note 10 and Note 19 of Notes to Consolidated Financial Statements. Other income (loss)—net also included approximately $46 million of realized and unrealized losses on trading securities. These losses, along with other charges that were not individually significant, were partially offset by gains on divestitures of approximately $119 million, primarily related to the sale of Remil to Coca-Cola FEMSA and the sale of a portion of the Company's investment in Coca-Cola Pakistan to Coca-Cola Icecek A.S. ("Coca-Cola Icecek"). Refer to Note 3 and Note 19 of Notes to Consolidated Financial Statements.

In 2007, other income (loss)—net was income of $173 million. The Company recognized a gain of approximately $73 million due to the sale of a portion of the Company's ownership interest in Coca-Cola Amatil. As a result of this transaction, our ownership interest in Coca-Cola Amatil was reduced from approximately 32 percent to 30 percent. In addition, we recognized a gain of approximately $70 million as a result of the sale of our equity investment in Vonpar Refrescos S.A. ("Vonpar") and gains of approximately $84 million due to the sale of real estate in Spain and the United States. Refer to Note 3 and Note 19 of Notes to Consolidated Financial Statements.

In 2006, other income (loss)—net was income of $195 million, primarily attributable to a gain of approximately $175 million as a result of the sale of a portion of our Coca-Cola FEMSA shares to FEMSA and a gain of approximately $123 million due to the sale of a portion of our investment in Coca-Cola Icecek shares in an initial public offering. These gains were partially offset by the accretion of approximately $58 million of expense related to the discounted value of our liability to purchase Coca-Cola Erfrischungsgetraenke AG ("CCEAG") shares and approximately $15 million in foreign currency exchange losses. Refer to Note 3 and Note 19 of Notes to Consolidated Financial Statements.

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 21.9 percent for the year ended December 31, 2008, included the following:

- an approximate 20 percent combined effective tax rate on restructuring charges, other-than-temporary impairments of available-for-sale securities, contract termination fees, productivity initiatives and asset impairments recorded by the Company (refer to Note 18 and Note 19 of Notes to Consolidated Financial Statements);
- an approximate 23 percent combined effective tax rate on our proportionate share of asset impairment and restructuring charges recorded by equity method investees, primarily related to impairment charges recorded by CCE (refer to Note 3 and Note 19 of Notes to Consolidated Financial Statements);
- an approximate 24 percent combined effective tax rate on gains from divestitures (refer to Note 19 of Notes to Consolidated Financial Statements);
- a tax charge of approximately $10 million related to the recognition of a valuation allowance on deferred tax assets (refer to Note 17 of Notes to Consolidated Financial Statements); and
- a net tax benefit of approximately $5 million, primarily related to amounts required to be recorded for changes to our uncertain tax positions under Interpretation No. 48, including interest and penalties (refer to Note 17 of Notes to Consolidated Financial Statements).

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

- an approximate 18 percent combined effective tax rate on restructuring charges and asset impairments recorded by the Company (refer to Note 18 and Note 19 of Notes to Consolidated Financial Statements);
- an approximate 14 percent combined effective tax rate on our proportionate share of restructuring charges and tax rate changes recorded by CCE, and asset impairments recorded by CCBPI and Coca-Cola Amatil (refer to Note 19 of Notes to Consolidated Financial Statements);
- an approximate 58 percent combined effective tax rate on the sale of a portion of our equity interest in Coca-Cola Amatil and Vonpar (refer to Note 19 of Notes to Consolidated Financial Statements);
- a tax benefit of approximately $19 million related to tax rate changes in Germany (refer to Note 17 of Notes to Consolidated Financial Statements); and
- 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 (refer to Note 17 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:

- an approximate 16 percent combined effective tax rate on asset impairments, impairments of investments in our bottling operations, contract termination fees and restructuring charges recorded by the Company (refer to Note 19 of Notes to Consolidated Financial Statements);

- an approximate 8.8 percent net effective tax rate on our proportionate share of impairment charges, restructuring charges and the impact of certain tax rate changes recorded by CCE (refer to Note 3 and Note 19 of Notes to Consolidated Financial Statements);
- an approximate 1.8 percent tax benefit on 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 valuation allowances on certain deferred tax assets recorded related to capital loss carryforwards. In addition to the impact of the reversal of valuation allowances, we also benefited from the reversal of deferred tax liabilities related to differences between the book and tax bases in the stock sold. The tax benefit associated with the aforementioned items was partially offset by a reduction of deferred tax assets due to the utilization of these capital loss carryforwards. The capital loss carryforwards offset the taxable gain on the sale of a portion of our investments in Coca-Cola Icecek and Coca-Cola FEMSA (refer to Note 19 of Notes to Consolidated Financial Statements); and
- a tax charge of approximately $24 million related to the resolution of certain tax matters (refer to Note 17 of Notes to Consolidated Financial Statements).

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 Company had recorded gross unrecognized tax benefits of approximately $643 million.

In 2008, agreements were reached between the U.S. government and a foreign government concerning the allocation of income between the two tax jurisdictions. Pursuant to these agreements, we made cash payments during the third quarter of 2008 that constituted payments of tax and interest. These payments were partially offset by tax credits taken in the third quarter and fourth quarter of 2008, and tax refunds and interest on refunds to be received in 2009. These benefits had been recorded as deferred tax assets in prior periods. The settlements did not have a material impact on the Company's consolidated income statement for the year ended December 31, 2008. The impact of these agreements, and other 2008 activity, is reflected in the balances of our unrecognized tax benefits and deferred tax assets as of December 31, 2008, which are further discussed below.

As of December 31, 2008, the gross amount of unrecognized tax benefits was approximately $369 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 $174 million. The remaining approximately $195 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 $110 million in interest and penalties related to unrecognized tax benefits accrued as of December 31, 2008. 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 2009 is expected to be approximately 23.0 percent to 24.0 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. The near-term outlook for our business remains strong and we expect to generate substantial cash flows from operations in 2009. As a result of our expected strong cash flows from operations, we have significant flexibility to meet our financial commitments. We typically fund a significant portion of our dividends, capital expenditures, contractual obligations, share repurchases and acquisitions with cash generated from operating

activities. We rely on external funding for additional cash requirements. The Company does not typically raise capital through the issuance of stock, instead, we use debt financing to lower our overall cost of capital and increase our return on shareowners' equity. Refer to the heading "Cash Flows from Financing Activities—Debt Financing," below. Our debt financing includes the use of an extensive commercial paper program as part of our overall cash management strategy. Despite the recent disruption to the general credit markets, our liquidity remains strong, and our commercial paper program continues to function each day. We are able to access 60- to 90-day terms and have not had a material change to our spreads to benchmark rates; however, there is no assurance that this will not change in the future. The Company is reviewing 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.

On September 3, 2008, we announced our intention to make cash offers to purchase China Huiyuan Juice Group Limited, a Hong Kong listed company which owns the Huiyuan juice business throughout China ("Huiyuan"). Assuming full acceptance of the offers, the transaction is valued at approximately $2.4 billion. Refer to the heading "Additional Information." Due to this pending transaction, the Company curtailed its share repurchase program during the fourth quarter of 2008, and does not anticipate repurchasing shares during 2009.

The significant decline in the equity markets precipitated by the recent credit crisis and financial system instability has negatively affected the value of our pension plan assets. As a result of the decline in fair value of our pension plan assets, we have made and will consider making additional contributions to our U.S. and international pension plans in 2009. Refer to the heading "Aggregate Contractual Obligations" and Note 16 of Notes to Consolidated Financial Statements for further discussion.

The majority of the Company's cash is held by our international subsidiaries. We have reviewed our contingency plans and would be able to access cash held by our international subsidiaries on short notice. Our approximate $4.7 billion cash balance as of December 31, 2008, is available and held in liquid, high-quality cash equivalent investments. However, in the event that we required the use of cash held by our international subsidiaries for an extended period of time in the United States, we would be required to treat the cash as having been repatriated and we would incur significant tax liabilities. Refer to the heading "Critical Accounting Policies and Estimates—Income Taxes," above.

In addition to the Company's cash balances and commercial paper program, we also maintain $2.6 billion of committed, currently unused credit facilities from our network of relationship banks. These backup lines of credit expire at various times from 2009 through 2013. We have evaluated the financial stability of each bank and believe we can access the funds, if needed. Refer to Note 7 of Notes to Consolidated Financial Statements.

Based on all of these factors, the Company believes its current liquidity position is strong, and we will continue to meet all of our financial commitments for the foreseeable future.

Cash Flows from Operating Activities

Net cash provided by operating activities for the years ended December 31, 2008, 2007 and 2006 was approximately $7,571 million, $7,150 million and $5,957 million, respectively.

Cash flows from operating activities increased $421 million, or 6 percent, in 2008 compared to 2007. This increase was primarily attributable to increased cash collections from customers, driven by the 11 percent increase in net operating revenues. Refer to heading "Operations Review—Net Operating Revenues."

The impact of increased cash collections from customers was partially offset by increased payments to suppliers and vendors, increased payments for selling, general and administrative expenses and an increase in tax payments. The increase in payments to suppliers and vendors was primarily attributable to higher sales volume and increased marketing and advertising costs to support our brands. The increase in tax payments included payments associated with the agreement between the U.S. government and a foreign government. Refer to the heading "Operations Review—Income Taxes" and Note 17 of Notes to Consolidated Financial Statements.

Additionally, the Company made approximately $224 million in payments related to streamlining activities and the costs of productivity initiatives during 2008. Refer to Note 18 of Notes to Consolidated Financial Statements.

On May 26, 2008, the Company and the other defendants reached an agreement with the plaintiffs in a class action lawsuit (*Carpenters Health & Welfare Fund of Philadelphia & Vicinity v. The Coca-Cola Company, et al.*) to settle the lawsuit for approximately $138 million, without admitting any wrongdoing. The settlement amount was covered by insurance and, therefore, the settlement had no impact on our consolidated statement of income. The payments related to this settlement were made directly from the insurers to the plaintiffs during the third quarter and fourth quarter of 2008. As a result, the settlement had no impact on our consolidated statement of cash flows.

Cash flows from operating activities increased $1,193 million, or 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 included the impact of increased tax payments made related to repatriation of foreign earnings under The American Jobs Creation Act of 2004, a contribution of approximately $216 million to a U.S. Voluntary Employee Beneficiary Association ("VEBA"), a tax-qualified trust to fund retiree medical benefits and a $100 million donation made to The Coca-Cola Foundation. Refer to Note 16 and Note 19 of Notes to Consolidated Financial Statements for additional information on the contribution to a VEBA.

Cash Flows from Investing Activities

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

Year Ended December 31,	**2008**	2007	2006
Cash flows (used in) provided by investing activities:			
Acquisitions and investments, principally beverage and bottling companies and trademarks	**$ (759)**	$ (5,653)	$ (901)
Purchases of other investments	**(240)**	(99)	(82)
Proceeds from disposals of bottling companies and other investments	**479**	448	640
Purchases of property, plant and equipment	**(1,968)**	(1,648)	(1,407)
Proceeds from disposals of property, plant and equipment	**129**	239	112
Other investing activities	**(4)**	(6)	(62)
Net cash used in investing activities	**$ (2,363)**	$ (6,719)	$ (1,700)

Cash used in investing activities included acquisitions and investments of approximately $759 million in 2008, $5,653 million in 2007 and $901 million in 2006.

In 2008, the Company's acquisition and investment activities included the acquisition of brands and licenses in Denmark and Finland from Carlsberg for approximately $225 million. None of the other acquisitions during 2008 was individually significant. Refer to Note 20 of Notes to Consolidated Financial Statements.

Investing activities during 2008 also included proceeds of approximately $275 million, net of the cash balance as of the disposal date, related to the sale of Remil to Coca-Cola FEMSA. Refer to Note 3 and Note 19 of Notes to Consolidated Financial Statements.

In 2007, our Company acquired glacéau, 18 German bottling and distribution operations, Fuze Beverage, LLC ("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 Coca-Cola Bottling Company (“Tokyo CCBC”) and an 11 percent interest in 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.

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 sale of real estate in Spain and in the United States. Refer to Note 19 of Notes to Consolidated Financial Statements.

In 2006, our Company acquired a controlling interest in CCCIL and acquired Apollinaris and TJC Holdings (Pty) Ltd., a South African bottling company (“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.

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.

Net purchases of property, plant and equipment for the years ended December 31, 2008, 2007 and 2006 were approximately $1,839 million, $1,409 million and $1,295 million, respectively. These increases were primarily related to acquisitions of certain bottling operations in 2007 and 2006. Refer to Note 20 of Notes to Consolidated Financial Statements. Generally, bottling and finished product operations are more capital intensive compared to concentrate and syrup operations. Additionally, the impact of foreign currency fluctuations during 2008 also contributed to the increase in reported purchases of property, plant and equipment. Refer to the heading “Foreign Exchange,” below. Our Company currently estimates that net purchases of property, plant and equipment in 2009 will be approximately $1.8 billion to $2.0 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 2008, 2007 and 2006 were as follows:

Year Ended December 31,	**2008**	2007	2006
Capital expenditures (in millions)	**$ 1,968**	$ 1,648	$ 1,407
Eurasia & Africa	**3.4%**	4.5%	3.0%
Europe	**3.9**	4.8	6.7
Latin America	**2.9**	2.8	3.1
North America	**25.0**	20.9	29.9
Pacific	**9.0**	11.6	9.5
Bottling Investments	**41.6**	39.1	29.7
Corporate	**14.2**	16.3	18.1

Cash Flows from Financing Activities

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

Year Ended December 31,	**2008**	2007	2006
Cash flows provided by (used in) financing activities:			
Issuances of debt	**$ 4,337**	$ 9,979	$ 617
Payments of debt	**(4,308)**	(5,638)	(2,021)
Issuances of stock	**586**	1,619	148
Purchases of stock for treasury	**(1,079)**	(1,838)	(2,416)
Dividends	**(3,521)**	(3,149)	(2,911)
Net cash provided by (used in) financing activities	**$ (3,985)**	$ 973	$ (6,583)

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, 2008, 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 (including the amount and maturity dates of our debt) 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.

In October 2008, Standard & Poor's affirmed the Company's A+ long-term debt rating, but revised its outlook from stable to negative. Moody's rating of Aa3 for the Company's long-term debt remains on negative outlook, where it has been since 2001. The Company does not believe that a downgrade by either agency would have a material adverse effect on the cost of borrowing.

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, 2008, we had approximately $3,462 million in lines of credit and other short-term credit facilities available, of which approximately $677 million was outstanding. This outstanding amount was primarily related to our international operations.

The issuances of debt in 2008 included approximately $4,001 million of issuances of commercial paper and short-term debt with maturities of greater than 90 days, and approximately $194 million of net issuances of commercial paper and short-term debt with maturities of 90 days or less. The payments of debt in 2008 included approximately $4,032 million related to commercial paper and short-term debt with maturities of greater than 90 days. The Company continues to review its optimal mix of short-term and long-term debt.

The issuances of debt in 2007 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 increase in debt was primarily due to 2007 acquisitions. Refer to Note 20 of Notes to Consolidated Financial Statements. During the fourth quarter of 2007, the Company replaced a certain amount of commercial paper and short-term debt with longer-term debt. Refer to Note 8 of Notes to Consolidated Financial Statements. The payments of debt in 2007 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 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 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.

Issuances of Stock

The issuances of stock in 2008, 2007 and 2006 primarily related to the exercise of stock options by Company employees. In addition, during 2007, 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,	**2008**	2007	2006
Number of shares repurchased (in millions)	**18**	34	55
Average price per share	**$ 58.01**	$ 51.66	$ 45.19

Since the inception of our initial share repurchase program in 1984 through our current program as of December 31, 2008, we have purchased approximately 1.3 billion shares of our Company's common stock at an average price per share of $19.02.

The Company curtailed its share repurchase program during the fourth quarter of 2008. Additionally, as a result of the pending acquisition of Huiyuan, the Company does not anticipate repurchasing shares during 2009.

Dividends

At its February 2009 meeting, our Board of Directors increased our quarterly dividend by 8 percent, raising it to $0.41 per share, equivalent to a full year dividend of $1.64 per share in 2009. This is our 47th consecutive annual increase. Our annual common stock dividend was $1.52 per share, $1.36 per share and $1.24 per share in 2008, 2007 and 2006, respectively. The 2008 dividend represented a 12 percent increase from 2007, and the 2007 dividend represented a 10 percent increase from 2006.

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, 2008, we were contingently liable for guarantees of indebtedness owed by third parties in the amount of approximately $238 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, 2008, 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 11 of Notes to Consolidated Financial Statements.

Aggregate Contractual Obligations

As of December 31, 2008, the Company's contractual obligations, including payments due by period, were as follows (in millions):

	Payments Due by Period				
	Total	2009	2010-2011	2012-2013	2014 and Thereafter
Short-term loans and notes payable[1]:					
Commercial paper borrowings	$ 5,389	$ 5,389	$ —	$ —	$ —
Lines of credit and other short-term borrowings	677	677	—	—	—
Current maturities of long-term debt[2]	465	465	—	—	—
Long-term debt, net of current maturities[2]	2,781	—	620	265	1,896
Estimated interest payments[3]	1,707	163	273	219	1,052
Accrued income taxes[4]	252	252	—	—	—
Purchase obligations[5]	10,737	7,041	1,221	517	1,958
Marketing obligations[6]	4,464	1,910	1,061	658	835
Lease obligations	631	174	231	108	118
Total contractual obligations[4]	$ 27,103	$ 16,071	$ 3,406	$ 1,767	$ 5,859

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

[3] We calculated estimated interest payments for our long-term fixed-rate debt based on the applicable rates and payment dates. 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, 2008, the noncurrent portion of our income tax liability, including accrued interest and penalties related to unrecognized tax benefits, was approximately $447 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, 2008 was approximately $1,620 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. During 2008, the funded status of the Company's primary U.S. defined benefit pension plan declined as a result of the overall stock market decline. In early 2009, the Company contributed approximately $175 million to this plan. Subsequent to this contribution, the plan is sufficiently funded to maintain maximum flexibility as outlined in the PPA. However, we will consider additional funding at a later date this year based on asset performance during the beginning of the year. 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 2009 or thereafter. Therefore, no amounts have been included in the table above.

As of December 31, 2008, the projected benefit obligation of the U.S. qualified pension plans was $1,918 million, and the fair value of plan assets was approximately $1,442 million. The majority of this underfunding was due to the negative impact that the recent credit crisis and financial system instability had on the value of our pension plan assets. As of December 31, 2008, the projected benefit obligation of all pension plans other than the U.S. qualified pension plans was approximately $1,700 million, and the fair value of all other pension plan assets was approximately $848 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. The expected benefit payments for these unfunded pension plans are not included in the table above. However, we anticipate annual benefit payments to be approximately $40 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, 2008 were approximately $914 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.

On September 3, 2008, we announced our intention to make cash offers to purchase Huiyuan. Assuming full acceptance of the offers, the transaction is valued at approximately $2.4 billion. Refer to the heading "Additional Information." This amount is excluded from the contractual obligations table, because it is subject to preconditions relating to Chinese regulatory approvals.

As of December 31, 2008, we have recorded approximately $383 million in the consolidated balance sheet line item other liabilities for minority interests related to consolidated entities in which we do not have a 100 percent ownership interest. 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 70 functional currencies. Due to our global operations, weakness in some of these currencies might be offset by strength in others. In 2008, 2007 and 2006, 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,	**2008**	2007	2006
All operating currencies	**5 %**	4 %	(1)%
Brazilian real	**6 %**	11 %	10 %
Mexican peso	**0**	0	0
Australian dollar	**1**	10	(1)
South African rand	**(18)**	(3)	(7)
British pound	**(9)**	9	1
Euro	**9**	8	1
Japanese yen	**12**	(2)	(6)

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 6 percent in 2008 and 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. Based on the anticipated benefits of hedging coverage in place, the Company currently expects currencies to have a 10 percent to 12 percent negative impact on operating income in the first quarter of 2009. The foreign exchange environment is very volatile, and the Company cannot reasonably estimate the impact of foreign currency exchange rate fluctuations for subsequent periods.

Exchange gain (loss)—net was a gain of approximately $24 million in 2008, and losses of approximately $10 million and $15 million in 2007 and 2006, respectively. These amounts were recorded in other income (loss)—net in our consolidated statements of income. Exchange gain (loss)—net includes the remeasurement of monetary assets and liabilities from certain currencies into functional currencies and the costs of hedging certain exposures of our consolidated balance sheets. Refer to Note 11 of Notes to Consolidated Financial Statements.

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

Overview of Financial Position

Our consolidated balance sheet as of December 31, 2008, compared to our consolidated balance sheet as of December 31, 2007, was impacted by the following:

- a decrease in net assets of $2,285 million resulting from translation adjustments in various balance sheet accounts;
- an increase in cash and cash equivalents of $608 million, primarily related to the timing of borrowings;
- a decrease of $1,637 million in our investment in CCE, primarily due to our proportionate share of impairment charges recorded by CCE;
- a decrease of $942 million in other assets, primarily due to the decline in fair value of pension and other postretirement benefit plan assets. Prior to this decline in fair value, the plan assets for certain pension and other postretirement benefit plans exceeded the benefit obligation, which resulted in the recognition of a prepaid asset. The Company has now recognized a liability for these pension and other postretirement benefit plans;

- an increase in our trademarks with indefinite lives of $906 million, primarily related to the finalization of purchase accounting for glacéau and Fuze and the acquisition of brands and licenses from Carlsberg. The increase in trademarks with indefinite lives related to the finalization of purchase accounting for glacéau resulted in a reclassification from goodwill; and
- a decrease in deferred income taxes of $1,013 million, primarily related to the change in deferred taxes on pension and other postretirement benefit obligations and the reversal of deferred tax liabilities on our investment in CCE as a result of our proportionate share of impairment charges recorded by CCE during 2008.

Impact of Inflation and Changing Prices

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

Additional Information

On September 3, 2008, we announced our intention to make cash offers to purchase Huiyuan. The making of the offers is subject to preconditions relating to Chinese regulatory approvals. We are offering HK$12.20 per share, and making a comparable offer for outstanding convertible bonds and options. We have accepted irrevocable undertakings from three shareholders for acceptance of the offers, in aggregate representing approximately 66 percent of the Huiyuan shares, and upon satisfaction of the preconditions the Company plans to commence a tender offer under Hong Kong securities laws for the remaining shares. Assuming full acceptance of the offers, the transaction is valued at approximately $2.4 billion.