

**“THE COCA-COLA COMPANY”
ANNUAL ECONOMIC REPORT FOR THE FISCAL YEAR ENDED
AT DECEMBER 31, 2006**

CONTENTS

1. General.....	2
2. Operating Segments.....	2
3. Products and Distribution.....	3
4. Seasonality.....	6
5. Competition.....	6
6. Raw Materials.....	7
7. Patents, Copyrights, Trade Secrets and Trademarks.....	7
8. Employees.....	8
9. Risk Factors.....	8
10. Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	14
10.1 Overview.....	14
10.2 Our Business.....	15
10.2.1 General.....	15
10.2.2 The Nonalcoholic Beverages Segment of the Commercial Beverages Industry.....	16
10.2.3 Our Objective.....	16
10.2.4 Areas of Focus.....	16
10.2.4.1 Consumer Marketing.....	16
10.2.4.2 Customer and Commercial Leadership.....	16
10.2.4.3 Franchise Leadership.....	16
10.2.5 Challenges and Risks.....	17
10.3 Critical Accounting Policies and Estimates.....	18
10.3.1 Basis of Presentation and Consolidation.....	18
10.3.2 Revenue Recognition.....	18
10.3.3 Income Taxes.....	18
10.4 Operations Review.....	19
10.4.1 Volume.....	20
10.4.2 Gross Profit.....	20
10.4.3 Selling, General and Administrative Expenses.....	21
10.4.4 Other Operating Charges.....	22
10.4.5 Operating Income and Operating Margin.....	22
10.4.6 Interest Income and Interest Expense.....	24
10.4.7 Equity Income—Net.....	25
10.4.8 Other Income (Loss)—Net.....	25
10.4.19 Income Taxes.....	26
10.5 Liquidity, Capital Resources and Financial Position.....	26
10.5.1 Cash Flows from Operating Activities.....	26
10.5.2 Cash Flows from Investing Activities.....	27
10.5.3 Cash Flows from Financing Activities.....	28
10.5.3.1 Debt Financing.....	29
10.5.3.2 Share Repurchases.....	30
10.5.3.3 Dividends.....	30
Selected Financial Data.....	31

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1. General

The Coca-Cola Company is the largest manufacturer, distributor and marketer of nonalcoholic beverage concentrates and syrups in the world. Finished beverage products bearing our trademarks, sold in the United States since 1886, are now sold in more than 200 countries. 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. In this report, the terms "Company," "we," "us" or "our" mean The Coca-Cola Company and all entities included in our consolidated financial statements.

Our business is nonalcoholic beverages—principally sparkling beverages, but also a variety of still beverages. We manufacture beverage concentrates and syrups, which we sell to bottling and canning operations, fountain wholesalers and some fountain retailers, as well as some finished beverages, which we sell primarily to distributors. Our Company owns or licenses more than 400 brands, including diet and light beverages, waters, juice and juice drinks, teas, coffees, and energy and sports drinks. In addition, we have ownership interests in numerous bottling and canning operations, although most of these operations are independently owned and managed.

We were incorporated in September 1919 under the laws of the State of Delaware and succeeded to the business of a Georgia corporation with the same name that had been organized in 1892. Our Company is one of numerous competitors in the commercial beverages market. Of the approximately 52 billion beverage servings of all types consumed worldwide every day, beverages bearing trademarks owned by or licensed to us account for more than 1.4 billion. We believe that our success depends on our ability to connect with consumers by providing them with a wide variety of choices to meet their desires, needs and lifestyle choices. Our success further depends on the ability of our people to execute effectively, every day.

Our goal is to use our Company's assets—our brands, financial strength, unrivaled distribution system, and the strong commitment of management and employees—to become more competitive and to accelerate growth in a manner that creates value for our shareowners.

2. Operating Segments

The Company's operating structure is the basis for our Company's internal financial reporting. As of December 31, 2006, our operating structure included the following operating segments, the first seven of which are sometimes referred to as "operating groups" or "groups":

- Africa
- East, South Asia and Pacific Rim
- European Union
- Latin America
- North America
- North Asia, Eurasia and Middle East
- Bottling Investments
- Corporate

Our operating structure as of December 31, 2006, reflected changes we made during the first quarter of 2006, primarily to establish a separate internal organization for our consolidated bottling operations and our unconsolidated bottling investments. As a result of such changes, we began reporting Bottling Investments as a new operating segment beginning with the first quarter of 2006.

Effective January 1, 2007, we combined the Eurasia and Middle East Division, and the Russia, Ukraine and Belarus Division, both of which were previously included in the North Asia, Eurasia and Middle East operating segment, with the India Division, previously included in the East, South Asia and Pacific Rim operating segment, to form the Eurasia operating segment; and we combined the China Division and the Japan Division, previously included in the North Asia, Eurasia and Middle East operating segment, with the remaining East, South Asia and Pacific Rim operating segment to form the Pacific operating segment. As a result, beginning with the first quarter of 2007, we will report the following operating segments: Africa; Eurasia; European Union; Latin America; North America; Pacific; Bottling Investments; and Corporate.

Except to the extent that differences among operating segments are material to an understanding of our business taken as a whole, the description of our business in this report is presented on a consolidated basis.

3. Products and Distribution

Our Company manufactures and sells beverage concentrates, sometimes referred to as “beverage bases,” and syrups, including fountain syrups, and some finished beverages. As used in this report:

- “concentrates” means flavoring ingredients and, depending on the product, sweeteners used to prepare syrups or finished beverages;
- “syrups” means the beverage ingredients produced by combining concentrates and, depending on the product, sweeteners and added water;
- “fountain syrups” means syrups that are sold to fountain retailers, such as restaurants, that use dispensing equipment to mix the syrups with sparkling or still water at the time of purchase to produce finished beverages that are served in cups or glasses for immediate consumption;
- “sparkling beverages” means nonalcoholic ready-to-drink beverages with carbonation, including energy drinks and waters and flavored waters with carbonation;
- “still beverages” means nonalcoholic beverages without carbonation, including waters and flavoured waters without carbonation, juice and juice drinks, teas, coffees and sports drinks; and
- “Company Trademark Beverages” means beverages bearing our trademarks and certain other beverage products licensed to us for which we provide marketing support and from the sale of which we derive income.

We sell the concentrates and syrups for bottled and canned beverages to authorized bottling and canning operations. In addition to concentrates and syrups for sparkling beverages and flavored still beverages, we also sell concentrates (in powder form) for purified water products such as Dasani to authorized bottling operations.

Authorized bottlers and canners either combine our syrups with sparkling water or combine our concentrates with sweeteners (depending on the product), water and sparkling water to produce finished sparkling beverages. The finished sparkling beverages are packaged in authorized containers bearing our trademarks—such as cans and refillable and nonrefillable glass and plastic bottles (“bottle/can products”)—and are then sold to retailers (“bottle/can retailers”) or, in some cases, wholesalers.

For our fountain products in the United States, we manufacture fountain syrups and sell them to authorized fountain wholesalers and some fountain retailers. The wholesalers are authorized to sell the Company’s fountain syrups by a nonexclusive appointment from us that neither restricts

us in setting the prices at which we sell fountain syrups to the wholesalers, nor restrict the territory in which the wholesalers may resell in the United States. Outside the United States, fountain syrups typically are manufactured by authorized bottlers from concentrates sold to them by the Company. The bottlers then typically sell the fountain syrups to wholesalers or directly to fountain retailers.

Finished beverages manufactured by us include a variety of sparkling and still beverages. We sell most of these beverages to authorized bottlers or distributors, who in turn sell these products to retailers or, in some cases, wholesalers. We manufacture and sell juice and juice-drink products and certain water products to retailers and wholesalers in the United States and numerous other countries, both directly and through a network of business partners, including certain Coca-Cola bottlers.

Our beverage products include Coca-Cola, Coca-Cola Classic, caffeine free Coca-Cola, caffeine free Coca-Cola Classic, Cherry Coke, Diet Coke (sold under the trademark Coca-Cola Light in many countries other than the United States), caffeine free Diet Coke, Diet Coke Sweetened with Splenda, Diet Coke with Lime, Diet Cherry Coke, Black Cherry Vanilla Diet Coke, Coca-Cola Zero (sold under the trademark Coke Zero in some countries), Fanta brand sparkling beverages, Sprite, Diet Sprite/Sprite Zero (sold under the trademark Sprite Light in many countries other than the United States), Sprite Remix, Pibb Xtra, Mello Yello, Tab, Fresca brand sparkling beverages, Barq's, Powerade, Minute Maid brand sparkling beverages, Aquarius, Sokenbicha, Ciel, Bonaqa/Bonaqua, Dasani, Dasani brand flavored waters, Lift, Thums Up, Kinley, Eight O'Clock, Qoo, Vault, Full Throttle and other products developed for specific countries (including Georgia brand ready-to-drink coffees). In many countries (excluding the United States, among others), our Company's beverage products also include Schweppes, Canada Dry, Dr Pepper and Crush. Our Company produces, distributes and markets juice and juice-drink products including Minute Maid Premium juice and juice drinks, Simply juices and juice drinks, Odwalla nourishing health beverages, Five Alive refreshment beverages, Bacardi mixers concentrate (manufactured and marketed under license agreements from Bacardi & Company Limited) and Hi-C ready-to-serve juice drinks. We have a license to manufacture and sell concentrates for Seagram's mixers, a line of sparkling drinks, in the United States and certain other countries. Our Company is the exclusive master distributor of Evian bottled water in the United States and Canada, and of Rockstar, an energy drink, in most of the United States and in Canada. Multon, a Russian juice business ("Multon") operated as a joint venture with Coca-Cola Hellenic Bottling Company S.A. ("Coca-Cola HBC"), markets juice products under various trademarks, including Dobriy, Rich and Nico, in Russia, Ukraine and Belarus. Beverage Partners Worldwide ("BPW"), the Company's joint venture with Nestlé S.A. ("Nestlé") and certain of its subsidiaries, markets ready-to-drink tea products under the trademarks Enviga, Gold Peak, Nestea, Belté, Yang Guang, Nagomi, Heaven and Earth, Frestea, Ten Ren, Modern Tea Workshop, Café Zu, Shizen and Tian Tey, and ready-to-drink coffee products under the trademarks Nescafé, Taster's Choice and Georgia Club.

Consumer demand determines the optimal menu of Company product offerings. Consumer demand can vary from one locale to another and can change over time within a single locale. Employing our business strategy, and with special focus on core brands, our Company seeks to build its existing brands and, at the same time, to broaden its historical family of brands, products and services in order to create and satisfy consumer demand locale by locale.

Our Company introduced a variety of new brands, brand extensions and new beverage products in 2006. Among numerous examples, in North America, the Company launched Coca-Cola Blak, a new Coca-Cola and coffee fusion beverage designed to appeal to adult consumers, Black

Cherry Vanilla Coca-Cola and Black Cherry Vanilla Diet Coke, Vault Zero, Tab Energy, Full Throttle Fury, Simply Lemonade and Limeade. In collaboration with Godiva Chocolatier, Inc., the Company also launched a new line of premium blended indulgent beverages called Godiva Belgian Blends. BPW, our joint venture with Nestlé, launched both Enviga, a sparkling green tea product, and Gold Peak, a premium ready-to-drink iced tea in five flavors. The Company introduced Dasani Sparkling in Kenya and Mauritius; Five Alive and Coca-Cola Light in Kenya; Powerade Balance, Five Alive, Fanta Free and Bonaqua flavored waters in South Africa; and Burn in Nigeria, Ghana and Morocco. We introduced Karada Meguri Cha in Japan and Healthworks in China. Multon, our joint venture with Coca-Cola HBC, introduced new Diva juice in Russia. In addition, we launched Coke Zero in Australia and Korea, Haru Tea in Korea, and Schweppes Clear Lemonade in Serbia, Romania and Bulgaria. In Europe, the Company launched Coca-Cola Zero/Coke Zero in the United Kingdom, Germany, Spain, Norway, Belgium, the Netherlands and Luxembourg; Burn in Norway; and Chaudfontaine (a still and sparkling water) in Belgium, the Netherlands and Luxembourg. In Latin America, the products launched included Minute Maid Forte, Ciel Naturae (a sparkling flavored water) and Coca-Cola Light Caffeine Free. The Company unveiled Far Coast, a new brand of premium brewed beverages, and Chaqwa, a line of brewed beverages for quick service restaurants and convenience stores, in Canada and Singapore.

Our Company measures the volume of products sold in two ways: (1) unit cases of finished products and (2) gallons. As used in this report, “unit case” means a unit of measurement equal to 192 U.S. fluid ounces of finished beverage (24 eight-ounce servings); and “unit case volume” means the number of unit cases (or unit case equivalents) 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 it derives income. Such products licensed to, or distributed by, our Company or owned by Coca-Cola system bottlers account for a minimal portion of total unit case volume. In addition, unit case volume includes sales by joint ventures in which the Company is a partner. 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 trends at the consumer level. The unit case volume numbers used in this report are based on estimates received by the Company from its bottling partners and distributors. As used in this report, “gallon” means a unit of measurement for concentrates (sometimes referred to as “beverage bases”), syrups, finished beverages and powders (in all cases, expressed in equivalent gallons of syrup) sold by our Company to its bottling partners or other customers. Most of our revenues are based on gallon sales, a primarily “wholesale” activity. Unit case volume and gallon sales growth rates are not necessarily equal during any given period. Items such as seasonality, bottlers’ inventory practices, supply point changes, timing of price increases, new product introductions and changes in product mix can impact unit case volume and gallon sales and can create differences between unit case volume and gallon sales growth rates.

In 2006, concentrates and syrups for beverages bearing the trademark “Coca-Cola” or including the trademark “Coke” (“Coca-Cola Trademark Beverages”) accounted for approximately 55 percent of the Company’s total gallon sales.

In 2006, gallon sales in the United States (“U.S. gallon sales”) represented approximately 26 percent of the Company’s worldwide gallon sales. Approximately 54 percent of U.S. gallon sales for 2006 was attributable to sales of beverage concentrates and syrups to 76 authorized bottler

ownership groups in 393 licensed territories. Those bottlers prepare and sell finished beverages bearing our trademarks for the food store and vending machine distribution channels and for other distribution channels supplying products for home and immediate consumption. Approximately 34 percent of 2006 U.S. gallon sales was attributable to fountain syrups sold to fountain retailers and to 507 authorized fountain wholesalers, some of which are authorized bottlers. The remaining approximately 12 percent of 2006 U.S. gallon sales was attributable to sales by the Company of finished beverages, including juice and juice-drink products and certain water products. Coca-Cola Enterprises Inc., including its bottling subsidiaries and divisions (“CCE”), accounted for approximately 51 percent of the Company’s U.S. gallon sales in 2006. At December 31, 2006, our Company held an ownership interest of approximately 35 percent in CCE, which is the world’s largest bottler of Company Trademark Beverages.

In 2006, gallon sales outside the United States represented approximately 74 percent of the Company’s worldwide gallon sales. The countries outside the United States in which our gallon sales were the largest in 2006 were Mexico, Brazil, China and Japan, which together accounted for approximately 27 percent of our worldwide gallon sales. Approximately 90 percent of non-U.S. unit case volume for 2006 was attributable to sales of beverage concentrates and syrups to authorized bottlers together with sales by the Company of finished beverages other than juice and juice-drink products, in 535 licensed territories. Approximately 5 percent of 2006 non-U.S. unit case volume was attributable to fountain syrups. The remaining approximately 5 percent of 2006 non-U.S. unit case volume was attributable to juice and juice-drink products.

In addition to conducting our own independent advertising and marketing activities, we may provide promotional and marketing services or funds to our bottlers. In most cases, we do this on a discretionary basis under the terms of commitment letters or agreements, even though we are not obligated to do so under the terms of the bottling or distribution agreements between our Company and the bottlers. Also, on a discretionary basis in most cases, our Company may develop and introduce new products, packages and equipment to assist its bottlers. Likewise, in many instances, we provide promotional and marketing services and/or funds and/or dispensing equipment and repair services to fountain and bottle/can retailers, typically pursuant to marketing agreements. The aggregate amount of funds provided by our Company to bottlers, resellers or other customers of our Company’s products, principally for participation in promotional and marketing programs was approximately \$3.8 billion in 2006.

4. Seasonality

Sales of our ready-to-drink nonalcoholic beverages are somewhat seasonal, with the second and third calendar quarters accounting for the highest sales volumes. The volume of sales in the beverages business may be affected by weather conditions.

5. Competition

Our Company competes in the nonalcoholic beverages segment of the commercial beverages industry. Based on internally available data and a variety of industry sources, we believe that, in 2006, worldwide sales of Company products accounted for approximately 10 percent of total worldwide sales of nonalcoholic beverage products. The nonalcoholic beverages segment of the commercial beverages industry is highly competitive, consisting of numerous firms. These include firms that, like our Company, compete in multiple geographic areas as well as firms that are primarily local in operation. Competitive products include numerous non-alcoholic sparkling

beverages; various water products, including packaged water; juices and nectars; fruit drinks and dilutables (including syrups and powdered drinks); coffees and teas; energy and sports drinks; and various other nonalcoholic beverages. These competitive beverages are sold to consumers in both ready-to-drink and not-ready-to-drink form. In many of the countries in which we do business, including the United States, PepsiCo, Inc. is one of our primary competitors. Other significant competitors include, but are not limited to, Nestlé, Cadbury Schweppes plc, Groupe Danone and Kraft Foods Inc. We also compete against numerous local firms in various geographic areas in which we operate.

Competitive factors impacting our business include pricing, advertising, sales promotion programs, product innovation, increased efficiency in production techniques, the introduction of new packaging, new vending and dispensing equipment, and brand and trademark development and protection.

Our competitive strengths include powerful brands with a high level of consumer acceptance; a worldwide network of bottlers and distributors of Company products; sophisticated marketing capabilities; and a talented group of dedicated employees. Our competitive challenges include strong competition in all geographic regions and, in many countries, a concentrated retail sector with powerful buyers able to freely choose among Company products, products of competitive beverage suppliers and individual retailers' own store-brand beverages.

6. Raw Materials

The principal raw materials used by our business are nutritive and non-nutritive sweeteners. In the United States, the principal nutritive sweetener is high fructose corn syrup, a form of sugar, which is available from numerous domestic sources and is historically subject to fluctuations in its market price. The principal nutritive sweetener used by our business outside the United States is sucrose, another form of sugar, which is also available from numerous sources and is historically subject to fluctuations in its market price.

The principal non-nutritive sweeteners we use in our business are aspartame, acesulfame potassium, saccharin, cyclamate and sucralose. Generally, these raw materials are readily available from numerous sources.

Our Company sells a number of products sweetened with sucralose, a non-nutritive sweetener. With regard to juice and juice-drink products, citrus fruit, particularly orange juice concentrate, is our principal raw material. The citrus industry is subject to the variability of weather conditions.

7. Patents, Copyrights, Trade Secrets and Trademarks

Our Company owns numerous patents, copyrights and trade secrets, as well as substantial know-how and technology, which we collectively refer to in this report as "technology." This technology generally relates to our Company's products and the processes for their production; the packages used for our products; the design and operation of various processes and equipment used in our business; and certain quality assurance software. Some of the technology is licensed to suppliers and other parties. Our sparkling beverage and other beverage formulae are among the important trade secrets of our Company.

We own numerous trademarks that are very important to our business. Depending upon the jurisdiction, trademarks are valid as long as they are in use and/or their registrations are properly maintained. Pursuant to our Bottler's Agreements, we authorize our bottlers to use applicable Company trademarks in connection with their manufacture, sale and distribution of Company products. In addition, we grant licenses to third parties from time to time to use certain of our trademarks in conjunction with certain merchandise and food products.

8. Employees

As of December 31, 2006 and 2005, our Company had approximately 71,000 and 55,000 employees, respectively, of which 13,600 and 9,800, respectively, were employed by entities that we have consolidated under the Financial Accounting Standards Board Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("Interpretation No. 46(R)"). At the end of 2006 and 2005, our Company had approximately 12,200 and 10,400 employees, respectively, located in the United States, of which approximately 1,200 and none, respectively, were employed by entities that we have consolidated under Interpretation No. 46(R). The increase in the number of employees in 2006 was primarily due to the acquisitions and the consolidation of certain bottling operations, mainly in China and the United States.

Our Company, through its divisions and subsidiaries, has entered into numerous collective bargaining agreements. We currently expect that we will be able to renegotiate such agreements on satisfactory terms when they expire. The Company believes that its relations with its employees are generally satisfactory.

9. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the following factors, which could materially affect our business, financial condition or future results. The risks described below are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

Obesity concerns may reduce demand for some of our products.

Consumers, public health officials and government officials are becoming increasingly aware of and concerned about the public health consequences associated with obesity, particularly among young people. Increasing public awareness about these issues and negative publicity resulting from actual or threatened legal actions may reduce demand for our sparkling beverages, which could affect our profitability.

Water scarcity and poor quality could negatively impact the Coca-Cola system's production costs and capacity.

Water is the main ingredient in substantially all of our products. It is also a limited resource in many parts of the world, facing unprecedented challenges from overexploitation, increasing pollution and poor management. As demand for water continues to increase around the world and as the quality of available water deteriorates, our system may incur increasing production costs or face capacity constraints which could adversely affect our profitability or net operating revenues in the long run.

Changes in the nonalcoholic beverages business environment could impact our financial results.

The nonalcoholic beverages business environment is rapidly evolving as a result of, among other things, changes in consumer preferences, including changes based on health and nutrition considerations and obesity concerns, shifting consumer tastes and needs, changes in consumer lifestyles, increased consumer information and competitive product and pricing pressures. In addition, the industry is being affected by the trend toward consolidation in the retail channel, particularly in Europe and the United States. If we are unable to successfully adapt to this rapidly changing environment, our net income, share of sales and volume growth could be negatively affected.

Increased competition could hurt our business.

The nonalcoholic beverages segment of the commercial beverages industry is highly competitive. We compete with major international beverage companies that, like our Company, operate in multiple geographic areas, as well as numerous firms that are primarily local in operation. In many countries in which we do business, including the United States, PepsiCo, Inc. is a primary competitor. Other significant competitors include, but are not limited to, Nestle, Cadbury Schweppes plc, Groupe Danone and Kraft Foods Inc. Our ability to gain or maintain share of sales or gross margins in the global market or in various local markets may be limited as a result of actions by competitors.

If we are unable to expand our operations in developing and emerging markets, our growth rate could be negatively affected.

Our success depends in part on our ability to grow our business in developing and emerging markets, which in turn depends on economic and political conditions in those markets and on our ability to acquire or form strategic business alliances with local bottlers and to make necessary infrastructure enhancements to production facilities, distribution networks, sales equipment and technology. Moreover, the supply of our products in developing and emerging markets must match customers' demand for those products. Due to product price, limited purchasing power and cultural differences, there can be no assurance that our products will be accepted in any particular developing or emerging market.

Fluctuations in foreign currency exchange and interest rates could affect our financial results.

We earn revenues, pay expenses, own assets and incur liabilities in countries using currencies other than the U.S. dollar, including the euro, the Japanese yen, the Brazilian real and the Mexican peso. In 2006, we used 63 functional currencies in addition to the U.S. dollar and derived approximately 72 percent of our net operating revenues from operations outside of the United States. Because our consolidated financial statements are presented in U.S. dollars, we must translate revenues, income and expenses, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Therefore, increases or decreases in the value of the U.S. dollar against other major currencies will affect our net operating revenues, operating income and the value of balance sheet items denominated in foreign currencies. Because of the geographic diversity of our operations, weaknesses in some currencies might be offset by strengths in others over time.

We rely on our bottling partners for a significant portion of our business. If we are unable to maintain good relationships with our bottling partners, our business could suffer.

We generate a significant portion of our net operating revenues by selling concentrates and syrups to bottlers in which we do not have any ownership interest or in which we have a noncontrolling ownership interest. In 2006, approximately 83 percent of our worldwide unit case volume was produced and distributed by bottling partners in which the Company did not have controlling

interests. As independent companies, our bottling partners, some of which are publicly traded companies, make their own business decisions that may not always align with our interests. In addition, many of our bottling partners have the right to manufacture or distribute their own products or certain products of other beverage companies. If we are unable to provide an appropriate mix of incentives to our bottling partners through a combination of pricing and marketing and advertising support, they may take actions that, while maximizing their own short-term profits, may be detrimental to our Company or our brands, or they may devote more of their energy and resources to business opportunities or products other than those of the Company. Such actions could, in the long run, have an adverse effect on our profitability.

If our bottling partners' financial condition deteriorates, our business and financial results could be affected.

The success of our business depends on the financial strength and viability of our bottling partners. Our bottling partners' financial condition is affected in large part by conditions and events that are beyond our control, including competitive and general market conditions in the territories in which they operate and the availability of capital and other financing resources on reasonable terms. While under our bottlers' agreements we generally have the right to unilaterally change the prices we charge for our concentrates and syrups, our ability to do so may be materially limited by the financial condition of the applicable bottlers and their ability to pass price increases along to their customers. In addition, because we have investments in certain of our bottling partners, which we account for under the equity method, our operating results include our proportionate share of such bottling partners' income or loss. Also, a deterioration of the financial condition of bottling partners in which we have investments could affect the carrying values of such investments and result in write-offs. Therefore, a significant deterioration of our bottling partners' financial condition could adversely affect our financial results.

If we are unable to renew collective bargaining agreements on satisfactory terms or we experience strikes or work stoppages, our business could suffer.

Many of our employees at our key manufacturing locations are covered by collective bargaining agreements. If we are unable to renew such agreements on satisfactory terms, our labor costs could increase, which would affect our profit margins. In addition, strikes or work stoppages at any of our major manufacturing plants could impair our ability to supply concentrates and syrups to our customers, which would reduce our revenues and could expose us to customer claims.

Increase in the cost of energy could affect our profitability.

Our Company-owned bottling operations and our bottling partners operate a large fleet of trucks and other motor vehicles. In addition, we and our bottlers use a significant amount of electricity, natural gas and other energy sources to operate our concentrate and bottling plants. An increase in the price of fuel and other energy sources would increase our and the Coca-Cola system's operating costs and, therefore, could negatively impact our profitability.

Increase in cost, disruption of supply or shortage of raw materials could harm our business.

We and our bottling partners use various raw materials in our business including high fructose corn syrup, sucrose, aspartame, saccharin, acesulfame potassium, sucralose and orange juice concentrate. The prices for these raw materials fluctuate depending on market conditions. Substantial increases in the prices for our raw materials, to the extent they cannot be recouped through increases in the prices of finished beverage products, would increase our and the Coca-Cola system's operating costs and could reduce our profitability. Increases in the prices of our finished products resulting from higher raw material costs could affect affordability in some markets and reduce Coca-Cola system sales. In addition, some of these raw materials, such as aspartame, acesulfame potassium and sucralose, are available from a limited number of suppliers.

We cannot assure you that we will be able to maintain favorable arrangements and relationships with these suppliers. An increase in the cost or a sustained interruption in the supply or shortage of some of these raw materials that may be caused by a deterioration of our relationships with suppliers or by events such as natural disasters, power outages, labor strikes or the like, could negatively impact our net revenues and profits.

Changes in laws and regulations relating to beverage containers and packaging could increase our costs and reduce demand for our products.

We and our bottlers currently offer nonrefillable, recyclable containers in the United States and in various other markets around the world. Legal requirements have been enacted in various jurisdictions in the United States and overseas requiring that deposits or certain ecotaxes or fees be charged for the sale, marketing and use of certain nonrefillable beverage containers. Other beverage container-related deposit, recycling, ecotax and/or product stewardship proposals have been introduced in various jurisdictions in the United States and overseas and we anticipate that similar legislation or regulations may be proposed in the future at local, state and federal levels, both in the United States and elsewhere. If these types of requirements are adopted and implemented on a large scale in any of the major markets in which we operate, they could affect our costs or require changes in our distribution model, which could reduce our net operating revenues or profitability. In addition, containerdeposit laws, or regulations that impose additional burdens on retailers, could cause a shift away from our products to retailer-proprietary brands, which could impact the demand for our products in the affected markets.

Significant additional labeling or warning requirements may inhibit sales of affected products.

Various jurisdictions may seek to adopt significant additional product labeling or warning requirements relating to the chemical content or perceived adverse health consequences of certain of our products. These types of requirements, if they become applicable to one or more of our major products under current or future environmental or health laws or regulations, may inhibit sales of such products. In California, a law requires that a specific warning appear on any product that contains a component listed by the state as having been found to cause cancer or birth defects. This law recognizes no generally applicable quantitative thresholds below which a warning is not required. If a component found in one of our products is added to the list, or if the increasing sensitivity of detection methodology that may become available under this law and related regulations as they currently exist, or as they may be amended, results in the detection of an infinitesimal quantity of a listed substance in one of our beverages produced for sale in California, the resulting warning requirements or adverse publicity could affect our sales.

Unfavorable economic and political conditions in international markets could hurt our business.

We derive a significant portion of our net operating revenues from sales of our products in international markets. In 2006, our operations outside of the United States accounted for approximately 72 percent of our net operating revenues. Unfavorable economic and political conditions in certain of our international markets, including civil unrest and governmental changes, could undermine consumer confidence and reduce the consumers' purchasing power, thereby reducing demand for our products. In addition, product boycotts resulting from political activism could reduce demand for our products, while restrictions on our ability to transfer earnings or capital across borders that may be imposed or expanded as a result of political and economic instability could impact our profitability.

Changes in commercial and market practices within the European Economic Area may affect the sales of our products.

We and our bottlers are subject to an Undertaking, rendered legally binding in June 2005 by a decision of the European Commission, pursuant to which we committed to make certain changes in our commercial and market practices in the European Economic Area Member States. The Undertaking potentially applies in 27 countries and in all channels of distribution where our sparkling beverages account for over 40 percent of national sales and twice the nearest competitor's share. The commitments we and our bottlers made in the Undertaking relate broadly to exclusivity, percentage-based purchasing commitments, transparency, target rebates, tying, assortment or range commitments, and agreements concerning products of other suppliers. The Undertaking also applies to shelf space commitments in agreements with take-home customers and to financing and availability agreements in the on-premise channel. In addition, the Undertaking includes commitments that are applicable to commercial arrangements concerning the installation and use of technical equipment (such as coolers, fountain equipment and vending machines). Adjustments to our business model in the European Economic Area Member States as a result of these commitments or of future interpretations of European Union competition laws and regulations could adversely affect our sales in the European Economic Area markets.

Litigation or legal proceedings could expose us to significant liabilities and damage our reputation.

We are party to various litigation claims and legal proceedings. We evaluate these litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we establish reserves and/or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. We caution you that actual outcomes or losses may differ materially from those envisioned by our current assessments and estimates. In addition, we have bottling and other business operations in emerging or developing markets with high risk legal compliance environments. Our policies and procedures require strict compliance by our employees and agents with all United States and local laws and regulations applicable to our business operations, including those prohibiting improper payments to government officials. Nonetheless, we cannot assure you that our policies, procedures and related training programs will always ensure full compliance by our employees and agents with all applicable legal requirements. Improper conduct by our employees or agents could damage our reputation in the United States and internationally or lead to litigation or legal proceedings that could result in civil or criminal penalties, including substantial monetary fines, as well as disgorgement of profits.

Adverse weather conditions could reduce the demand for our products.

The sales of our products are influenced to some extent by weather conditions in the markets in which we operate. Unusually cold weather during the summer months may have a temporary effect on the demand for our products and contribute to lower sales, which could have an adverse effect on our results of operations for those periods.

If we are unable to maintain brand image and product quality, or if we encounter other product issues such as product recalls, our business may suffer.

Our success depends on our ability to maintain brand image for our existing products and effectively build up brand image for new products and brand extensions. We cannot assure you, however, that additional expenditures and our renewed commitment to advertising and marketing will have the desired impact on our products' brand image and on consumer preferences. Product quality issues, real or imagined, or allegations of product contamination, even when false or unfounded, could tarnish the image of the affected brands and may cause consumers to choose other products. In addition, because of changing government regulations or implementation thereof, allegations of product contamination or lack of consumer interest in certain products, we

may be required from time to time to recall products entirely or from specific markets. Product recalls could affect our profitability and could negatively affect brand image. Also, adverse publicity surrounding obesity concerns, water usage, labor relations and the like could negatively affect our Company's overall reputation and our products' acceptance by consumers.

Changes in the legal and regulatory environment in the countries in which we operate could increase our costs or reduce our net operating revenues.

Our Company's business is subject to various laws and regulations in the numerous countries throughout the world in which we do business, including laws and regulations relating to competition, product safety, advertising and labeling, container deposits, recycling or stewardship, the protection of the environment, and employment and labor practices. In the United States, the production, distribution and sale of many of our products are subject to, among others, the Federal Food, Drug, and Cosmetic Act, the Federal Trade Commission Act, the Lanham Act, state consumer protection laws, the Occupational Safety and Health Act, various environmental statutes, as well as various state and local statutes and regulations. Outside the United States, the production, distribution, sale, advertising and labeling of many of our products are also subject to various laws and regulations. Changes in applicable laws or regulations or evolving interpretations thereof could, in certain circumstances result in increased compliance costs or capital expenditures, which could affect our profitability, or impede the production or distribution of our products, which could affect our net operating revenues.

Changes in accounting standards and taxation requirements could affect our financial results.

New accounting standards or pronouncements that may become applicable to our Company from time to time, or changes in the interpretation of existing standards and pronouncements, could have a significant effect on our reported results for the affected periods. We are also subject to income tax in the numerous jurisdictions in which we generate net operating revenues. In addition, our products are subject to import and excise duties and/or sales or value-added taxes in many jurisdictions in which we operate. Increases in income tax rates could reduce our after-tax income from affected jurisdictions, while increases in indirect taxes could affect our products' affordability and therefore reduce demand for our products.

If we are not able to achieve our overall long term goals, the value of an investment in our Company could be negatively affected.

We have established and publicly announced certain long-term growth objectives. These objectives were based on our evaluation of our growth prospects, which are generally based on volume and sales potential of many product types, some of which are more profitable than others, and on an assessment of potential level or mix of product sales. There can be no assurance that we will achieve the required volume or revenue growth or mix of products necessary to achieve our growth objectives.

If we are unable to protect our information systems against data corruption, cyber-based attacks or network security breaches, our operations could be disrupted.

We are increasingly dependent on information technology networks and systems, including the Internet, to process, transmit and store electronic information. In particular, we depend on our information technology infrastructure for digital marketing activities and electronic communications among our locations around the world and between Company personnel and our bottlers and other customers and suppliers. Security breaches of this infrastructure can create system disruptions, shutdowns or unauthorized disclosure of confidential information. If we are unable to prevent such breaches, our operations could be disrupted or we may suffer financial damage or loss because of lost or misappropriated information.

We may be required to recognize additional impairment charges.

We assess our goodwill, trademarks and other intangible assets and our long-lived assets as and when required by generally accepted accounting principles in the United States to determine whether they are impaired. In 2006, we recorded a charge of approximately \$602 million to equity income resulting from the impact of our proportionate share of an impairment charge recorded by CCE, and impairment charges of approximately \$41 million primarily related to trademarks for beverages sold in the Philippines and Indonesia; in 2005, we recorded impairment charges of approximately \$89 million primarily related to our operations and investments in the Philippines; and in 2004, we recorded impairment charges of approximately \$374 million primarily related to franchise rights at Coca-Cola Erfrischungsgetraenke AG (“CCEAG”). If market conditions in North America, India, Indonesia or the Philippines do not improve or deteriorate further, we may be required to record additional impairment charges. In addition, unexpected declines in our operating results and structural changes or divestitures in these and other markets may also result in impairment charges. Additional impairment charges would reduce our reported earnings for the periods in which they are recorded.

If we do not successfully manage our Company-owned bottling operations, our results could suffer.

While we primarily manufacture, market and sell concentrates and syrups to our bottling partners, from time to time we do acquire or take control of bottling operations. Often, though not always, these bottling operations are in underperforming markets where we believe we can use our resources and expertise to improve performance. We may incur unforeseen liabilities and obligations in connection with acquiring, taking control of or managing such bottling operations and may encounter unexpected difficulties and costs in restructuring and integrating them into our Company’s operating and internal control structures.

Global or regional catastrophic events could impact our operations and financial results.

Because of our global presence and worldwide operations, our business can be affected by large-scale terrorist acts, especially those directed against the United States or other major industrialized countries; the outbreak or escalation of armed hostilities; major natural disasters; or widespread outbreaks of infectious diseases such as avian influenza or severe acute respiratory syndrome (generally known as SARS). Such events could impair our ability to manage our business around the world, could disrupt our supply of raw materials, and could impact production, transportation and delivery of concentrates, syrups and finished products.

10. Management’s Discussion and Analysis of Financial Condition and Results of Operations

10.1 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. 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 areas of focus; 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.

10. 2 Our Business

10.2.1 General

We are the largest manufacturer, distributor and marketer of nonalcoholic beverage concentrates and syrups in the world. Along with Coca-Cola, which is recognized as the world’s most valuable brand, we market four of the world’s top five nonalcoholic sparkling brands, including Diet Coke, Fanta and Sprite. Our Company owns or licenses more than 400 brands, including diet and light beverages, waters, juice 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 exceeding 1.4 billion servings each day. Our Company generates revenues, income and cash flows by selling beverage concentrates and syrups as well as some 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 neighbourhood grocers, sports and entertainment venues, and schools and colleges. We continue to expand our marketing presence and increase our unit case volume in most 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.

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 2006, bottling partners in which our Company has no ownership interest or a noncontrolling ownership interest produced and distributed approximately 83 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 promotes long-term growth in unit case volume, per capita consumption and our share of worldwide nonalcoholic beverage sales.

10.2.2 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.

10.2.3 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 employees 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.

10.2.4 Areas of Focus

We intend to continue to strengthen our capabilities in consumer marketing, customer and commercial leadership, and franchise leadership to create long-term sustainable growth for our Company and the Coca-Cola system and value for our shareowners.

10.2.4.1 Consumer Marketing

Marketing investments are designed to enhance consumer awareness and increase consumer preference for our brands. This produces long-term growth in unit case volume, per capita consumption and our share of worldwide nonalcoholic beverage sales. We heighten consumer awareness of and product appeal for our brands using integrated marketing programs.

10.2.4.2 Customer and 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.

10.2.4.3 Franchise Leadership

We are renewing our franchise leadership 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.

10.2.5 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 non-alcoholic beverages segment of the commercial beverages industry and our Company. Of these, four key challenges and risks are discussed below.

Obesity and Inactive Lifestyles. Increasing awareness among consumers, public health professionals and government agencies of the potential health problems associated with obesity and inactive lifestyles represents a significant challenge to our industry. We recognize that obesity is a complex public health problem. Our commitment to consumers begins with our broad product line, which includes a wide selection of diet and light beverages, juice and juice drinks, sports drinks and water products.

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.

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 players. 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.

10.3 Critical Accounting Policies and Estimates

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

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

10.3.1 Basis of Presentation and Consolidation

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

We use the equity method to account for investments for which we have the ability to exercise significant influence over operating and financial policies. Our consolidated net income includes our Company's share of the net earnings of these companies.

We use the cost method to account for investments in companies that we do not control and for which we do not have the ability to exercise significant influence over operating and financial policies. We record dividend income when applicable dividends are declared.

10.3.2 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 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.

10.3.3 Income Taxes

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 at the time we determine it is probable we will be liable to pay additional taxes related to certain matters. 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. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we record a reserve when we determine the likelihood of loss is probable. Such liabilities are recorded in the line item accrued income taxes in the Company's consolidated balance sheets. Settlement of any particular issue would usually require the use of cash. Favorable resolutions of tax matters for which we have previously established reserves are recognized as a reduction to our income tax expense when the amounts involved become known.

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

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

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

The Company's effective tax rate is expected to be approximately 23 percent in 2007. This estimated tax rate does not reflect the impact of any unusual or special items that may affect our tax rate in 2007.

10.4 Operations Review

We manufacture, distribute and market nonalcoholic beverage concentrates and syrups. We also manufacture, distribute and market some finished beverages. Our organizational structure as of December 31, 2006 consisted of the following operating segments, the first seven of which are sometimes referred to as "operating groups" or "groups": Africa; East, South Asia and Pacific Rim; European Union; Latin America; North America; North Asia, Eurasia and Middle East; Bottling Investments; and Corporate.

10.4.1 Volume

We measure our sales volume in two ways: (1) unit cases of finished products and (2) gallons. 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 consumers. A “gallon” is a unit of measurement for concentrates, syrups, beverage bases, finished beverages and powders (in all cases expressed in equivalent gallons of syrup) sold by the Company to its bottling partners or other customers. Most of our revenues are based on gallon sales, a primarily wholesale activity. Unit case volume and gallon sales growth rates are not necessarily equal during any given period. Items such as seasonality, bottlers’ inventory practices, supply point changes, timing of price increases and new product introductions and changes in product mix can impact unit case volume and gallon sales and can create differences between unit case volume and gallon sales growth rates.

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

Year Ended December 31,	Percentage Change			
	2006 vs. 2005		2005 vs. 2004	
	Unit Cases ^{1,2}	Gallons	Unit Cases ^{1,2}	Gallons
Worldwide	4%	4%	4%	3%
International	6	5	5	4
Africa	4	3	6	7
East, South Asia and Pacific Rim	(5)	(4)	(4)	(6)
European Union	6	4	—	—
Latin America	7	7	6	6
North America	—	—	2	1
North Asia, Eurasia and Middle East	11	7	15	10
Bottling Investments	16	N/A	6	N/A

¹ Bottling Investments 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.

10.4.2 Gross Profit

Our gross profit margin increased to 66.1 percent in 2006 from 64.5 percent in 2005. Our gross margin was favorably impacted by the change in the business model in Spain, as discussed above. Other structural changes, which included the consolidation of Brucephil under Interpretation No. 46(R) in 2006, the acquisitions of CCCIL and TJC in 2006, and the acquisition of Bremer in 2005, unfavorably impacted our gross profit margin. Generally, bottling and finished product operations produce higher net operating revenues but lower gross profit margins compared to concentrate and syrup operations. Our gross margin in 2006 was also impacted favourably by price increases, partially offset by increases in the cost of raw materials and freight, primarily in North America, and by an unfavorable product mix, primarily in Japan.

In 2007, the Company expects the cost of raw materials to increase, primarily in North America. We will attempt to mitigate the overall impact on our business through appropriate pricing and other strategies.

10.4.3 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,	2006	2005	2004
Selling expenses	\$ 3,924	\$ 3,453	\$ 3,031
Advertising expenses	2,553	2,475	2,165
General and administrative expenses	2,630	2,487	2,349
Stock-based compensation expense	324	324	345
Selling, general and administrative expenses	\$ 9,431	\$ 8,739	\$ 7,890

Total selling, general and administrative expenses were approximately 8 percent higher in 2006 versus 2005. The increases in selling and advertising expenses were primarily related to increased investments in marketing activities, including World Cup and Winter Olympics promotions in the European Union, combined with new product innovation activities and increased costs in our consolidated bottling investments as a result of acquisitions and consolidation of certain bottling operations. General and administrative expenses increased due to higher costs in Bottling Investments related to the acquisitions of CCCIL and TJC and the consolidation of Brucephil under Interpretation No. 46(R). The acquisition of Bremer during the third quarter of 2005 also increased general and administrative expenses in 2006, reflecting a full-year impact in 2006 for Bremer compared to a partial year in 2005. General and administrative expenses in 2006 also reflected the impact of a \$100 million donation made to The Coca-Cola Foundation, which impacted Corporate.

As of December 31, 2006, we had approximately \$376 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under our plans. This cost is expected to be recognized as stock-based compensation expense over a weighted-average period of 1.7 years. This expected cost does not include the impact of any future stock-based compensation awards.

Total selling, general and administrative expenses were approximately 11 percent higher in 2005 versus 2004. Approximately 1 percentage point of this increase was due to an overall weaker U.S. dollar (especially compared to the Brazilian real, the Mexican peso and the euro). The increase in selling, advertising and general and administrative expenses was primarily related to increased marketing and innovation expenses and the full-year impact of the consolidation of certain bottling operations under Interpretation No. 46(R). The decrease in stock-based compensation expense was primarily related to the lower average fair value per share of stock options expensed in 2005 compared to the average fair value per share expensed in 2004. This decrease was partially offset by approximately \$50 million of accelerated amortization of compensation expense related to a change in our estimated service period for retirement-eligible participants when the terms of their stock-based compensation awards provided for accelerated vesting upon early retirement. Refer to Note 15 of Notes to Consolidated Financial Statements.

10.4.4 Other Operating Charges

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

Year Ended December 31,	2006	2005	2004
Africa	\$ 3	\$ —	\$ —
East, South Asia and Pacific Rim	44	85	—
European Union	36	—	—
Latin America	—	—	—
North America	—	—	18
North Asia, Eurasia and Middle East	17	—	—
Bottling Investments	84	—	398
Corporate	1	—	64
Total	\$ 185	\$ 85	\$ 480

During 2006, our Company recorded other operating charges of \$185 million. Of these charges, approximately \$108 million were primarily related to the impairment of assets and investments in our bottling operations, approximately \$53 million were for contract termination costs related to production capacity efficiencies and approximately \$24 million were related to other restructuring costs. None of these charges was individually significant.

Other operating charges in 2005 reflected the impact of approximately \$84 million of expenses related to impairment charges for intangible assets and approximately \$1 million related to impairments of other assets.

Other operating charges in 2004 reflected the impact of approximately \$480 million of expenses primarily related to impairment charges for franchise rights and certain manufacturing assets. Bottling Investments accounted for approximately \$398 million of the impairment charges, which were primarily related to the impairment of franchise rights at CCEAG. Corporate accounted for approximately \$64 million of impairment charges, which were primarily related to the impairment of certain manufacturing assets.

10.4.5 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,	2006	2005	2004
Africa	6.7%	6.5%	5.9%
East, South Asia and Pacific Rim	5.7	4.6	7.7
European Union	35.7	36.5	37.3
Latin America	23.0	19.3	18.5
North America	26.7	25.5	28.2
North Asia, Eurasia and Middle East	24.7	29.0	29.3
Bottling Investments	—	(1.0)	(8.0)
Corporate	(22.5)	(20.4)	(18.9)
	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,	2006	2005	2004
Consolidated	26.2%	26.3%	26.2%
Africa	38.4%	35.8%	35.0%
East, South Asia and Pacific Rim	45.0	39.5	62.2
European Union	64.3	54.1	54.3
Latin America	57.9	57.0	59.2
North America	24.0	23.3	25.0
North Asia, Eurasia and Middle East	39.1	42.4	43.0
Bottling Investments	—	(1.0)	(11.4)
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 2006, foreign currency exchange rates unfavorably impacted operating income by approximately 1 percent, primarily related to a weaker Japanese yen, which impacted North Asia, Eurasia and Middle East. The unfavorable impact from the weaker Japanese yen was partially offset by favorable foreign currency exchange rate changes primarily related to the euro, which impacted the European Union and Bottling Investments, and the Brazilian real, which impacted Latin America and Bottling Investments.
- In 2006, price increases across the majority of operating segments favorably impacted both operating income and operating margins.
- In 2006, increased spending on marketing and innovation activities impacted the majority of the operating segments' operating income and operating margins. Refer to the heading "Selling, General and Administrative Expenses."
- In 2006, operating income was reduced by approximately \$3 million for Africa, \$44 million for East, South Asia and Pacific Rim, \$36 million for the European Union, \$17 million for North Asia, Eurasia and Middle East, \$88 million for Bottling Investments and \$1 million for Corporate primarily due to contract termination costs related to production capacity efficiencies, asset impairments and other restructuring costs.
- In 2006, the increase in operating margin for the European Union was primarily due to a change in the business model in Spain. Refer to the headings "Net Operating Revenues" and "Gross Profit," above.
- In 2006, the decrease in operating income and operating margin for North Asia, Eurasia and Middle East was primarily due to unfavorable product mix in Japan, which was partially offset by increased operating income in Russia and Turkey. Operating margins in Japan are higher than the operating margins in Russia and Turkey.
- In 2006, the increase in operating income and operating margin for Bottling Investments was primarily due to price increases, favorable package mix and actions to improve efficiency.
- In 2006, operating income was reduced by \$100 million for Corporate as a result of a donation made to The Coca-Cola Foundation.

- In 2005, operating income increased approximately 7 percent. Of this amount, 4 percent was due to favorable foreign currency exchange primarily related to the Brazilian real and the Mexican peso, which impacted Latin America and Bottling Investments, and the euro, which impacted the European Union and Bottling Investments.
- In 2005, operating income was impacted by an increase in net operating revenues and gross profit, partially offset by increased spending on marketing and innovation activities in each operating segment. Refer to the headings “Net Operating Revenues” and “Selling, General and Administrative Expenses.”
- In 2005, as a result of impairment charges totaling approximately \$85 million related to the Philippines, operating margins in the East, South Asia and Pacific Rim operating segment decreased. Refer to the heading “Other Operating Charges.”
- In 2005, operating income in Corporate decreased \$146 million, primarily due to increased marketing and innovation expenses, which were partially offset by our receipt of a net settlement of approximately \$47 million related to a class action lawsuit concerning the purchase of HFCS. Refer to the headings “Gross Profit” and “Selling, General and Administrative Expenses.”
- In 2004, operating income was reduced by approximately \$18 million for North America, \$398 million for Bottling Investments and \$64 million for Corporate as a result of impairment charges. Refer to the heading “Other Operating Charges.”
- In 2004, operating income increased approximately 9 percent. Of this amount, 8 percent was due to favorable foreign currency exchange primarily related to the euro, which impacted the European Union, and the Japanese yen, which impacted North Asia, Eurasia and Middle East.
- In 2004, as a result of the creation of a nationally integrated supply chain management company in Japan, operating margins in North Asia, Eurasia and Middle East increased. Effective October 1, 2003, the Company and all of our bottling partners in Japan created a nationally integrated supply chain management company to centralize procurement, production and logistics operations for the entire Coca-Cola system in Japan. As a result, a portion of our Company’s business was essentially converted from a finished product business model to a concentrate business model. This shift of certain products to a concentrate business model resulted in reductions in our revenues and cost of goods sold, each in the same amount. This change in the business model did not impact gross profit. Generally, concentrate and syrup operations produce lower net revenues but higher operating margins compared to finished product operations.
- In 2004, as a result of the consolidation of certain bottling operations that are considered variable interest entities under Interpretation No. 46(R), operating margin for Bottling Investments was reduced. Generally, bottling operations produce higher net revenues but lower operating margins compared to concentrate and syrup operations.
- In 2004, operating income in Corporate increased \$75 million due to the receipt of an insurance settlement related to the class action lawsuit which was settled in 2000.
- In 2004, operating income in Corporate decreased \$75 million due to a donation to The Coca-Cola Foundation.

10.4.6 Interest Income and Interest Expense

We monitor our mix of fixed-rate and variable-rate debt as well as our mix of short-term debt versus long-term debt. From time to time we enter into interest rate swap agreements to manage our mix of fixed-rate and variable-rate debt.

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

interest rates. We expect 2007 net interest expense to increase due to forecasted lower cash balances and higher debt balances.

10.4.7 Equity Income—Net

Our Company's share of income from equity method investments for 2006 totaled \$102 million, compared to \$680 million in 2005, a decrease of \$578 million. Equity income in 2006 was reduced by approximately \$602 million resulting from the impact of our proportionate share of an impairment charge recorded by CCE. CCE recorded a \$2.9 billion pretax (\$1.8 billion after tax) impairment of its North American franchise rights. Our 2006 equity income—net also reflected a net decrease of approximately \$37 million primarily related to other impairment and restructuring charges recorded by CCE and certain other equity method investees, partially offset by approximately \$33 million related to our proportionate share of favorable changes in certain of CCE's state and Canadian federal and provincial tax rates. In addition, our 2006 equity income was slightly impacted by the Company's sale of shares representing 8 percent of the capital stock of Coca-Cola FEMSA. The Company sold these shares to Fomento Economico Mexicano, S.A.B. de C.V. ("FEMSA"), the major shareowner of Coca-Cola FEMSA, in November 2006. As a result of this sale, our ownership interest in Coca-Cola FEMSA was reduced from approximately 40 percent to approximately 32 percent. The decrease in 2006 equity income was also the result of the sale of a portion of our investment in Coca-Cola Icecek A.S. ("Coca-Cola Icecek") in an initial public offering during the second quarter of 2006. As a result of this public offering, our Company's interest in Coca-Cola Icecek decreased from approximately 36 percent to approximately 20 percent. These reductions in ownership of Coca-Cola FEMSA and Coca-Cola Icecek will reduce our future equity income related to these equity method investees. The decrease in equity income for 2006 was partially offset by our Company's proportionate share of increased net income from certain of the equity method investees and our proportionate share of the net income of the Multon juice joint venture in Russia.

In February 2007, CCE announced that it would restructure segments of its Corporate, North America and European operations. As a part of the restructuring, CCE expects a net job reduction of approximately 3,500 positions, or 5 percent of its total workforce. CCE expects this restructuring will result in a charge of approximately \$300 million, with the majority to be recognized in 2007 and 2008. The Company's equity income in 2007 and 2008 will reflect our proportionate share of the restructuring charges recorded by CCE.

10.4.8 Other Income (Loss)—Net

Other income (loss)—net was a net income of \$195 million for 2006 compared to a net loss of \$93 million for 2005, a difference of \$288 million. In 2006, other income (loss)—net included a gain of approximately \$175 million resulting from the sale of a portion of our Coca-Cola FEMSA shares to FEMSA and a gain of approximately \$123 million resulting from the sale of a portion of our investment in Coca-Cola Icecek shares in an initial public offering. This line item in 2006 also included \$15 million in foreign currency exchange losses, the accretion of \$58 million for the discounted value of our liability to purchase CCEAG shares (refer to Note 8 of Notes to Consolidated Financial Statements) and the minority shareowners' proportional share of net income of certain consolidated subsidiaries. Other income (loss)—net amounted to a net loss of \$93 million for 2005 compared to a net loss of \$82 million for 2004, a difference of \$11 million. The difference was primarily related to a reduction in foreign exchange losses. This line item in 2005 primarily consisted of \$23 million in foreign currency exchange losses, the accretion of \$60

million for the discounted value of our liability to purchase CCEAG shares and the minority shareowners' proportional share of net income of certain consolidated subsidiaries.

10.4.9 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.

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

- a tax benefit of approximately 1.8 percent primarily related to the sale of a portion of our investments in Coca-Cola Icecek and Coca-Cola FEMSA. The tax benefit was a result of the reversal of a valuation allowance that covered certain deferred tax assets recorded on capital loss carryforwards. The reversal of the valuation allowance was offset by a reduction of deferred tax assets due to the utilization of these capital loss carryforwards. These capital loss carryforwards offset the taxable gain on the sale of a portion of our investments in Coca-Cola Icecek and Coca-Cola FEMSA. Also included in this tax benefit is the reversal of the deferred tax liability recorded for the differences between the financial reporting and tax bases in the stock sold;
- an income tax benefit primarily related to the impairment of assets and investments in our bottling operations, contract termination costs related to production capacity efficiencies and other restructuring charges at a rate of approximately 16 percent;
- a tax charge of approximately \$24 million related to the resolution of certain tax matters; and
- an income tax benefit related to our proportionate share of CCE's charges recorded at a rate of approximately 8.8 percent. Our effective tax rate of approximately 27.2 percent for the year ended December 31, 2005, included the following:
 - an income tax benefit primarily related to the Philippines impairment charges at a rate of approximately 4 percent;
 - an income tax benefit of approximately \$101 million related to the reversal of previously accrued taxes resulting from the favorable resolution of various tax matters; and
 - a tax provision of approximately \$315 million related to repatriation of previously unremitted foreign earnings under the Jobs Creation Act.

Based on current tax laws, the Company's effective tax rate in 2007 is expected to be approximately 23 percent before considering the effect of any unusual or special items that may affect our tax rate in future years.

10.5 Liquidity, Capital Resources and Financial Position

We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. We expect cash flows from operating activities to be strong in 2007 and in future years. Accordingly, our Company expects to meet all of our financial commitments and operating needs for the foreseeable future. We expect to use cash generated from operating activities primarily for dividends, share repurchases, acquisitions and aggregate contractual obligations.

10.5.1 Cash Flows from Operating Activities

Net cash provided by operating activities for the years ended December 31, 2006, 2005 and 2004 was approximately \$6.0 billion, \$6.4 billion and \$6.0 billion, respectively. Cash flows from operating activities decreased 7 percent in 2006 compared to 2005. This decrease was primarily the result of payments in 2006 of marketing accruals recorded in 2005 related to increased

marketing and innovation activities and increased tax payments made in the first quarter of 2006 related to the 2005 repatriation of foreign earnings under the Jobs Creation Act. This decrease was partially offset by an increase in cash receipts in 2006 from customers, which was driven by a 4 percent growth in net operating revenues. Our cash flows from operating activities in 2006 also decreased versus 2005 as a result of a contribution of approximately \$216 million to a U.S. Voluntary Employee Beneficiary Association (“VEBA”), a tax-qualified trust to fund retiree medical benefits and a \$100 million donation made to The Coca-Cola Foundation. Cash flows from operating activities increased 8 percent in 2005 compared to 2004. The increase was primarily related to an increase in cash receipts from customers, which was driven by a 6 percent growth in net operating revenues. These higher cash collections were offset by increased payments to suppliers and vendors, including payments related to our increased marketing spending. Our cash flows from operating activities in 2005 also improved versus 2004 as a result of a \$137 million reduction in payments related to our 2003 streamlining initiatives. Cash flows from operating activities in 2005 were unfavorably impacted by a \$176 million increase in income tax payments primarily related to payment of a portion of the tax provision associated with the repatriation of previously unremitted foreign earnings under the Jobs Creation Act.

10.5.2 Cash Flows from Investing Activities

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

Year Ended December 31,	2006	2005	2004
Cash flows (used in) provided by investing activities:			
Acquisitions and investments, principally trademarks and bottling companies	\$ (901)	\$ (637)	\$ (267)
Purchases of other investments	(82)	(53)	(46)
Proceeds from disposals of other investments	640	33	161
Purchases of property, plant and equipment	(1,407)	(899)	(755)
Proceeds from disposals of property, plant and equipment	112	88	341
Other investing activities	(62)	(28)	63
Net cash used in investing activities	\$ (1,700)	\$ (1,496)	\$ (503)

Purchases of property, plant and equipment accounted for the most significant cash outlays for investing activities in each of the three years ended December 31, 2006. Our Company currently estimates that purchases of property, plant and equipment in 2007 will be approximately \$1.5 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 2006, 2005 and 2004 were as follows:

Year Ended December 31,	2006	2005	2004
Capital expenditures (in millions)	\$ 1,407	\$ 899	\$ 755
Africa	2.7%	2.5%	2.3%
East, South Asia and Pacific Rim	0.7	0.8	0.9
European Union	6.6	8.6	5.1
Latin America	3.1	2.7	3.4
North America	29.9	29.5	32.7
North Asia, Eurasia and Middle East	9.2	9.9	6.0
Bottling Investments	29.7	29.4	34.1
Corporate	18.1	16.6	15.5

Acquisitions and investments represented the next most significant investing activity, accounting for \$901 million in 2006, \$637 million in 2005 and \$267 million in 2004. In 2006, our Company acquired a controlling interest in CCCIL and acquired Apollinaris and TJC. The remaining amount of cash used for acquisitions and investments was primarily related to the acquisition of various trademarks and brands, none of which were 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. In April 2005, our Company and Coca-Cola HBC jointly acquired Multon for a total purchase price of approximately \$501 million, split equally between the Company and Coca-Cola HBC. During the third quarter of 2005, our Company acquired the German bottling company Bremer for approximately \$160 million from InBev SA. Also in 2005, the Company acquired Sucos Mais, a Brazilian juice company, and completed the acquisition of the remaining 49 percent interest in the business of CCDA Waters L.L.C. not previously owned by our Company.

In 2004, proceeds from disposals of property, plant and equipment of approximately \$341 million related primarily to the sale of production assets in Japan. In 2004, cash payments for acquisitions and investments were primarily related to the purchase of trademarks in Latin America.

10.5.3 Cash Flows from Financing Activities

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

Year Ended December 31,	2006	2005	2004
Cash flows provided by (used in) financing activities:			
Issuances of debt	\$ 617	\$ 178	\$ 3,030
Payments of debt	(2,021)	(2,460)	(1,316)
Issuances of stock	148	230	193
Purchases of stock for treasury	(2,416)	(2,055)	(1,739)
Dividends	(2,911)	(2,678)	(2,429)
Net cash used in financing activities	\$ (6,583)	\$ (6,785)	\$ (2,261)

10.5.3.1 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.

As of December 31, 2006, our long-term debt was rated "A+" by Standard & Poor's and "Aa3" by Moody's, and our commercial paper program was rated "A-1" and "P-1" by Standard & Poor's and Moody's, respectively. In assessing our credit strength, both Standard & Poor's and Moody's consider our capital structure and financial policies as well as the aggregated balance sheet and other financial information for the Company and certain bottlers, including CCE and Coca-Cola HBC. 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. If our credit ratings were reduced by the rating agencies, our interest expense could increase. Additionally, if certain bottlers' credit ratings were to decline, the Company's share of equity income could be reduced as a result of the potential increase in interest expense for these bottlers.

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

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

Issuances and payments of debt included both short-term and long-term financing activities. On December 31, 2006, we had \$1,952 million in lines of credit and other short-term credit facilities available, of which approximately \$225 million was outstanding. The outstanding amount of \$225 million was primarily related to our international operations.

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

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

The issuances of debt in 2004 primarily included approximately \$2,109 million of net issuances of commercial paper with maturities of 90 days or less, and approximately \$818 million of issuances of commercial paper with maturities of more than 90 days. The payments of debt in 2004 primarily included approximately \$927 million related to commercial paper with maturities of more than 90 days and \$367 million of long-term debt.

10.5.3.2 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,	2006	2005	2004
Number of shares repurchased (in millions)	55	46	38
Average price per share	\$ 45.19	\$ 43.26	\$ 46.33

Since the inception of our initial share repurchase program in 1984 through our current program as of December 31, 2006, we have purchased more than 1.2 billion shares of our Company’s common stock at an average price per share of \$17.53.

As strong cash flows are expected to continue in the future, the Company currently expects 2007 share repurchases to be in the range of \$2.5 billion to \$3.0 billion.

10.5.3.3 Dividends

At its February 2007 meeting, our Board of Directors increased our quarterly dividend by 10 percent, raising it to \$0.34 per share, equivalent to a full-year dividend of \$1.36 per share in 2007. This is our 45th consecutive annual increase. Our annual common stock dividend was \$1.24 per share, \$1.12 per share and \$1.00 per share in 2006, 2005 and 2004, respectively. The 2006 dividend represented a 10 percent increase from 2005, and the 2005 dividend represented a 12 percent increase from 2004.

Selected Financial Data

Year Ended December 31, (In millions except per share data)	2006 ¹	2005 ²	2004 ^{2,3}	2003	2002 ^{4,5}
SUMMARY OF OPERATIONS					
Net operating revenues	\$ 24,088	\$ 23,104	\$ 21,742	\$ 20,857	\$ 19,394
Cost of goods sold	8,164	8,195	7,674	7,776	7,118
Gross profit	15,924	14,909	14,068	13,081	12,276
Selling, general and administrative expenses	9,431	8,739	7,890	7,287	6,818
Other operating charges	185	85	480	573	—
Operating income	6,308	6,085	5,698	5,221	5,458
Interest income	193	235	157	176	209
Interest expense	220	240	196	178	199
Equity income — net	102	680	621	406	384
Other income (loss) — net	195	(93)	(82)	(138)	(353)
Gains on issuances of stock by equity investees	—	23	24	8	—
Income before income taxes and changes in accounting principles	6,578	6,690	6,222	5,495	5,499
Income taxes	1,498	1,818	1,375	1,148	1,523
Net income before changes in accounting principles	\$ 5,080	\$ 4,872	\$ 4,847	\$ 4,347	\$ 3,976
Net income	\$ 5,080	\$ 4,872	\$ 4,847	\$ 4,347	\$ 3,050
Average shares outstanding	2,348	2,392	2,426	2,459	2,478
Average shares outstanding assuming dilution	2,350	2,393	2,429	2,462	2,483
PER SHARE DATA					
Net income before changes in accounting principles — basic	\$ 2.16	\$ 2.04	\$ 2.00	\$ 1.77	\$ 1.60
Net income before changes in accounting principles — diluted	2.16	2.04	2.00	1.77	1.60
Basic net income	2.16	2.04	2.00	1.77	1.23
Diluted net income	2.16	2.04	2.00	1.77	1.23
Cash dividends	1.24	1.12	1.00	0.88	0.80
Market price on December 31	48.25	40.31	41.64	50.75	43.84

TOTAL MARKET VALUE OF COMMON STOCK \$ 111,857 \$ 95,504 \$ 100,325 \$ 123,908 \$ 108,328

BALANCE SHEET DATA

Cash, cash equivalents and current marketable securities	\$ 2,590	\$ 4,767	\$ 6,768	\$ 3,482	\$ 2,345
Property, plant and equipment — net	6,903	5,831	6,091	6,097	5,911
Depreciation	763	752	715	667	614
Capital expenditures	1,407	899	755	812	851
Total assets	29,963	29,427	31,441	27,410	24,470
Long-term debt	1,314	1,154	1,157	2,517	2,701
Shareowners' equity	16,920	16,355	15,935	14,090	11,800
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,957	\$ 6,423	\$ 5,968	\$ 5,456	\$ 4,742

Certain prior year amounts have been reclassified to conform to the current year presentation.

¹ In 2006, we adopted 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)."

² We adopted FSP No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" in 2004. FSP No. 109-2 allowed the Company to record the tax expense associated with the repatriation of foreign earnings in 2005 when the previously unremitted foreign earnings were actually repatriated.

³ We adopted FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," effective April 2, 2004.

⁴ In 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets."

⁵ In 2002, we adopted the fair value method provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and we adopted SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure."