

COCA-COLA ENTERPRISES, INC.

Form 10-Q

October 26, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 28, 2012

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-34874

(Exact name of registrant as specified in its charter)

Delaware

27-2197395

(State of incorporation)

(I.R.S. Employer Identification No.)

2500 Windy Ridge Parkway

Atlanta, Georgia 30339

(Address of principal executive offices, including zip code)

678-260-3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

287,049,027 Shares of \$0.01 Par Value Common Stock as of September 28, 2012

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 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 28, 2012  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

COCA-COLA ENTERPRISES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited; in millions, except per share data)

	Third Quarter		First Nine Months		
	2012	2011	2012	2011	
Net sales	\$2,070	\$2,140	\$6,146	\$6,391	
Cost of sales	1,295	1,332	3,908	4,028	
Gross profit	775	808	2,238	2,363	
Selling, delivery, and administrative expenses	469	478	1,460	1,510	
Operating income	306	330	778	853	
Interest expense	23	23	69	62	
Other nonoperating income (expense)	1	(1	) 4	(4	)
Income before income taxes	284	306	713	787	
Income tax expense	21	22	136	151	
Net income	\$263	\$284	\$577	\$636	
Basic earnings per share	\$0.91	\$0.90	\$1.94	\$1.97	
Diluted earnings per share	\$0.89	\$0.88	\$1.90	\$1.92	
Dividends declared per share	\$0.16	\$0.13	\$0.48	\$0.38	
Basic weighted average shares outstanding	291	315	297	322	
Diluted weighted average shares outstanding	297	324	304	331	
Income (expense) from transactions with The Coca-Cola Company—Note 5:					
Net sales	\$4	\$6	\$10	\$16	
Cost of sales	(482	) (532	) (1,559	) (1,731	)

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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## COCA-COLA ENTERPRISES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; in millions)

	Third Quarter		First Nine Months		
	2012	2011	2012	2011	
Net income	\$263	\$284	\$577	\$636	
Components of other comprehensive income (loss):					
Currency translations	127	(229)	) 119	(34	)
Net investment hedges, net of tax	(22	) 20	(14	) 14	
Cash flow hedges, net of tax	(11	) (14	) (14	) 10	
Pension plan liability adjustments, net of tax	3	(2	) 10	1	
Other comprehensive income (loss)	97	(225	) 101	(9	)
Comprehensive income	\$360	\$59	\$678	\$627	

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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COCA-COLA ENTERPRISES, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited; in millions, except share data)

	September 28, 2012	December 31, 2011
<b>ASSETS</b>		
Current:		
Cash and cash equivalents	\$803	\$684
Trade accounts receivable, less allowances of \$16 and \$16, respectively	1,503	1,387
Amounts receivable from The Coca-Cola Company	85	64
Inventories	413	403
Other current assets	215	148
Total current assets	3,019	2,686
Property, plant, and equipment, net	2,211	2,230
Franchise license intangible assets, net	3,877	3,771
Goodwill	129	124
Other noncurrent assets	392	283
Total assets	\$9,628	\$9,094
<b>LIABILITIES</b>		
Current:		
Accounts payable and accrued expenses	\$1,807	\$1,716
Amounts payable to The Coca-Cola Company	108	116
Current portion of debt	230	16
Total current liabilities	2,145	1,848
Debt, less current portion	3,214	2,996
Other noncurrent liabilities	202	160
Noncurrent deferred income tax liabilities	1,202	1,191
Total liabilities	6,763	6,195
<b>SHAREOWNERS' EQUITY</b>		
Common stock, \$0.01 par value – Authorized – 1,100,000,000 shares; Issued – 347,882,122 and 343,394,495 shares, respectively	3	3
Additional paid-in capital	3,809	3,745
Reinvested earnings	1,072	638
Accumulated other comprehensive loss	(372)	(473)
Common stock in treasury, at cost – 60,833,095 and 38,445,287 shares, respectively	(1,647)	(1,014)
Total shareowners' equity	2,865	2,899
Total liabilities and shareowners' equity	\$9,628	\$9,094

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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COCA-COLA ENTERPRISES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited; in millions)

	First Nine Months	
	2012	2011
Cash Flows from Operating Activities:		
Net income	\$577	\$636
Adjustments to reconcile net income to net cash derived from operating activities:		
Depreciation and amortization	252	241
Share-based compensation expense	27	32
Deferred income tax benefit	(72)	(89)
Pension expense less than contributions	(52)	(8)
Net changes in assets and liabilities	(49)	(159)
Net cash derived from operating activities	683	653
Cash Flows from Investing Activities:		
Capital asset investments	(254)	(252)
Capital asset disposals	13	—
Other investing activities, net	—	(9)
Net cash used in investing activities	(241)	(261)
Cash Flows from Financing Activities:		
Net change in commercial paper	—	(145)
Issuances of debt	430	900
Payments on debt	(13)	(9)
Shares repurchased under share repurchase program	(600)	(600)
Dividend payments on common stock	(142)	(122)
Net cash received from The Coca-Cola Company for transaction-related items	—	70
Other financing activities	(5)	11
Net cash (used in) derived from financing activities	(330)	105
Net effect of currency exchange rate changes on cash and cash equivalents	7	(7)
Net Change in Cash and Cash Equivalents	119	490
Cash and Cash Equivalents at Beginning of Period	684	321
Cash and Cash Equivalents at End of Period	\$803	\$811

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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## COCA-COLA ENTERPRISES, INC.

## Notes to Condensed Consolidated Financial Statements

## NOTE 1—BUSINESS AND REPORTING POLICIES

## Business

Coca-Cola Enterprises, Inc. ("CCE," "we," "our," or "us") is a marketer, producer, and distributor of nonalcoholic beverages. We market, produce, and distribute our products to customers and consumers through licensed territory agreements in Belgium, continental France, Great Britain, Luxembourg, Monaco, the Netherlands, Norway, and Sweden. We operate in the highly competitive beverage industry and face strong competition from other general and specialty beverage companies. Our financial results are affected by a number of factors including, but not limited to, consumer preferences, cost to manufacture and distribute products, foreign currency exchange rates, general economic conditions, local and national laws and regulations, raw material availability, and weather patterns.

Sales of our products tend to be seasonal, with the second and third quarters accounting for higher unit sales of our products than the first and fourth quarters. In a typical year, we earn more than 60 percent of our annual operating income during the second and third quarters. The seasonality of our sales volume, combined with the accounting for fixed costs, such as depreciation, amortization, rent, and interest expense, impacts our results on a quarterly basis.

Additionally, year-over-year shifts in holidays and selling days can impact our results on a quarterly basis.

Accordingly, our results for the third quarter and first nine months of 2012 may not necessarily be indicative of the results that may be expected for the full year ending December 31, 2012.

## Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and expense allocations) considered necessary for fair presentation have been included. The Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and accompanying Notes contained in our Annual Report on Form 10-K for the year ended December 31, 2011 (Form 10-K).

Our Condensed Consolidated Financial Statements include all entities that we control by ownership of a majority voting interest. All significant intercompany accounts and transactions are eliminated in consolidation.

For reporting convenience, our first three quarters close on the Friday closest to the end of the quarterly calendar period. Our fiscal year ends on December 31st. The following table summarizes the number of selling days for the periods presented (based on a standard five-day selling week):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2012	65	65	65	66	261
2011	65	65	65	65	260
Change	—	—	—	1	1

## NOTE 2—INVENTORIES

We value our inventories at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. The following table summarizes our inventories as of the dates presented (in millions):

	September 28, 2012	December 31, 2011
Finished goods	\$257	\$225
Raw materials and supplies	156	178
Total inventories	\$413	\$403





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COCA-COLA ENTERPRISES, INC.

Notes to Condensed Consolidated Financial Statements

## NOTE 3—PROPERTY, PLANT, AND EQUIPMENT

The following table summarizes our property, plant, and equipment as of the dates presented (in millions):

	September 28, 2012	December 31, 2011
Land	\$ 158	\$154
Building and improvements	915	880
Machinery, equipment, and containers	1,582	1,487
Cold drink equipment	1,555	1,446
Vehicle fleet	115	116
Furniture, office equipment, and software	351	320
Property, plant, and equipment	4,676	4,403
Accumulated depreciation and amortization	(2,637	) (2,387
	2,039	2,016
Construction in process	172	214
Property, plant, and equipment, net	\$ 2,211	\$2,230

## NOTE 4—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following table summarizes our accounts payable and accrued expenses as of the dates presented (in millions):

	September 28, 2012	December 31, 2011
Trade accounts payable	\$ 501	\$ 473
Accrued marketing costs	564	461
Accrued compensation and benefits	218	262
Accrued taxes	239	239
Accrued deposits	93	97
Other accrued expenses	192	184
Accounts payable and accrued expenses	\$ 1,807	\$ 1,716

## NOTE 5—RELATED PARTY TRANSACTIONS

Transactions with The Coca-Cola Company (TCCC)

We are a marketer, producer, and distributor principally of products of TCCC, with greater than 90 percent of our sales volume consisting of sales of TCCC products. Our license arrangements with TCCC are governed by product licensing agreements. From time to time, the terms and conditions of programs with TCCC are modified.

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COCA-COLA ENTERPRISES, INC.

Notes to Condensed Consolidated Financial Statements

The following table summarizes the transactions with TCCC that directly affected our Condensed Consolidated Statements of Income for the periods presented (in millions):

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Amounts affecting net sales:				
Fountain syrup and packaged product sales	\$4	\$6	\$10	\$16
Amounts affecting cost of sales:				
Purchases of syrup, concentrate, mineral water, and juice	\$(525)	\$(565)	\$(1,678)	\$(1,832)
Purchases of finished products	(16)	(16)	(46)	(49)
Marketing support funding earned	59	49	165	150
Total	\$(482)	\$(532)	\$(1,559)	\$(1,731)

For additional information about our relationship with TCCC, refer to Note 3 of the Notes to Consolidated Financial Statements in our Form 10-K.

**NOTE 6—DERIVATIVE FINANCIAL INSTRUMENTS**

We utilize derivative financial instruments to mitigate our exposure to certain market risks associated with our ongoing operations. The primary risks that we seek to manage through the use of derivative financial instruments include currency exchange risk, commodity price risk, and interest rate risk. All derivative financial instruments are recorded at fair value on our Condensed Consolidated Balance Sheets. We do not use derivative financial instruments for trading or speculative purposes. While certain of our derivative instruments are designated as hedging instruments, we also enter into derivative instruments that are designed to hedge a risk, but are not designated as hedging instruments (referred to as an “economic hedge” or “non-designated hedges”). Changes in the fair value of these non-designated hedging instruments are recognized in each reporting period in the expense line item on our Condensed Consolidated Statements of Income that is consistent with the nature of the hedged risk. We are exposed to counterparty credit risk on all of our derivative financial instruments. We have established and maintain strict counterparty credit guidelines and enter into hedges only with financial institutions that are investment grade or better. We continuously monitor our counterparty credit risk and utilize numerous counterparties to minimize our exposure to potential defaults. We do not require collateral under these agreements.

The fair value of our derivative contracts (including forwards, options, cross currency swaps, and interest rate swaps) is determined using standard valuation models. The significant inputs used in these models are readily available in public markets or can be derived from observable market transactions and, therefore, our derivative contracts have been classified as Level 2. Inputs used in these standard valuation models include the applicable spot, forward, and discount rates which are current as of the valuation date. The standard valuation model for our option contracts also includes implied volatility which is specific to individual options and is based on rates quoted from a widely used third-party resource. Refer to Note 15.

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COCA-COLA ENTERPRISES, INC.

Notes to Condensed Consolidated Financial Statements

The following table summarizes the fair value of our assets and liabilities related to derivative financial instruments and the respective line items in which they were recorded on our Condensed Consolidated Balance Sheets as of the dates presented (in millions):

Hedging Instruments	Location – Balance Sheets	September 28, December 31,	
		2012	2011
Assets:			
Derivatives designated as hedging instruments:			
Foreign currency contracts <sup>(A)</sup>	Other current assets	\$40	\$ 11
Interest rate swap agreements <sup>(B)</sup>	Other current assets	2	—
Foreign currency contracts	Other noncurrent assets	14	26
Interest rate swap agreements	Other noncurrent assets	1	—
Total		57	37
Derivatives not designated as hedging instruments:			
Foreign currency contracts	Other current assets	1	3
Commodity contracts	Other current assets	5	5
Commodity contracts	Other noncurrent assets	2	—
Total		8	8
Total Assets		\$65	\$ 45
Liabilities:			
Derivatives designated as hedging instruments:			
Foreign currency contracts <sup>(A)</sup>	Accounts payable and accrued expenses	\$43	\$ 28
Interest rate swap agreements <sup>(B)</sup>	Accounts payable and accrued expenses	1	—
Foreign currency contracts	Other noncurrent liabilities	33	1
Total		77	29
Derivatives not designated as hedging instruments:			
Foreign currency contracts	Accounts payable and accrued expenses	11	7
Commodity contracts	Accounts payable and accrued expenses	3	2
Commodity contracts	Other noncurrent liabilities	—	1
Total		14	10
Total Liabilities		\$91	\$ 39

<sup>(A)</sup> Amounts include the gross interest receivable or payable on our cross currency swap agreements.

<sup>(B)</sup> Amounts include the gross interest receivable or payable on our interest rate swap agreements.

Fair Value Hedges

We utilize certain interest rate swap agreements designated as fair value hedges to mitigate our exposure to changes in the fair value of fixed-rate debt resulting from fluctuations in interest rates. The gain or loss on the derivative and the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized immediately in interest expense on our Condensed Consolidated Statements of Income.

The following table summarizes our outstanding interest rate swap agreements designated as fair value hedges as of the dates presented:

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Type	September 28, 2012		December 31, 2011	
	Notional Amount	Latest Maturity	Notional Amount	Latest Maturity
Fixed-to-floating interest rate swap	USD 400 million	November 2013	N/A	N/A

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COCA-COLA ENTERPRISES, INC.

Notes to Condensed Consolidated Financial Statements

**Cash Flow Hedges**

We use cash flow hedges to mitigate our exposure to changes in cash flows attributable to currency fluctuations associated with certain forecasted transactions, including purchases of raw materials and services denominated in non-functional currencies, the receipt of interest and principal on intercompany loans denominated in non-functional currencies, and the payment of interest and principal on debt issuances in a non-functional currency. Effective changes in the fair value of these cash flow hedging instruments are recognized in accumulated other comprehensive income (AOCI) on our Condensed Consolidated Balance Sheets. The effective changes are then recognized in the period that the forecasted purchases or payments impact earnings in the expense line item on our Condensed Consolidated Statements of Income that is consistent with the nature of the underlying hedged item. Any changes in the fair value of these cash flow hedges that are the result of ineffectiveness are recognized immediately in the expense line item on our Condensed Consolidated Statements of Income that is consistent with the nature of the underlying hedged item. The following table summarizes our outstanding cash flow hedges as of the dates presented (all contracts denominated in a foreign currency have been converted into U.S. dollars using the period end spot rate):

Type	September 28, 2012		December 31, 2011	
	Notional Amount	Latest Maturity	Notional Amount	Latest Maturity
Foreign currency contracts	USD 1.8 billion	June 2021	USD 1.6 billion	June 2021

The following tables summarize the net of tax effect of our derivative financial instruments designated as cash flow hedges on our AOCI and Condensed Consolidated Statements of Income for the periods presented (in millions):

Cash Flow Hedging Instruments	Amount of Gain (Loss) Recognized in AOCI on Derivative Instruments <sup>(A)</sup>			
	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Foreign currency contracts	\$(30 )	\$38	\$(35 )	\$21

Cash Flow Hedging Instruments	Location - Statements of Income	Amount of Gain (Loss) Reclassified from AOCI into Earnings <sup>(B)</sup>			
		Third Quarter		First Nine Months	
		2012	2011	2012	2011
Foreign currency contracts	Cost of sales	\$(4 )	\$1	\$(10 )	\$2
Foreign currency contracts <sup>(C)</sup>	Other nonoperating income (expense)	(15 )	51	(11 )	9
Total		\$(19 )	\$52	\$(21 )	\$11

<sup>(A)</sup> The amount of ineffectiveness associated with these hedging instruments was not material.

Over the next 12 months, deferred losses totaling \$14 million are expected to be reclassified from AOCI on our Condensed Consolidated Balance Sheets into the expense line item on our Condensed Consolidated Statements of Income that is consistent with the nature of the underlying hedged item as the forecasted transactions occur.

The gain (loss) recognized on these currency contracts is offset by the gain (loss) recognized on the remeasurement

<sup>(C)</sup> of the underlying debt instruments; therefore, there is a minimal consolidated net effect in other nonoperating income (expense) on our Condensed Consolidated Statements of Income.



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Notes to Condensed Consolidated Financial Statements

## Economic (Non-designated) Hedges

We periodically enter into derivative instruments that are designed to hedge various risks, but are not designated as hedging instruments. These hedged risks include those related to commodity price fluctuations associated with forecasted purchases of aluminum, sugar, and vehicle fuel. At times, we also enter into other short-term non-designated hedges to mitigate our exposure to changes in cash flows attributable to currency fluctuations associated with short-term intercompany loans and certain cash equivalents denominated in non-functional currencies. The following table summarizes our outstanding economic hedges as of the dates presented (all contracts denominated in a foreign currency have been converted into U.S. dollars using the period end spot rate):

Type	September 28, 2012		December 31, 2011	
	Notional Amount	Latest Maturity	Notional Amount	Latest Maturity
Foreign currency contracts	USD 244 million	December 2012	USD 404 million	September 2012
Commodity contracts	USD 186 million	December 2014	USD 95 million	December 2013

Changes in the fair value of outstanding economic hedges are recognized each reporting period in the expense line item on our Condensed Consolidated Statements of Income that is consistent with the nature of the hedged risk. The following table summarizes the gains (losses) recognized from our non-designated derivative financial instruments on our Condensed Consolidated Statements of Income for the periods presented (in millions):

Location - Statements of Income	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Cost of sales	\$8	\$(2)	\$3	\$(1)
Selling, delivery, and administrative expenses	4	—	3	4
Other nonoperating income (expense) <sup>(A)</sup>	(16)	) 36	(21)	) 20
Total	\$(4)	) \$34	\$(15)	) \$23

The gain (loss) recognized on these currency contracts is offset by the gain (loss) recognized on the <sup>(A)</sup>remeasurement of the underlying hedged items; therefore, there is a minimal consolidated net effect in other nonoperating income (expense) on our Condensed Consolidated Statements of Income.

Mark-to-market gains/losses related to our non-designated commodity hedges are recognized in the earnings of our Corporate segment until such time as the underlying hedged transaction affects the earnings of our Europe operating segment. In the period the underlying hedged transaction occurs, the accumulated mark-to-market gains/losses related to the hedged transaction are reclassified from the earnings of our Corporate segment into the earnings of our Europe operating segment. This treatment allows our Europe operating segment to reflect the true economic effects of the underlying hedged transaction in the period the hedged transaction occurs without experiencing the mark-to-market volatility associated with these non-designated commodity hedges.

As of September 28, 2012, our Corporate segment earnings included net mark-to-market gains on non-designated commodity hedges totaling \$2 million. These amounts will be reclassified into the earnings of our Europe operating segment when the underlying hedged transactions occur. For additional information about our segment reporting, refer to Note 12.

The following table summarizes the deferred gain (loss) activity in our Corporate segment during the period presented (in millions):

(Losses) Gains Deferred at Corporate Segment	Cost of Sales	SD&A	Total
Balance at December 31, 2011	\$(3)	) \$2	\$(1)
	1	2	3



Gains recognized during the period and recorded in the Corporate segment, net

Losses (gains) transferred to the Europe operating segment, net	2	(2	) —
Balance at September 28, 2012	\$ —	\$2	\$2

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COCA-COLA ENTERPRISES, INC.

Notes to Condensed Consolidated Financial Statements

## Net Investment Hedges

We have entered into currency forwards, options, and foreign currency denominated borrowings designated as net investment hedges of our foreign subsidiaries. Changes in the fair value of these hedges resulting from currency exchange rate changes are recognized in AOCI on our Condensed Consolidated Balance Sheets to offset the change in the carrying value of the net investment being hedged. Any changes in the fair value of these hedges that are the result of ineffectiveness are recognized immediately in other nonoperating income (expense) on our Condensed Consolidated Statements of Income.

The following table summarizes our outstanding instruments designated as net investment hedges as of the dates presented:

Type	September 28, 2012		December 31, 2011	
	Notional Amount	Latest Maturity	Notional Amount	Latest Maturity
Foreign currency contracts	USD 1.3 billion	December 2019	USD 125 million	December 2012

The following table summarizes the net of tax effect of our derivative financial instruments designated as net investment hedges on our AOCI for the periods presented (in millions):

	Amount of Gain (Loss) Recognized in AOCI on Derivative Instruments <sup>(A)</sup>			
	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Net Investment Hedging Instruments				
Foreign currency contracts	\$(22	) \$20	\$(14	) \$14

<sup>(A)</sup> The amount of ineffectiveness associated with these hedging instruments was not material.

## NOTE 7—DEBT

The following table summarizes our debt as of the dates presented (in millions, except rates):

	September 28, 2012		December 31, 2011		
	Principal Balance	Rates <sup>(A)</sup>	Principal Balance	Rates <sup>(A)</sup>	%
U.S. dollar notes due 2013-2021	\$2,291	2.6	% \$2,289	2.6	
Euro notes due 2017-2019 <sup>(B)</sup>	896	2.6	453	3.1	
Swiss franc notes due 2013	213	3.8	213	3.8	
Capital lease obligations <sup>(C)</sup>	44	n/a	57	n/a	
Total debt <sup>(D)</sup> <sup>(E)</sup>	3,444		3,012		
Current portion of debt	(230	)	(16	)	
Debt, less current portion	\$3,214		\$2,996		

<sup>(A)</sup> These rates represent the weighted average interest rates or effective interest rates on the balances outstanding, as adjusted for the effects of interest rate swap agreements, if applicable.

<sup>(B)</sup> In August 2012, we issued €350 million, 2.0 percent notes due 2019.

<sup>(C)</sup> These amounts represent the present value of our minimum capital lease payments.

<sup>(D)</sup>

At September 28, 2012, approximately \$213 million of our outstanding debt was issued by our subsidiaries and guaranteed by CCE.

The total fair value of our outstanding debt, excluding capital lease obligations, was \$3.6 billion and \$3.1 billion at <sup>(E)</sup> September 28, 2012 and December 31, 2011, respectively. The fair value of our debt is determined using quoted market prices for publicly traded instruments (Level 1).

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COCA-COLA ENTERPRISES, INC.

Notes to Condensed Consolidated Financial Statements

## Credit Facilities

During the third quarter of 2012, we entered into a \$1 billion multi-currency credit facility with a syndicate of eight banks as a replacement of our previous \$1 billion credit facility. This credit facility matures in 2017 and is for general corporate purposes, including serving as a backstop to our commercial paper program and supporting our working capital needs. At September 28, 2012, our availability under this credit facility was \$1 billion. Based on information currently available to us, we have no indication that the financial institutions syndicated under this facility would be unable to fulfill their commitments to us as of the date of the filing of this report.

## Covenants

Our credit facility and outstanding notes contain various provisions that, among other things, require limitation of the incurrence of certain liens or encumbrances in excess of defined amounts. Additionally, our credit facility requires that our net debt to total capital ratio does not exceed a defined amount. We were in compliance with these requirements as of September 28, 2012. These requirements currently are not, nor is it anticipated that they will become, restrictive to our liquidity or capital resources.

## NOTE 8—COMMITMENTS AND CONTINGENCIES

## Tax Audits

Our tax filings are subjected to audit by tax authorities in most jurisdictions in which we do business. These audits may result in assessments of additional taxes that are subsequently resolved with the authorities or potentially through the courts. We believe that we have adequately provided for any assessments that could result from those proceedings where it is more likely than not that we will pay some amount.

## Indemnifications

In the normal course of business, we enter into agreements that provide general indemnifications. We have not made significant indemnification payments under such agreements in the past, and we believe the likelihood of incurring such a payment obligation in the future is remote. Furthermore, we cannot reasonably estimate future potential payment obligations because we cannot predict when and under what circumstances they may be incurred. As a result, we have not recorded a liability in our Condensed Consolidated Financial Statements with respect to these general indemnifications.

We have certain indemnity obligations to TCCC resulting from the Merger Agreement (the Agreement) with TCCC that occurred on October 2, 2010. For additional information regarding the transaction with TCCC (the Merger), including our remaining indemnity obligations to TCCC, refer to the Notes to Consolidated Financial Statements in our Form 10-K.

## NOTE 9—EMPLOYEE BENEFIT PLANS

## Pension Plans

We sponsor a number of defined benefit pension plans. The following table summarizes the net periodic benefit costs of our pension plans for the periods presented (in millions):

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Components of net periodic benefit costs:				
Service cost	\$ 13	\$ 13	\$ 39	\$ 37
Interest cost	14	14	42	42
Expected return on plan assets	(20	) (19	) (60	) (56

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Amortization of net prior service cost	1	—	4	1
Amortization of actuarial loss	3	2	9	6
Net periodic benefit cost	11	10	34	30
Other	—	—	—	3
Total costs	\$11	\$10	\$34	\$33

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Notes to Condensed Consolidated Financial Statements

## Contributions

Contributions to our pension plans totaled \$86 million and \$41 million during the first nine months of 2012 and 2011, respectively. The following table summarizes our projected contributions for the full year ending December 31, 2012, as well as actual contributions for the year ended December 31, 2011 (in millions):

	Projected <sup>(A)</sup> 2012	Actual <sup>(A)</sup> 2011
Total pension contributions	\$100	\$68

These amounts represent only contributions made by CCE. During the first quarter of 2012, we contributed an incremental \$40 million to our Great Britain defined benefit pension plan to improve the funded status of the plan. For additional information about the funded status of our defined benefit pension plans, refer to Note 9 of the Notes to Consolidated Financial Statements in our Form 10-K.

## NOTE 10—TAXES

Our effective tax rate was approximately 19 percent for both the first nine months of 2012 and 2011. The following table provides a reconciliation of our income tax expense at the statutory U.S. federal rate to our actual income tax expense for the periods presented (in millions):

	First Nine Months	
	2012	2011
U.S. federal statutory expense	\$250	\$276
Taxation of foreign operations, net <sup>(A)</sup>	(121	) (134
U.S. taxation of foreign earnings, net of tax credits	46	39
Nondeductible items	8	23
Rate and law change benefit, net <sup>(B)(C)</sup>	(50	) (53
Other, net	3	—
Total provision for income taxes	\$136	\$151

Our effective tax rate reflects the benefit of having all of our operations outside of the U.S., which are taxed at statutory rates lower than the statutory U.S. rate, and the benefit of some income being fully or partially exempt from income taxes due to various operating and financing activities.

During the third quarter of 2012, the United Kingdom enacted a corporate income tax rate reduction of 2 percentage points, 1 percentage point retroactive to April 1, 2012, and 1 percentage point effective April 1, 2013. As a result, we recognized a deferred tax benefit of \$50 million during the third quarter of 2012 to reflect the impact of this change on our deferred taxes.

During the third quarter of 2011, the United Kingdom enacted a corporate income tax rate reduction of 2 percentage points, 1 percentage point retroactive to April 1, 2011, and 1 percentage point effective April 1, 2012. As a result, we recognized a deferred tax benefit of \$53 million during the third quarter of 2011 to reflect the impact of this change on our deferred taxes.

## Repatriation of Current Year Foreign Earnings to the U.S.

During the fourth quarter of 2012, we expect to repatriate to the U.S. a portion of our 2012 foreign earnings to satisfy our 2012 U.S.-based cash flow needs. The amount to be repatriated to the U.S. will depend on, among other things, our actual 2012 foreign earnings and our actual 2012 U.S.-based cash flow needs. Our historical earnings will continue to remain permanently reinvested outside of the U.S. and, if we do not generate sufficient current year

foreign earnings to repatriate to the U.S., we expect to have adequate access to capital in the U.S. to allow us to satisfy our U.S.-based cash flow needs. Therefore, historical foreign earnings and future foreign earnings that are not repatriated to the U.S. will remain permanently reinvested and will be used to service foreign operations, foreign debt, and to fund future acquisitions. For additional information about our undistributed foreign earnings, refer to Note 10 of the Notes to Consolidated Financial Statements in our Form 10-K.

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COCA-COLA ENTERPRISES, INC.

Notes to Condensed Consolidated Financial Statements

## Tax Sharing Agreement with TCCC

As part of the Merger, we entered into a Tax Sharing Agreement (TSA) with TCCC. Under the TSA, we have agreed to indemnify TCCC and its affiliates from and against certain taxes, the responsibility for which the parties have specifically agreed to allocate to us, generally related to periods prior to October 2, 2010, as well as any taxes and losses by reason of or arising from certain breaches by CCE of representations, covenants, or obligations under the Agreement or the TSA. Some of these indemnifications extend through 2014. As of September 28, 2012, the remaining liability related to these indemnifications was \$24 million, of which \$18 million is recorded in accounts payable and accrued expenses on our Condensed Consolidated Balance Sheets, and \$6 million is recorded in other noncurrent liabilities on our Condensed Consolidated Balance Sheets.

In the future, there could be additional tax items related to the Merger that require cash settlements under the TSA as tax audits are resolved and refund claims are pursued by both us and TCCC. For additional information about the TSA and related accruals, refer to Note 10 of the Notes to Consolidated Financial Statements in our Form 10-K.

## NOTE 11—EARNINGS PER SHARE

We calculate our basic earnings per share by dividing net income by the weighted average number of shares and participating securities outstanding during the period. Our diluted earnings per share are calculated in a similar manner, but include the effect of dilutive securities. To the extent these securities are antidilutive, they are excluded from the calculation of diluted earnings per share.

The following table summarizes our basic and diluted earnings per share calculations for the periods presented (in millions, except per share data; per share data is calculated prior to rounding to millions):

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Net income	\$263	\$284	\$577	\$636
Basic weighted average shares outstanding	291	315	297	322
Effect of dilutive securities <sup>(A)</sup>	6	9	7	9
Diluted weighted average shares outstanding	297	324	304	331
Basic earnings per share	\$0.91	\$0.90	\$1.94	\$1.97
Diluted earnings per share	\$0.89	\$0.88	\$1.90	\$1.92

Options to purchase 8.1 million and 9.0 million shares were outstanding as of September 28, 2012 and September 30, 2011, respectively. For the three months ended September 30, 2011 and nine months ended

<sup>(A)</sup> September 28, 2012 and September 30, 2011, options to purchase 1.2 million shares were not included in the computation of diluted earnings per share, because the effect of including these options in the computation would have been antidilutive. The dilutive impact of the remaining options outstanding in each period was included in the effect of dilutive securities.

Under our share repurchase program, during the third quarter of 2012 and 2011, we repurchased 7.7 million and 7.3 million shares, respectively, and during the first nine months of 2012 and 2011, we repurchased 21.3 million and 22.1 million shares, respectively. Refer to Note 14.

During the first nine months of 2012, we issued an aggregate of 1.2 million shares of common stock from the exercise of share options with a total intrinsic value of \$21 million.

Dividend payments on our common stock totaled \$142 million and \$122 million during the first nine months of 2012 and 2011, respectively. In February 2012, our Board of Directors approved a \$0.03 per share increase in our quarterly dividend from \$0.13 per share to \$0.16 per share beginning in the first quarter of 2012.



NOTE 12—OPERATING SEGMENT

We operate in one industry and have one operating segment. This segment derives its revenues from marketing, producing, and distributing nonalcoholic beverages. No single customer accounted for more than 10 percent of our net sales during the first nine months of 2012 or 2011.

Our segment operating income includes the segment's revenue less substantially all the segment's cost of production, distribution, and administration. We evaluate the segment's performance based on several factors, of which net sales and operating income are the primary financial measures.

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Notes to Condensed Consolidated Financial Statements

Mark-to-market gains/losses related to our non-designated commodity hedges are recognized in the earnings of our Corporate segment until such time as the underlying hedged transaction affects the earnings of our Europe operating segment. In the period the underlying hedged transaction occurs, the accumulated mark-to-market gains/losses related to the hedged transaction are reclassified from the earnings of our Corporate segment into the earnings of our Europe operating segment. This treatment allows our Europe operating segment to reflect the true economic effects of the underlying hedged transaction in the period the hedged transaction occurs without experiencing the mark-to-market volatility associated with these non-designated commodity hedges. For additional information about our non-designated hedges, refer to Note 6.

The following table summarizes selected segment financial information for the periods presented (in millions):

	Europe	Corporate	Consolidated
Third Quarter 2012:			
Net sales	\$2,070	\$—	\$2,070
Operating income (loss)	322	(16	) 306
Third Quarter 2011:			
Net sales	\$2,140	\$—	\$2,140
Operating income (loss)	364	(34	) 330
First Nine Months 2012:			
Net sales <sup>(A)</sup>	\$6,146	\$—	\$6,146
Operating income (loss) <sup>(B)</sup>	879	(101	) 778
First Nine Months 2011:			
Net sales <sup>(A)</sup>	\$6,391	\$—	\$6,391
Operating income (loss) <sup>(B)</sup>	972	(119	) 853

<sup>(A)</sup> The following table summarizes the contribution of total net sales by country as a percentage of total net sales for the periods presented:

	First Nine Months			
	2012	2011		
Net sales:				
Great Britain	34	% 33		%
France	30	29		
Belgium	15	16		
The Netherlands	8	9		
Norway	7	7		
Sweden	6	6		
Total	100	% 100		%

Our Corporate segment earnings include net mark-to-market gains on our non-designated commodity hedges totaling \$3 million for the first nine months of 2012, and net mark-to-market losses of \$2 million for the first nine months of 2011. As of September 28, 2012, our Corporate segment earnings included net mark-to-market gains on non-designated commodity hedges totaling \$2 million. These amounts will be reclassified into the earnings of our Europe operating segment when the underlying hedged transactions occur. For additional information about our non-designated hedges, refer to Note 6.



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Notes to Condensed Consolidated Financial Statements

## NOTE 13—RESTRUCTURING ACTIVITIES

The following table summarizes our restructuring costs for the periods presented (in millions):

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Europe	\$12	\$1	\$34	\$16
Corporate	—	—	—	—
Total	\$12	\$1	\$34	\$16

## Business Transformation Program

During the third quarter of 2012, we initiated a business transformation program designed to improve our operating model and platform for driving sustainable future growth. Subject to consultations with workers' councils, through this program we intend to: (1) streamline and reduce the cost structure of our finance support functions, including the establishment of a new centralized shared services center; (2) restructure our sales and marketing organization to better align central and field sales, and to deploy standardized channel-focused organizations within each of our territories; and (3) improve the efficiency and effectiveness of certain aspects of our operations, including service activities related to our cold-drink equipment.

We expect to be substantially complete with this program by the end of 2014 and anticipate nonrecurring restructuring charges of approximately \$200 million, including severance, transition, consulting, accelerated depreciation, and lease termination costs. Approximately \$20 million of this amount is expected to be non-cash. During the third quarter of 2012, we recorded nonrecurring restructuring charges under this program totaling \$2 million, principally related to consulting. All nonrecurring restructuring charges related to this program are included in Selling, delivery, and administrative expenses (SD&A) on our Condensed Consolidated Statements of Income.

The following table summarizes these restructuring charges for the period presented (in millions):

	Severance Pay and Benefits	Other	Total
Balance at December 31, 2011	\$—	\$—	\$—
Provision	—	2	2
Balance at September 28, 2012	\$—	\$2	\$2

## Norway Business Optimization Program

In early 2012, we launched a project in Norway to restructure and optimize certain aspects of our operations. This project includes changing our principal route to market from delivering our products directly to retailers to distributing our products to our customers' central warehouses. Additionally, we are transitioning from the production and sale of refillable bottles to the production and sale of recyclable, non-refillable bottles. These efforts are designed to increase our packaging flexibility, improve variety and convenience for customers and consumers, and enhance operational efficiency. We expect the transition to result in (1) accelerated depreciation for certain machinery and equipment, plastic crates, and refillable bottles; (2) costs for replacing current production lines; (3) transition and outplacement costs; and (4) external warehousing costs and operational inefficiencies during the transition period. This project will take place during 2012 and 2013 and is expected to result in approximately \$60 million in capital expenditures and approximately \$60 million in nonrecurring restructuring charges. During the third quarter and first nine months of 2012, we recorded nonrecurring restructuring charges totaling \$10 million and \$32 million, respectively, under this program. As of September 28, 2012, we had invested \$25 million in cumulative capital expenditures under this

program. The nonrecurring restructuring charges are included in SD&A expenses on our Condensed Consolidated Statements of Income.

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COCA-COLA ENTERPRISES, INC.

Notes to Condensed Consolidated Financial Statements

The following table summarizes these restructuring charges for the period presented (in millions):

	Severance Pay and Benefits	Accelerated Depreciation <sup>(A)</sup>	Other	Total
Balance at December 31, 2011	\$—	\$—	\$—	\$—
Provision	3	20	9	32
Cash payments	—	—	(7	) (7
Noncash items	—	(20	) —	(20
Balance at September 28, 2012	\$3	\$—	\$2	\$5

<sup>(A)</sup> Accelerated depreciation represents the difference between the depreciation expense of the asset using the original useful life and the depreciation expense of the asset under the reduced useful life due to the restructuring activity.

**NOTE 14—SHARE REPURCHASE PROGRAM**

In October 2010, our Board of Directors approved a resolution to authorize the repurchase of up to 65 million shares, for an aggregate purchase price of not more than \$1 billion, as part of a publicly announced program. This program was completed at the end of 2011, and resulted in the repurchase of \$1 billion in outstanding shares, representing 37.9 million shares at an average price of \$26.35 per share. In September 2011, our Board of Directors approved a resolution to authorize additional share repurchases for an aggregate purchase price of not more than \$1 billion, subject to the cumulative 65 million share repurchase limit. Unless terminated by resolution of our Board of Directors, our current share repurchase program will expire when we have repurchased all shares authorized under the program. We can repurchase shares in the open market and in privately negotiated transactions. During the first nine months of 2012, we repurchased \$600 million in outstanding shares, representing 21.3 million shares at an average price of \$28.19 per share. We currently expect to reach our cumulative 65 million share repurchase limit by the end of 2012 by repurchasing an additional 5.8 million in outstanding shares, subject to economic, operating, and other factors, including acquisition opportunities.

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COCA-COLA ENTERPRISES, INC.

Notes to Condensed Consolidated Financial Statements

## NOTE 15—FAIR VALUE MEASUREMENTS

The following tables summarize our non-pension financial assets and liabilities recorded at fair value on a recurring basis (at least annually) as of the dates presented (in millions):

	September 28, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative assets <sup>(A)</sup>	\$65	\$ —	\$65	\$ —
Derivative liabilities <sup>(A)</sup>	\$91	\$ —	\$91	\$ —
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative assets <sup>(A)</sup>	\$45	\$ —	\$45	\$ —
Money market funds <sup>(B)</sup>	410	—	410	—
Total assets	\$455	\$ —	\$455	\$ —
Derivative liabilities <sup>(A)</sup>	\$39	\$ —	\$39	\$ —

We are required to report our derivative instruments at fair value. We calculate our derivative asset and liability values using a variety of valuation techniques, depending on the specific characteristics of the hedging instrument, taking into account credit risk. The fair value of our derivative contracts (including forwards, options, cross currency swaps, and interest rate swaps) is determined using standard valuation models. The significant inputs (A) used in these models are readily available in public markets or can be derived from observable market transactions and, therefore, our derivative contracts have been classified as Level 2. Inputs used in these standard valuation models include the applicable spot, forward, and discount rates which are current as of the valuation date. The standard valuation model for our option contracts also includes implied volatility which is specific to individual options and is based on rates quoted from a widely used third-party resource.

We had investments in certain money market funds that held a portfolio of short-term, high-quality, fixed-income securities issued by the U.S. Government that were required to be reported at fair value. We classified these (B) investments as cash equivalents due to their short-term nature and the ability for them to be readily converted into known amounts of cash. The fair value of these investments approximated their carrying value because of their short maturities. These investments are not publicly traded, so their fair value was determined based on the values of the underlying investments in money market funds.

At September 28, 2012, our cash and cash equivalents included \$283 million of amounts held in time deposits with investment- grade financial institutions. Because these time deposits were purchased with original maturities of less than 3 months and can be withdrawn at any time by forfeiting only unpaid interest amounts accrued on the outstanding balance, we have classified these deposits as cash and cash equivalents on our Condensed Consolidated Balance Sheets. The fair value of these time deposits equals their carrying value due to the short-term nature of these instruments.





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COCA-COLA ENTERPRISES, INC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Business and Basis of Presentation

Coca-Cola Enterprises, Inc. ("CCE," "we," "our," or "us") is a marketer, producer, and distributor of nonalcoholic beverages. We market, produce, and distribute our products to customers and consumers through licensed territory agreements in Belgium, continental France, Great Britain, Luxembourg, Monaco, the Netherlands, Norway, and Sweden. We operate in the highly competitive beverage industry and face strong competition from other general and specialty beverage companies. Our financial results are affected by a number of factors including, but not limited to, consumer preferences, cost to manufacture and distribute products, foreign currency exchange rates, general economic conditions, local and national laws and regulations, raw material availability, and weather patterns.

Sales of our products tend to be seasonal, with the second and third quarters accounting for higher unit sales of our products than the first and fourth quarters. In a typical year, we earn more than 60 percent of our annual operating income during the second and third quarters. The seasonality of our sales volume, combined with the accounting for fixed costs, such as depreciation, amortization, rent, and interest expense, impacts our results on a quarterly basis. Additionally, year-over-year shifts in holidays and selling days can impact our results on a quarterly basis.

Accordingly, our results for the third quarter and first nine months of 2012 may not necessarily be indicative of the results that may be expected for the full year ending December 31, 2012.

For reporting convenience, our first three quarters close on the Friday closest to the end of the quarterly calendar period. Our fiscal year ends on December 31st. There were the same number of selling days in the first, second, and third quarters of 2012 versus the first, second, and third quarters of 2011, respectively (based upon a standard five-day selling week). There will be one additional selling day in the fourth quarter of 2012 versus the fourth quarter of 2011.

Relationship with The Coca-Cola Company (TCCC)

We are a marketer, producer, and distributor principally of products of TCCC with greater than 90 percent of our sales volume consisting of sales of TCCC products. Our license arrangements with TCCC are governed by product licensing agreements. From time to time, the terms and conditions of programs with TCCC are modified. Our financial results are greatly impacted by our relationship with TCCC. For additional information about our transactions with TCCC, refer to Note 5 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

Financial Results

Our net income in the third quarter of 2012 was \$263 million, or \$0.89 per diluted share, compared to net income of \$284 million, or \$0.88 per diluted share, in the third quarter of 2011. The following items included in our reported results affect the comparability of our year-over-year financial results (the items listed below are based on defined terms and thresholds and represent all material items management considered for year-over-year comparability):

Third Quarter 2012

• Charges totaling \$12 million (\$8 million net of tax, or \$0.03 per diluted common share) related to restructuring activities;

• Net mark-to-market gains totaling \$12 million (\$7 million net of tax, or \$0.02 per diluted common share) related to non-designated commodity hedges associated with underlying transactions that relate to a different reporting period; and

• A deferred tax benefit of \$50 million (\$0.17 per diluted common share) due to the enactment of a United Kingdom tax rate change that reduced the corporate income tax rate by 2 percentage points, 1 percentage point retroactive to April 1, 2012 and 1 percentage point effective April 1, 2013.

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COCA-COLA ENTERPRISES, INC.

Third Quarter 2011

Charges totaling \$1 million related to restructuring activities;

Net mark-to-market losses totaling \$4 million (\$3 million net of tax) related to non-designated commodity hedges associated with underlying transactions that related to a different reporting period; and

A deferred tax benefit of \$53 million (\$0.16 per diluted common share) due to the enactment of a United Kingdom tax rate change that reduced the corporate income tax rate by 2 percentage points, 1 percentage point retroactive to April 1, 2011 and 1 percentage point effective April 1, 2012.

Financial Summary

Our financial performance during the third quarter of 2012 reflects the impact of the following significant factors:

Challenging operating conditions, including poor weather conditions early in the quarter, the impact of the French excise tax increase, and ongoing macroeconomic challenges;

Modest volume growth driven primarily by increases in our still beverage portfolio;

Higher cost of sales per case and net pricing per case (currency neutral) driven, in part, by the increased French excise tax (substantially all of the increased cost was borne by our customers in the form of higher prices);

A currency neutral increase in operating expenses driven by our promotional activities surrounding the 2012 London Olympic Games, offset partially by our strong focus on expense control initiatives;

Unfavorable currency exchange rate changes that decreased operating income in the third quarter of 2012 by 8.0 percent (\$0.06 per diluted share); and

The continuation of our share repurchase program, which increased diluted earnings per share in the third quarter of 2012 by approximately 8.0 percent (\$0.07 per diluted share) when compared to the third quarter of 2011.

Our operating and financial performance during the third quarter of 2012 continued to be impacted by a challenging operating environment, including poor weather conditions early in the quarter, the French excise tax increase, and ongoing macroeconomic challenges. Despite these factors, we achieved modest volume growth of 0.5 percent and continued to focus on the execution of our operating plans. Our bottle and can net price per case, excluding the impact of the French excise tax increase, grew 2.5 percent during the quarter reflecting moderate year-over-year rate increases.

Volume in our continental European territories (including Norway and Sweden) remained flat year-over-year, reflecting an increase in our still beverage portfolio, including strong introductory volume for our re-formulated stevia-based Nestea brand launched in 2012, offset by a decline in sparkling beverage sales. Our volume in Great Britain increased 0.5 percent for the quarter, driven by strong growth in our still beverage brands such as Capri-Sun and Schweppes Abbey Well. Both continental Europe and Great Britain saw moderate declines in sales of Coca-Cola Classic and Diet Coke/Coca-Cola light, while Coca-Cola Zero achieved double-digit volume growth. Our energy brand portfolio continued to experience volume gains across our territories, including Monster, Nalu, and Relentless. Our bottle and can cost of sales per case excluding the French excise tax increase grew 2.0 percent during the third quarter. Despite some overall moderation, the cost environment remains volatile, and we continue to seek opportunities to mitigate our exposure to commodity price volatility through the use of supplier agreements and hedging instruments.

During the third quarter of 2012, we experienced a currency neutral increase in operating expenses resulting from our promotional initiatives surrounding the 2012 London Olympic Games. Despite these additional planned expenditures, we were able to limit our underlying operating expense growth by remaining diligent in our expense control initiatives and by target focused reductions across all discretionary cost categories.

Our financial results during the third quarter of 2012 were also impacted by unfavorable currency exchange rate changes, which resulted in an approximate \$0.06 decrease in our earnings per diluted share. Offsetting the negative currency impact was the benefit of our share repurchases, which increased earnings per diluted share during the third quarter of 2012 by approximately \$0.07 when compared to the third quarter of 2011. During the remainder of 2012, we intend to continue our share repurchase program in support of our ongoing commitment to increase shareholder value.



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## COCA-COLA ENTERPRISES, INC.

## Operations Review

The following table summarizes our Condensed Consolidated Statements of Income as a percentage of net sales for the periods presented:

	Third Quarter		First Nine Months		
	2012	2011	2012	2011	
Net sales	100.0	% 100.0	% 100.0	% 100.0	%
Cost of sales	62.6	62.2	63.6	63.0	
Gross profit	37.4	37.8	36.4	37.0	
Selling, delivery, and administrative expenses	22.6	22.4	23.7	23.7	
Operating income	14.8	15.4	12.7	13.3	
Interest expense	1.1	1.1	1.1	0.9	
Other nonoperating income (expense)	—	—	—	(0.1	)
Income before income taxes	13.7	14.3	11.6	12.3	
Income tax expense	1.0	1.0	2.2	2.3	
Net income	12.7	% 13.3	% 9.4	% 10.0	%

## Operating Income

The following table summarizes our operating income by segment for the periods presented (in millions; percentages rounded to the nearest 0.5 percent):

	Third Quarter		2011		First Nine Months		2011		
	2012	Percent of Total	Amount	Percent of Total	2012	Percent of Total	Amount	Percent of Total	
Europe	\$322	105.0 %	\$364	110.5 %	\$879	113.0 %	\$972	114.0 %	%
Corporate	(16 )	(5.0 )	(34 )	(10.5 )	(101 )	(13.0 )	(119 )	(14.0 )	)
Consolidated	\$306	100.0 %	\$330	100.0 %	\$778	100.0 %	\$853	100.0 %	%

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## COCA-COLA ENTERPRISES, INC.

During the third quarter and first nine months of 2012, we had operating income of \$306 million and \$778 million, respectively, compared to \$330 million and \$853 million in the third quarter and first nine months of 2011, respectively. The following table summarizes the significant components of the year-over-year change in our operating income for the periods presented (in millions; percentages rounded to the nearest 0.5 percent):

	Third Quarter 2012			First Nine Months 2012		
	Amount	Change Percent of Total		Amount	Change Percent of Total	
Changes in operating income:						
Impact of bottle and can price-mix on gross profit	\$84	25.5	%	\$320	37.5	%
Impact of bottle and can cost-mix on gross profit	(66)	) (20.0	)	(229)	) (27.0	)
Impact of bottle and can volume on gross profit	2	0.5		(52)	) (6.0	)
Impact of post-mix, non-trade, and other on gross profit	(2)	) (0.5	)	(13)	) (1.5	)
Net mark-to-market gains related to non-designated commodity hedges	16	5.0		5	0.5	
Net impact of restructuring charges	(11)	) (3.5	)	(18)	) (2.0	)
Impact of Tax Sharing Agreement indemnification changes	—	—		5	0.5	
Other selling, delivery, and administrative expenses	(20)	) (6.0	)	(25)	) (3.0	)
Currency exchange rate changes	(26)	) (8.0	)	(68)	) (8.0	)
Other changes	(1)	) (0.5	)	—	—	
Change in operating income	\$(24)	) (7.5	)%	\$(75)	) (9.0	)%

## Net Sales

Net sales decreased 3.5 percent in the third quarter of 2012 to \$2.1 billion, and decreased 4.0 percent in the first nine months of 2012 to \$6.1 billion. These changes include increases of 2.0 percent for both the third quarter and first nine months of 2012 due to the increased French excise tax. These changes also include unfavorable currency exchange rate decreases of 8.0 percent and 7.0 percent for the third quarter and first nine months of 2012, respectively.

Net sales per case decreased 3.5 percent in the third quarter of 2012 versus the third quarter of 2011, and decreased 1.5 percent in the first nine months of 2012 versus the first nine months of 2011. The following table summarizes the significant components of the year-over-year change in our net sales per case for the periods presented (rounded to the nearest 0.5 percent and based on wholesale physical case volume):

	Third Quarter 2012	First Nine Months 2012
Changes in net sales per case:		
Bottle and can net price per case (excluding French excise tax increase)	2.5	% 3.0
French excise tax increase	2.0	2.5
Bottle and can currency exchange rate changes	(7.5)	) (7.0)
Post-mix, non-trade, and other	(0.5)	) —
Change in net sales per case	(3.5)	)% (1.5)

During the third quarter of 2012, our bottle and can sales accounted for approximately 93 percent of our total net sales. Bottle and can net price per case is based on the invoice price charged to customers reduced by promotional allowances and is impacted by the price charged per package or brand, the volume generated by each package or brand, and the channels in which those packages or brands are sold. To the extent we are able to increase volume in higher-margin packages or brands that are sold through higher-margin channels, our bottle and can net pricing per case will increase without an actual increase in wholesale pricing. Our bottle and can net price per case grew 2.5 percent during the third quarter of 2012, reflecting moderate year-over-year rate increases.

During the third quarter and first nine months of 2012, our net sales included approximately \$40 million and \$130 million, respectively, in incremental revenue as a result of the cost associated with the increased French excise tax on beverages with added sweetener (nutritive and non-nutritive), substantially all of which was borne by our customers in the form of higher prices. We estimate that the full year 2012 impact on our net sales will be approximately \$170 million.

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## COCA-COLA ENTERPRISES, INC.

## Volume

The following table summarizes the year-over-year change in our bottle and can volume for the periods presented (selling days were the same in the third quarter and first nine months of 2012 and 2011; rounded to the nearest 0.5 percent):

	Third Quarter 2012	First Nine Months 2012
Change in volume	0.5	% (2.5
Brands		)%

The following table summarizes our bottle and can volume results by major brand category for the periods presented (selling days were the same in the third quarter and first nine months of 2012 and 2011; change is versus same period from prior year; rounded to the nearest 0.5 percent):

	Third Quarter			First Nine Months		
	Change	2012 Percent of Total	2011 Percent of Total	Change	2012 Percent of Total	2011 Percent of Total
Coca-Cola trademark	(3.0 )%	66.0 %	68.0 %	(3.0 )%	68.0 %	68.5 %
Sparkling flavors and energy	2.0 )	18.5	18.5	(2.0 )	18.0	18.0
Juices, isotonic, and other	11.5	11.5	10.5	(1.0 )	10.5	10.5
Water	21.0	4.0	3.0	6.5	3.5	3.0
Total	0.5 %	100.0 %	100.0 %	(2.5 )%	100.0 %	100.0 %

Our volume performance during the third quarter of 2012 was impacted by poor weather conditions early in the quarter, the increased French excise tax, and the ongoing macroeconomic challenges. Despite these challenges, we continued to execute our operating plans in the marketplace, including our planned promotional initiatives around the 2012 London Olympic Games, and achieved modest volume growth of 0.5 percent versus the third quarter of 2011. Our volume performance during the third quarter of 2012 included a 13.5 percent increase in the sale of still beverages, offset partially by a decline in the sales of sparkling beverage brands of 2.0 percent. Volume in continental Europe (including our Norway and Sweden territories) remained flat year-over-year. Great Britain experienced an overall volume increase during the third quarter of 2012 of 0.5 percent. These results reflect the continued challenging operating environment and poor weather conditions early in the quarter, offset by solid marketplace execution and planned promotional activities, particularly those surrounding the 2012 London Olympic Games. We continued to experience increased sales of Coca-Cola Zero across our territories, as well as in our energy drink portfolio, with growth in brands such as Monster, Nalu, and Relentless. We also experienced increased volume resulting from the recent launch of several re-formulated products, including stevia-based Nestea.

Our Coca-Cola trademark sparkling brand volume declined 3.0 percent in the third quarter of 2012 as compared to the third quarter of 2011. This decrease was driven by a decline in the sales of Coca-Cola Classic and Diet Coke/Coca-Cola light, offset partially by the continued growth of Coca-Cola Zero. Sparkling flavors and energy volume increased 2.0 percent in the third quarter of 2012, reflecting volume increases in Dr Pepper and Sprite, as well as the strong performance of our energy drink portfolio, particularly Monster. Juices, isotonic, and other volume increased 11.5 percent in the third quarter of 2012, including a greater than 20.0 percent increase in the sale of Capri-Sun as we benefited from competitor product disruption, and a significant volume gain for our newly re-formulated stevia-based Nestea brand in continental Europe. Sales volume of our water brands increased 21.0 percent in the third quarter of 2012, reflecting a significant increase in the sale of Chaudfontaine in continental Europe and strong volume results for Schweppes Abbey Well, which was the official water of the 2012 London Olympic Games.





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## COCA-COLA ENTERPRISES, INC.

## Consumption

The following table summarizes our volume by consumption type for the periods presented (selling days were the same in the third quarter and first nine months of 2012 and 2011; change is versus same period from prior year; rounded to the nearest 0.5 percent):

	Third Quarter			First Nine Months		
	Change	2012 Percent of Total	2011 Percent of Total	Change	2012 Percent of Total	2011 Percent of Total
Multi-serve <sup>(A)</sup>	0.5	% 55.5	% 55.5	% (2.5)	% 56.5	% 57.0
Single-serve <sup>(B)</sup>	0.5	44.5	44.5	(2.0)	43.5	43.0
Total	0.5	% 100.0	% 100.0	% (2.5)	% 100.0	% 100.0

<sup>(A)</sup> Multi-serve packages include containers that are typically greater than one liter, purchased by consumers in multi-packs in take-home channels at ambient temperatures, and are intended for consumption in the future.

Single-serve packages include containers that are typically one liter or less, purchased by consumers as a single

<sup>(B)</sup> bottle or can in cold drink channels at chilled temperatures, and are intended for consumption shortly after purchase.

## Packages

The following table summarizes our volume by package type for the periods presented (selling days were the same in the third quarter and first nine months of 2012 and 2011; change is versus same period from prior year; rounded to the nearest 0.5 percent):

	Third Quarter			First Nine Months		
	Change	2012 Percent of Total	2011 Percent of Total	Change	2012 Percent of Total	2011 Percent of Total
PET (plastic)	(1.0)	% 43.5	% 44.0	% (3.5)	% 44.0	% 44.5
Cans	(1.0)	39.5	40.0	(2.0)	40.0	40.0
Glass and other	7.0	17.0	16.0	0.5	16.0	15.5
Total	0.5	% 100.0	% 100.0	% (2.5)	% 100.0	% 100.0

## Cost of Sales

Cost of sales decreased 3.0 percent in both the third quarter and first nine months of 2012 to \$1.3 billion and \$3.9 billion, respectively. These changes include increases of 3.0 percent and 3.5 percent for the third quarter and first nine months of 2012, respectively, due to the implementation of the additional French excise tax beginning January 1, 2012. These changes also include decreases of 8.0 percent and 7.0 percent during the third quarter and first nine months of 2012, respectively, due to currency exchange rate changes. The following table summarizes the significant components of the year-over-year change in our cost of sales per case for the periods presented (rounded to the nearest 0.5 percent and based on wholesale physical case volume):

	Third Quarter 2012	First Nine Months 2012
Changes in cost of sales per case:		
Bottle and can ingredient and packaging costs (excluding French excise tax increase)	2.0	% 2.5
French excise tax increase	3.5	3.5
Bottle and can currency exchange rate changes	(8.0)	(7.0)
Post mix, non-trade, and other	(0.5)	—
Change in cost of sales per case	(3.0)	% (1.0)

Despite some overall moderation, the cost environment remains volatile, and we continue to seek opportunities to mitigate our exposure to commodity price volatility through the use of supplier agreements and hedging instruments. During the third quarter and first nine months of 2012, our cost of sales included approximately \$40 million and \$130 million, respectively, in incremental costs as a result of the increased French excise tax on beverages with added sweetener (nutritive and non-nutritive). Substantially all of the increased cost was borne by our customers in the form of higher prices. We estimate that the full year 2012 impact on our cost of sales will be approximately \$170 million.

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## COCA-COLA ENTERPRISES, INC.

## Selling, Delivery, and Administrative Expenses

Selling, delivery, and administrative (SD&A) expenses decreased \$9 million, or 2.0 percent, in the third quarter of 2012 to \$469 million from \$478 million in the third quarter of 2011, and decreased \$50 million, or 3.5 percent, in the first nine months of 2012 to \$1.5 billion. These changes include currency exchange rate decreases of 7.0 percent and 5.5 percent for the third quarter and first nine months of 2012, respectively. The following table summarizes the significant components of the year-over-year change in our SD&A expenses for the periods presented (in millions; percentages rounded to the nearest 0.5 percent):

	Third Quarter 2012		First Nine Months 2012	
	Amount	Change Percent of Total	Amount	Change Percent of Total
Changes in SD&A expenses:				
General and administrative expenses	\$15	3.0 %	\$6	0.5 %
Selling and marketing expenses	(1 )	—	(2 )	—
Delivery and merchandising expenses	(3 )	(0.5 )	2	—
Warehousing expenses	5	1.0	15	1.0
Depreciation and amortization expenses	—	—	3	—
Net mark-to-market gains related to non-designated commodity hedges	(6 )	(1.5 )	(1 )	—
Net impact of restructuring charges	11	2.5	18	1.0
Impact of Tax Sharing Agreement indemnification changes	—	—	(5 )	(0.5 )
Currency exchange rate changes	(34 )	(7.0 )	(87 )	(5.5 )
Other	4	0.5	1	—
Change in SD&A expenses	\$(9 )	(2.0 )%	\$(50 )	(3.5 )%

SD&A expenses as a percentage of net sales was 22.6 percent and 22.4 percent in the third quarter of 2012 and 2011, respectively, and 23.7 percent in both the first nine months of 2012 and 2011. During the third quarter of 2012, we experienced an increase in operating expenses on a currency neutral basis, primarily resulting from our planned marketplace initiatives surrounding the 2012 London Olympic Games. Despite these additional planned expenditures, we were able to limit our underlying operating expense growth by remaining diligent in our expense control initiatives and by targeting cost reductions across all discretionary cost categories.

## Business Transformation Program

During the third quarter of 2012, we initiated a business transformation program designed to improve our operating model and platform for driving sustainable future growth. Subject to consultations with workers' councils, through this program we intend to: (1) streamline and reduce the cost structure of our finance support functions, including the establishment of a new centralized shared services center; (2) restructure our sales and marketing organization to better align central and field sales, and to deploy standardized channel-focused organizations within each of our territories; and (3) improve the efficiency and effectiveness of certain aspects of our operations, including service activities related to our cold-drink equipment.

We expect to be substantially complete with this program by the end of 2014 and anticipate nonrecurring restructuring charges of approximately \$200 million, including severance, transition, consulting, accelerated depreciation, and lease termination costs. Approximately \$20 million of this amount is expected to be non-cash. During the third quarter of 2012, we recorded nonrecurring restructuring charges under this program totaling \$2 million, principally related to consulting. All nonrecurring restructuring charges related to this program are included in SD&A expenses on our Condensed Consolidated Statements of Income.

Under this program, including non-restructuring related business process improvement initiatives, we expect to generate ongoing annual cost savings of approximately \$100 million by 2015, some of which we expect to reinvest

into the business.

**Norway Business Optimization Program**

In early 2012, we launched a project in Norway to restructure and optimize certain aspects of our operations. This project will take place during 2012 and 2013 and is expected to result in approximately \$60 million in capital expenditures and approximately \$60 million in nonrecurring restructuring charges. During the third quarter and first nine months of 2012, we recorded nonrecurring restructuring charges totaling \$10 million and \$32 million, respectively, under this program. Refer to Note 13 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

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## COCA-COLA ENTERPRISES, INC.

## Interest Expense

Interest expense during both the third quarter of 2012 and the third quarter of 2011 was \$23 million. Interest expense increased \$7 million in the first nine months of 2012 to \$69 million from \$62 million in the first nine months of 2011. The following table summarizes the primary items that impacted our interest expense for the periods presented (\$ in millions):

	Third Quarter		First Nine Months		
	2012	2011	2012	2011	
Average outstanding debt balance	\$3,364	\$2,907	\$3,146	\$2,668	
Weighted average cost of debt	2.8	% 2.9	% 2.9	% 2.9	%
Fixed-rate debt (% of portfolio) <sup>(A)</sup>	85	% 97	% 85	% 97	%
Floating-rate debt (% of portfolio) <sup>(A)</sup>	15	% 3	% 15	% 3	%

During the first quarter of 2012, we entered into a fixed-to-floating interest rate swap on our \$400 million notes <sup>(A)</sup> due November 2013. As of September 28, 2012, the effective rate on these notes was approximately 0.9 percent.

Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

## Other Nonoperating Income (Expense)

Other nonoperating income totaled \$1 million and \$4 million during the third quarter and first nine months of 2012, respectively, compared to other nonoperating expense of \$1 million and \$4 million during the third quarter and first nine months of 2011, respectively. Our other nonoperating income (expense) principally includes gains and losses on transactions denominated in a currency other than the functional currency of a particular legal entity.

## Income Tax Expense

Our effective tax rate was approximately 19 percent for both the first nine months of 2012 and 2011. We expect our underlying full year 2012 effective tax rate to be approximately 26 percent to 28 percent. Refer to Note 10 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q for a reconciliation of our income tax provision to the U.S. statutory rate for the first nine months of 2012 and 2011.

During the third quarter of 2012, the United Kingdom enacted a corporate income tax rate reduction of 2 percentage points, 1 percentage point retroactive to April 1, 2012, and 1 percentage point effective April 1, 2013. As a result, we recognized a deferred tax benefit of \$50 million during the third quarter of 2012 to reflect the impact of this change on our deferred taxes.

During the third quarter of 2011, the United Kingdom enacted a corporate income tax rate reduction of 2 percentage points, 1 percentage point retroactive to April 1, 2011, and 1 percentage point effective April 1, 2012. As a result, we recognized a deferred tax benefit of \$53 million during the third quarter of 2011 to reflect the impact of this change on our deferred taxes.

## Cash Flow and Liquidity Review

## Liquidity and Capital Resources

Our sources of capital include, but are not limited to, cash flows from operations, public and private issuances of debt and equity securities, and bank borrowings. We believe that our operating cash flow, cash on hand, and available short-term and long-term capital resources are sufficient to fund our working capital requirements, scheduled debt payments, interest payments, capital expenditures, benefit plan contributions, income tax obligations, dividends to our shareowners, any contemplated acquisitions, and share repurchases for the foreseeable future. We continually assess the counterparties and instruments we use to hold our cash and cash equivalents, with a focus on preservation of capital and liquidity. Based on information currently available, we do not believe that we are at significant risk of default by our counterparties.

During the third quarter of 2012, we entered into a \$1 billion multi-currency credit facility with a syndicate of eight banks as a replacement of our previous \$1 billion multi-currency credit facility. This credit facility matures in 2017

and is for general corporate purposes, including serving as a backstop to our commercial paper program and supporting our working capital needs. At September 28, 2012, our availability under this credit facility was \$1 billion. Based on information currently available to us, we have no indication that the financial institutions syndicated under this facility would be unable to fulfill their commitments to us as of the date of the filing of this report.

We satisfy seasonal working capital needs and other financing requirements with operating cash flow, cash on hand, short-term borrowings under our commercial paper program, bank borrowings, and our line of credit. At September 28, 2012, we had \$230 million in debt maturities in the next 12 months. We intend to repay our short-term obligations with either operating cash flow

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COCA-COLA ENTERPRISES, INC.

and cash on hand, or by refinancing with commercial paper or long-term debt securities. In the event that we are temporarily unable to issue sufficient debt securities, we expect to have the ability to borrow under our primary committed credit facility.

In October 2010, our Board of Directors approved a resolution to authorize the repurchase of up to 65 million shares, for an aggregate purchase price of not more than \$1 billion, as part of a publicly announced program. This program was completed at the end of 2011. In September 2011, our Board of Directors approved a resolution to authorize additional share repurchases for an aggregate purchase price of not more than \$1 billion, subject to the cumulative 65 million share repurchase limit. Unless terminated by resolution of our Board of Directors, our current share repurchase program will expire when we have repurchased all shares authorized under the program. During the first nine months of 2012, we repurchased \$600 million in outstanding shares under this program. We currently expect to reach our cumulative 65 million share repurchase limit by the end of 2012 by repurchasing an additional 5.8 million in outstanding shares, subject to economic, operating, and other factors, including acquisition opportunities. For additional information about our share repurchase program, refer to Note 14 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

During the fourth quarter of 2012, we expect to repatriate a portion of our 2012 foreign earnings to satisfy our 2012 U.S.-based cash flow needs. The amount to be repatriated to the U.S. will depend on, among other things, our actual 2012 foreign earnings and our actual 2012 U.S.-based cash flow needs. For additional information about our repatriation of foreign earnings, refer to Note 10 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

At September 28, 2012, \$520 million of the cash and cash equivalents recorded on our Condensed Consolidated Balance Sheets was held by consolidated entities that are located outside of the U.S. Our disclosure of the amount of cash and cash equivalents held by consolidated entities located outside of the U.S. is not meant to imply the amount will be repatriated to the U.S. at a future date. Any future repatriation of foreign earnings to the U.S. will be based on actual U.S.-based cash flow needs and actual foreign entity cash available at the time of the repatriation.

Dividend payments on our common stock totaled \$142 million and \$122 million during the first nine months of 2012 and 2011, respectively. In February 2012, our Board of Directors approved a \$0.03 per share increase in our quarterly dividend from \$0.13 per share to \$0.16 per share beginning in the first quarter of 2012.

**Credit Ratings and Covenants**

Our credit ratings are periodically reviewed by rating agencies. Currently, our long-term ratings from Moody's, Standard and Poor's (S&P), and Fitch are A3, BBB+, and BBB+, respectively. Our ratings outlook from Moody's, S&P, and Fitch are stable. Changes in our operating results, cash flows, or financial position could impact the ratings assigned by the various rating agencies. Our debt rating can be materially influenced by a number of factors including, but not limited to, acquisitions, investment decisions, and capital management activities of TCCC and/or changes in the debt rating of TCCC. Should our credit ratings be adjusted downward, we may incur higher costs to borrow, which could have a material impact on our financial condition and results of operations.

Our credit facility and outstanding notes contain various provisions that, among other things, require us to limit the incurrence of certain liens or encumbrances in excess of defined amounts. Additionally, our credit facility requires that our net debt to total capital ratio does not exceed a defined amount. We were in compliance with these requirements as of September 28, 2012. These requirements currently are not, nor is it anticipated that they will become, restrictive to our liquidity or capital resources.

**Summary of Cash Activities**

During the first nine months of 2012, our primary sources of cash included: (1) \$683 million from operating activities; and (2) \$430 million from third-party debt issuances. Our primary uses of cash included: (1) the repurchase of \$600 million of shares under our share repurchase program; (2) capital asset investments of \$254 million; (3) dividend payments on common stock of \$142 million; and (4) contributions to our defined benefit pension plans of \$86 million. During the first nine months of 2011, our primary sources of cash included: (1) \$900 million from third-party debt issuances; (2) \$653 million from operating activities; and (3) the receipt of \$70 million from TCCC for the settlement

of items related to the Merger. Our primary uses of cash were: (1) the repurchase of \$600 million of shares under our share repurchase program; (2) capital asset investments of \$252 million; (3) net payments on commercial paper of \$145 million; and (4) dividend payments on common stock of \$122 million.

Operating Activities

Our net cash derived from operating activities totaled \$683 million in the first nine months of 2012 versus \$653 million in the first nine months of 2011. This increase of \$30 million was primarily driven by positive working capital changes, offset partially



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## COCA-COLA ENTERPRISES, INC.

by a weaker operating performance and a year-over-year increase in contributions made to our defined benefit plans. For additional information about other changes in our assets and liabilities, refer to the Financial Position discussion below.

Investing Activities

Our capital asset investments represent the principal use of cash for our investing activities. The following table summarizes our capital asset investments for the periods presented (in millions):

	First Nine Months	
	2012	2011
Supply chain infrastructure improvements	\$123	\$124
Cold drink equipment	89	88
Information technology	29	29
Fleet and other	13	11
Total capital asset investments	\$254	\$252

During 2012, we expect our capital expenditures to be between \$375 million and \$400 million and to be invested in a similar proportion of asset categories as those listed in the previous table.

Financing Activities

Our net cash used in financing activities totaled \$330 million during the first nine months of 2012 versus net cash derived from financing activities of \$105 million during the first nine months of 2011. The following table summarizes our financing activities related to issuances of and payments on debt for the periods presented (in millions):

	Maturity Date	Rate	First Nine Months	
			2012	2011
Issuances of debt				
\$300 million notes	September 2021	4.5%	\$—	\$300
\$100 million notes	February 2014	(A)	—	100
\$250 million notes	August 2016	2.0%	—	250
\$250 million notes	August 2021	3.3%	—	250
€350 million notes	December 2019	2.0%	430	—
Total issuances of debt			\$430	\$900
			First Nine Months	
Payments on debt	Maturity Date	Rate	2012	2011
Other payments, net	—	—	\$(13	) \$(9
Total payments on debt, excluding commercial paper			(13	) (9
Net payments on commercial paper			—	(145
Total payments on debt			\$(13	) \$(154

(A) These notes carry a variable interest rate at three-month USD LIBOR plus 30 basis points. As of September 28, 2012, the effective rate on these notes was approximately 0.7 percent.

During the first nine months of 2012, our financing activities also included the repurchase of \$600 million of shares under our share repurchase program and dividend payments on common stock of \$142 million.

During the first nine months of 2011, our financing activities included: (1) the repurchase of \$600 million of shares under our share repurchase program; (2) dividend payments on common stock of \$122 million; and (3) the receipt of \$70 million from TCCC for the settlement of items related to the Merger.



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## COCA-COLA ENTERPRISES, INC.

## Financial Position

## Assets

Trade accounts receivable increased \$116 million, or 8.5 percent, to \$1.5 billion at September 28, 2012 from \$1.4 billion at December 31, 2011. This increase was primarily attributable to the seasonality of our business, the effect of currency exchange rate changes, and increased sales during the latter part of the third quarter of 2012.

Amounts receivable from TCCC increased \$21 million, or 33.0 percent, to \$85 million at September 28, 2012 from \$64 million at December 31, 2011. This increase was attributable to the seasonality of our business.

Inventories increased \$10 million, or 2.5 percent, to \$413 million at September 28, 2012 from \$403 million at December 31, 2011. This increase was primarily driven by the seasonality of our business, as well as the effect of currency exchange rate changes.

Other current assets increased \$67 million, or 45.5 percent, to \$215 million at September 28, 2012 from \$148 million at December 31, 2011. This increase was primarily driven by an increase in our current assets related to derivative financial instruments, as well as an increase in certain current deferred income tax assets.

Franchise license intangible assets, net and goodwill increased \$111 million, or 3.0 percent, to \$4.0 billion at September 28, 2012 from \$3.9 billion at December 31, 2011. This increase was driven by the effect of currency exchange rate changes.

Other noncurrent assets increased \$109 million, or 38.5 percent, to \$392 million at September 28, 2012 from \$283 million at December 31, 2011. This increase was primarily driven by an increase in our noncurrent assets related to our defined benefit pension plans and to deferred taxes, offset by a decrease in our noncurrent assets related to derivative financial instruments.

## Liabilities and Equity

Accounts payable and accrued expenses increased \$91 million, or 5.5 percent, to \$1.8 billion at September 28, 2012 from \$1.7 billion at December 31, 2011. The increase in our accounts payable was primarily driven by the seasonality of our business and the timing of payments. The increase in our accrued expenses was principally related to our customer marketing programs, particularly in France as we continue to negotiate certain customer contracts, derivative financial instruments, and the effect of currency exchange rates. These increases were partially offset by a decrease in our accrued expenses related to employee compensation. For additional information about our accounts payable and accrued expenses, refer to Note 4 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

Current portion of debt increased \$214 million to \$230 million at September 28, 2012 from \$16 million at December 31, 2011. This increase was primarily driven by the maturity of our Swiss franc notes, which are due March 2013.

Debt, less current portion increased \$218 million, or 7.5 percent, to \$3.2 billion at September 28, 2012 from \$3.0 billion at December 31, 2011. This increase was driven by our issuance of €350 million, 2.0% notes due 2019, offset by the maturity date of our Swiss franc notes, which are due March 2013.

Other noncurrent liabilities increased \$42 million, or 26.5 percent, to \$202 million at September 28, 2012 from \$160 million at December 31, 2011. This increase was primarily attributable to an increase in our noncurrent liabilities related to derivative financial instruments.

Common stock in treasury, at cost increased \$633 million, or 62.5 percent, to \$1.6 billion at September 28, 2012 from \$1.0 billion at December 31, 2011. This increase was primarily driven by our repurchase of \$600 million in outstanding shares during the first nine months of 2012 under our share repurchase program. The remaining difference primarily represents shares withheld for taxes upon the vesting of share-based payment awards.

## Defined Benefit Plan Contributions

Contributions to our pension plans totaled \$86 million and \$41 million during the first nine months of 2012 and 2011, respectively. The following table summarizes our projected contributions for the full year ending December 31, 2012, as well as our actual contributions for the year ended December 31, 2011 (in millions):

	Projected <sup>(A)</sup>	Actual <sup>(A)</sup>
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	2012	2011
Total pension contributions	\$100	\$68

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(A) These amounts represent only contributions made by CCE. During the first quarter of 2012, we contributed an incremental \$40 million to our Great Britain defined benefit pension plan to improve the funded status of this plan. For additional

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COCA-COLA ENTERPRISES, INC.

information about the funded status of our defined benefit pension plans, refer to Note 9 of the Notes to Consolidated Financial Statements in our Form 10-K.

**Contingencies**

For information about our contingencies, refer to Note 8 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rates

Interest rate risk is present with both our fixed-rate and floating-rate debt. Interest rate swap agreements and other risk management instruments are used, at times, to manage our fixed/floating debt portfolio. At September 28, 2012, approximately 85 percent of our debt portfolio was comprised of fixed-rate debt, and 15 percent was floating-rate debt. We estimate that a 1 percent change in market interest rates as of September 28, 2012 would change the fair value of our fixed-rate debt outstanding as of September 28, 2012 by approximately \$220 million.

We also estimate that a 1 percent change in the interest costs of floating-rate debt outstanding as of September 28, 2012 would change interest expense on an annual basis by approximately \$5 million. This amount is determined by calculating the effect of a hypothetical interest rate change on our floating-rate debt after giving consideration to our interest rate swap agreements and other risk management instruments. This estimate does not include the effects of other actions to mitigate this risk or changes in our financial structure.

Currency Exchange Rates

Our operations are in Western Europe. As such, we are exposed to translation risk because our operations are in local currency and must be translated into U.S. dollars. As currency exchange rates fluctuate, translation of our Statements of Income into U.S. dollars affects the comparability of revenues, expenses, operating income, and diluted earnings per share between years. We estimate that a 10 percent unidirectional change in currency exchange rates would have changed our operating income for the third quarter and first nine months of 2012 by approximately \$30 million and \$90 million, respectively.

Commodity Price Risk

The competitive marketplace in which we operate may limit our ability to recover increased costs through higher sales prices. As such, we are subject to market risk with respect to commodity price fluctuations, principally related to our purchases of aluminum, PET (plastic), steel, sugar, and vehicle fuel. When possible, we manage our exposure to this risk primarily through the use of supplier pricing agreements that enable us to establish the purchase prices for certain commodities. We also, at times, use derivative financial instruments to manage our exposure to this risk. Including the effect of pricing agreements and other hedging instruments entered into to date, we estimate that a 10 percent increase in the market prices of these commodities over the current market prices would cumulatively increase our cost of sales during the next 12 months by approximately \$20 million. This amount does not include the potential impact of changes in the conversion costs associated with these commodities.

Certain of our suppliers restrict our ability to hedge prices through supplier agreements. As a result, at times, we enter into non-designated commodity hedging programs. Based on the fair value of our non-designated commodity hedges outstanding as of September 28, 2012, we estimate that a 10 percent change in market prices would change the fair value of our non-designated commodity hedges by approximately \$10 million. For additional information about our derivative financial instruments, refer to Note 6 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

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COCA-COLA ENTERPRISES, INC.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Coca-Cola Enterprises, Inc., under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rule 13a–15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (2) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended September 28, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

There have been no changes to the risk factors disclosed in Item 1A of Part 1, "Risk Factors," in our Form 10-K for the year ended December 31, 2011.



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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information about repurchases of Coca-Cola Enterprises, Inc. common stock made by us during the third quarter of 2012 (in millions, except average price per share):

Period	Total Number of Shares (or Units) Purchased <sup>(A)</sup>	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs <sup>(B)</sup>	Maximum Number or Approximate Dollar Value of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs <sup>(B)</sup>
June 30, 2012 through July 27, 2012	2.7	\$27.75	2.7	\$ 550.0
July 28, 2012 through August 24, 2012	2.5	29.41	2.5	475.0
August 25, 2012 through September 28, 2012	2.5	30.58	2.5	400.0
Total	7.7	\$29.20	7.7	\$ 400.0

(A) Shares repurchased were primarily attributable to shares purchased under our publicly announced share repurchase program and were purchased in open-market transactions.

In October 2010, our Board of Directors approved a resolution to authorize the repurchase of up to 65 million shares, for an aggregate purchase price of not more than \$1 billion, as part of a publicly announced program. This program was completed at the end of 2011. In September 2011, our Board of Directors approved a resolution to authorize additional share repurchases for an aggregate purchase price of not more than \$1 billion. These repurchases will be in addition to those authorized under the October 2010 resolution and are subject to the cumulative 65 million share repurchase limit. Unless terminated by resolution of our Board of Directors, our current share repurchase program will expire when we have repurchased all shares authorized under the program. We can repurchase shares in the open market and in privately negotiated transactions, subject to economic and market conditions, stock price, applicable legal and tax requirements, and other factors, including acquisition opportunities and the cumulative 65 million share repurchase limit.

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COCA-COLA ENTERPRISES, INC.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On October 25, 2012 the Company announced initiatives to restructure portions of its business. For a more detailed discussion of these initiatives and other related matters, including the anticipated costs relating thereto, refer to "Item 1. Notes to Condensed Consolidated Financial Statements" and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this quarterly report on Form 10-Q.

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## COCA-COLA ENTERPRISES, INC.

## Item 6. Exhibits

(a) Exhibit (numbered in accordance with Item 601 of Regulation S-K):

Exhibit Number	Description	Incorporated by Reference or Filed Herewith
10.1	Five Year Credit Agreement, dated September 20, 2012, amount Coca-Cola Enterprises, Inc., and the lenders party thereto, Citibank, N.A., as administrative agent, Deutsche Bank Securities Inc., as syndication agent, Credit Suisse Securities (USA) LLC, as documentation agent, and Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and Credit Suisse Securities (USA) LLC as joint lead arrangers and joint book managers.	Filed herewith.
10.2	Employment Agreement between John F. Brock and Coca-Cola Enterprises, Inc. (Date of Report: September 10, 2012)*	Filed herewith.
10.3	Employment Agreement between William Douglas and Coca-Cola Enterprises, Inc. (Date of Report: October 8, 2012)*	Filed herewith.
10.4	Employment Agreement between John Parker and Coca-Cola Enterprises, Inc. (Date of Report: September 11, 2012)*	Filed herewith.
12	Ratio of Earnings to Fixed Charges.	Filed herewith.
31.1	Certification of John F. Brock, Chairman and Chief Executive Officer of Coca-Cola Enterprises, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of William W. Douglas III, Executive Vice President and Chief Financial Officer of Coca-Cola Enterprises, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of John F. Brock, Chairman and Chief Executive Officer of Coca-Cola Enterprises, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.2	Certification of William W. Douglas III, Executive Vice President and Chief Financial Officer of Coca-Cola Enterprises, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101.INS	XBRL Instance Document.	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith.

101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith.

\* Management contracts and compensatory plans or arrangements required to be filed as exhibits to this form, pursuant to Item 15(b).

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COCA-COLA ENTERPRISES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COCA-COLA ENTERPRISES, INC.  
(Registrant)

Date: October 26, 2012

/s/ William W. Douglas III  
William W. Douglas III  
Executive Vice President and Chief Financial Officer

Date: October 26, 2012

/s/ Suzanne D. Patterson  
Suzanne D. Patterson  
Vice President, Controller, and Chief Accounting Officer