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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I would like to welcome everyone to The Coca-Cola Company's Fourth Quarter 2015 Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. All participants will be in a listen-only mode until the formal question and answer portion of the call. [Operator Instructions]

I would like to remind everyone that the purpose of this conference is to talk with investors and, therefore, questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations department if they have questions.

I would now like to introduce Tim Leveridge, Vice President and Investor Relations Officer. Mr. Leveridge, you may begin.

Timothy K. Leveridge
Vice President & Director, Investor Relations

Good morning and thank you for being with us today. I'm joined by: Muhtar Kent, our Chairman and Chief Executive Officer; James Quincey, our President and Chief Operating Officer; and Kathy Waller, our Chief Financial Officer. Before we begin, I would like to inform you that you can find webcast materials in the Investors section of our company website at www.coca-colacompany.com that support the prepared remarks by Muhtar, James and Kathy this morning.

I would also like to note that we have posted schedules under the Financial Reports and Information tab in the Investors section of our company website. These schedules reconcile certain non-GAAP financial measures, which may be referred to by our senior executives during this morning's discussion, to results as reported under generally accepted accounting principals. Please look on our website for this information.

In addition, this conference call may contain forward-looking statements, including statements concerning long-term earnings objectives, and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic SEC report.

Following prepared remarks this morning, we will turn the call over for your questions. In order to allow as many people to ask questions as possible, we ask you to limit yourself to one question.

Now, let me turn the call over to Muhtar.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

Thank you, Tim, and good morning, everyone. In late 2014, we announced a clear five point plan to reinvigorate our growth and increase profitability. We committed to transform the company to one that is focused on our core value creation model of building strong brands, enhancing customer relationships, and leading our franchise system with a goal of becoming a leaner, higher margin, higher return and more focused company. And I'm pleased to say that we made significant progress against our initiatives, including the very important announcement this morning about accelerating our refranchising. Importantly, our progress against these initiatives is leading to improving performance, even in a very challenging macro environment.

Let's start with our key announcements today. One of our five strategic initiatives has been to refocus on our core business of building brands and leading our system of bottling partners. As part of this, we've continued to advance our global refranchising initiatives. With the success of our efforts in Europe and North America, we have the confidence to accelerate our plans.

In North America, we learned a significant amount from our initial territory transition efforts. Including the additional territories announced this morning, to-date, we have signed agreements or transferred territories representing over 40% of U.S. bottle can volume. At the same time, the performance of our North America businesses continue to improve throughout this process, delivering the highest revenue growth in three years, while we executed this important transformation. Based on our success and the knowledge we gained through the transitions, we're now ready to accelerate the pace.

Today, we announced we are committed to refranchising 100% of our bottling territories, including Coke cold-fill production by the end of 2017. This is a critical step for our entire system in North America. It will not be easy and will require the hard work and dedicated efforts of our entire team and close collaboration with our bottling partners. So we have a clear plan in place, and are confident that this is essential for our future success.

Moving on to China, our bottling system in this dynamic country has evolved to the point where refranchising is the next logical step. Today, we are the bottler for roughly one-third of our dynamic China business. We have now entered into a non-binding letter of intent to refranchise our bottling operations to our existing partners, COFCO and Swire. These bottlers have been excellent partners, demonstrating their willingness and capability to grow the China business for the long-term. Therefore, we believe they are ready to take on additional territory and look forward to strengthening our partnerships with them.

These new announcements, combined with the pending creation of Coca-Cola European Partners and Coca-Cola Beverages Africa, as well as our investment in our Indonesian bottler, will strengthen our global bottling system for the coming decades. To put it in perspective, adjusting for these transactions, the percent of our 2015 volume sold through company-owned bottlers would have decreased from 18% to 3%. None of this would have been possible without the continuous investment and hard work of our Bottling Investments Group. When we are finished, our Bottling Investments Group will be smaller, more focused, but will remain a critical strategic growth enabler for our company.

Taking a step back, I'm proud of the progress we've made over the past 18 months and look forward to completing the next critical phase of our journey. When we complete these refranchising efforts by the end of 2017, we will look very different than we do today, as we return to a company that is focused on our core strength of building strong, sustainable and valuable brands, creating value for our customers and partners and continuing to drive system capabilities. As a result, we will become less capital intensive, with significantly higher margins and returns, which will enable our core strengths even further.

Another of our five strategic initiatives is targeting disciplined brand and growth investments. While much of this discussion has been about increasing the quantity of our marketing, we know that improving the quality of our marketing is just as critical for success. That is why I am particularly pleased by Coca-Cola's new global marketing campaign. Actually, this is not just a new global campaign, but a new business approach. While we've added a lot of choices to the trademark Coca-Cola portfolio over the years, drinks with calories, without calories, with caffeine or without, this is our first campaign ever to cover all the refreshing brands within our Coca-Cola trademark portfolio.

As the most valuable beverage brand in the world, people continue to love our brand, but we recognize consumers want to enjoy Coca-Cola in different ways. Regardless of which one they want, they want a Coca-Cola brand with great taste and uplifting refreshment. Our One Brand strategy transitions us to a single iconic brand campaign that celebrates both the product as well as the brand. Importantly, this campaign gets back to our roots, featuring the product at the heart of the creative, and celebrating the experience and simple pleasures of drinking a Coca-Cola, any Coca-Cola.

This campaign is also an example of how we are transforming the way we work to be faster with reduced costs. This campaign was built end-to-end from the start, from consumer through to shopper, digital, and music, and was developed to support the entire globe. This helped us reduce the number of agencies and better leverages production costs as well. This discipline, combined with the inspiration of our talented marketing teams, is what will continue to fuel our growth.

While trademark Coca-Cola is the oxygen for our company, we have the leading portfolio of strong valuable brands across multiple categories. And this portfolio continues to grow with 20 $1 billion brands and a strong pipeline of growing regional brands. This year, we gained global value share across the core sparkling packaged water, juice, and juice drinks, energy drinks and ready-to-drink tea categories. In addition to internal innovation, we look externally for bolt-on opportunities to expand our still beverage portfolio and capabilities.

Just last week, we announced an investment in Chi Limited, Nigeria's leading value-added dairy and juice company. This adds to our other recent investments, including Monster, Suja, and fairlife, expanding our presence in the energy juice and value-added dairy categories. Last quarter, we also announced our intention to sell our shares in conjunction with JAB Holdings' pending acquisition of Keurig Green Mountain. We will recover our initial investment when that transaction closes, while continuing to drive our Keurig KOLD opportunity in the marketplace.

In summary, we recognize we still have much work to do, but we have a clear plan, clear path to transform the company, becoming more focused on our core business of building brands and leading our system of bottling partners, thereby giving us even greater confidence to achieve our long-term growth targets.

I will now hand the call over to our Chief Operating Officer, James Quincey, who will provide you with a more detailed look at our operating performance in 2015.

James Quincey

President & Chief Operating Officer

Thank you, Muhtar. Good morning, everyone. So, as Muhtar mentioned, let me spend a few minutes reviewing our 2015 operational performance, before handing the call over to Kathy.

In 2015, we delivered our plan for our transition year, despite challenging macroeconomic environments. We gained value share in NARTD, sparkling and still beverages, an important metric for us as we manage the business, especially during periods of slower economic growth and volatility. For the full year, organic growth of revenues was 4% and, importantly, we delivered 2% global price/mix. This was stronger price realization than we have generated in several years, reflecting our segmented revenue growth management strategies and enabled by our increased investments in media.

Unit case volume grew 2% for the year. We're pleased with this volume performance, given our focus on improving price realization during a time when consumer spending was pressured in many markets.

And I'm also pleased to confirm that globally, we captured over $600 million in productivity, ahead of the target we set for ourselves at the beginning of the year. So structurally-adjusted, comparable currency neutral income before tax grew 6% for the year, as we benefited from the productivity efforts and favorable commodities, although partially offset by our increased media investments.

During the year, we saw a slowing environment in China and challenges in several key emerging markets, including Brazil and Russia. This was offset by solid performance in North America and many of our Latin American markets. North America itself delivered its strongest performance in three years, delivering 4% organic revenue growth, with three points of price realization, supported by our increased marketing efforts and a disciplined approach to volume, price and mix management.

Consistent with this strategic focus, our driving of consumption small packages could be seen across North America. We grew purchase transactions 3%, outpacing the 1% unit case volume growth, as consumers increasingly reached for the mini cans, the smaller PET, the 8-ounce glass bottles, as well as our premium aluminum bottles, all of which drive more value per occasion than our traditional packages. Hopefully, many of you also saw an example of this strategic focus on Sunday night during the Super Bowl, when we add our latest commercial focusing exclusively on the mini can package.

Our performance in 2015 gives us confidence that our strategies are working and that our underlying performance will be within our long-term targets in 2016. However, let me be clear. The global economy remains challenged and is not improving rapidly. We do see slightly better GDP growth rates for 2016 as compared to 2015. But to be fair, forecasts continue to be revised downwards and there is still much uncertainty. Notable are Brazil and Russia continuing to deteriorate, while China's growth rate does also slow, putting pressure across many of the emerging and developing markets.

Now, while helpful to consumers, the lower price of oil is also causing volatility in the Middle East and other oil-driven export economies, with further implications for those nations. So, given the erratic nature of the global economy, we will continue to focus on what we can control in order to deliver our plan. We will continue to build on the fundamentals of our strategy for long-term success, while delivering solid revenue growth and strong, underlying operating margin expansion, through the expected continued management of our portfolio, price/mix and productivity efforts.

With that, I'm going to hand off to Kathy, who will give you additional details on North American productivity programs, and walk through the 2016 outlook.

Kathy N. Waller

Chief Financial Officer & Executive Vice President

Thank you, James, and good morning, everyone. In the interest of time this morning, I intend to cover just three topics: North America refranchising; our updated productivity targets; and our outlook for 2016.

Let me start with our refranchising efforts in North America. As we accelerate our refranchisings, we are returning to our core business of brand building, driving customer value and leading the system. At the same time, the refranchising causes a lot of complexity in our North America P&L. Therefore, in order for management to view the underlying performance of our core business in North America separately, we made the decision to adjust our operating segments such that, starting in 2016, CCR will be reported within our Bottling Investments Group.

Going forward, the vast majority of any structural impacts to our business will now be reported within a single operating segment. We believe this will also be helpful to our investors for the same reason of assessing the continued underlying performance of our core business. We understand that the accelerated refranchising, coupled with the shift in reporting segments, will likely result in a lot of modeling questions. So we will provide revised operating segment financial information reflecting this change before the end of the quarter.

With regards to modeling, we are providing detailed structural guidance for 2016, the majority of which is related to the North America refranchising efforts. The remainder of the territories will transfer by the end of 2017, but the P&L impact will depend on the timing of transfers. We will share more with you at the appropriate time on the expected impact in 2017.

As we transition territories, we are committed to eliminating the temporary residual costs we have referenced in the past as quickly as possible, and we anticipate the majority of these will be removed in 2017. With that said, there could be a portion of residual costs remaining in 2018 as we wind down the final support of these operations, but this amount would be relatively small and would be eliminated by the end of 2018.

Our productivity program is also evolving due to the accelerated refranchising. Approximately half of our $3 billion productivity program was expected to come from supply chain savings. And a significant portion of those savings were expected to come from North America, due to the size and finished goods nature of the business.

Now that we are accelerating our refranchising, we will no longer be able to capture a portion of the identified supply chain savings prior to divestiture. However, we have built a disciplined process and capabilities that have allowed us to exceed our goals to-date, and identify incremental opportunities within cost of goods sold, operating expenses and marketing to replace the supply chain savings being refranchised, thus enabling us to maintain our $3 billion target.

As we've communicated to you in the past, we said we would continue to look at every layer of spending as we move through the productivity work and we have done just that. Coupled with the success we've seen so far, we have the confidence to effectively raise our level of targeted savings across our remaining spend base. With the incremental savings identified in our core business and the fact that our addressable cost base will substantially reduce post-2017, it should be even more evident that our $3 billion program represents a sizable opportunity. We look forward to providing further details at CAGNY next week.

Turning to outlook, despite challenging macro environments in many key markets around the world, our focus on revenue and disciplined brand investments continues to improve our top-line growth. Also, we are seeing productivity flow through our P&L. While much of this was obscured by currency and structural changes, we saw solid underlying margin expansion last year, even while we grew marketing expenses at a faster rate than gross profits. For those reasons, in 2016, we expect to be back on our long-term growth algorithm prior to any structural changes, which are primarily driven by our accelerated pace of refranchising.

Organic revenue is expected to grow 4% to 5%, in line with our long-term target, as our marketing investments continue to pay off. Given the current macro environment and lapping better comps in 2015, we believe this is a solid target.

We expect the commodity environment to be benign, but considering that we hedge our exposure to many commodities, we may not see the full benefit you would expect when looking at today's spot prices. Given the general weak macroeconomic environment and the associated pressure on top-line growth, we are focused on capturing more than $600 million of productivity in order to deliver our profit targets. We will do this even as we continue to increase the investments in media behind our brands and step up R&D investments in 2016.

Finally, we anticipate interest cost to increase in 2016 due to higher interest rates, as well as our decision to shift some of our debt from commercial paper to longer-term maturities that carry slightly higher interest rates.

After considering all of these factors, we expect comparable currency neutral income before tax, structurally-adjusted, to grow 6% to 8% in 2016, in line with our long-term targets, as strong operating profit growth is partially offset by net interest expense.

As Muhtar mentioned earlier, there will be significant structural impacts to our business as we accelerate our refranchising efforts in North America, complete the mergers of Coca-Cola European Partners, and Coca-Cola Beverages Africa, and cycle a half-year impact from the Monster Beverage transaction, which closed in mid-2015. We currently expect both Coca-Cola European Partners and Coca-Cola Beverages Africa to close during the second quarter. Taken together, we expect the net impact of acquisitions and divestitures to be a four to five point headwind to net revenue.

Because of the nature of the structural changes, we also anticipate that the impact will be slightly higher on cost of goods sold and SG&A. We expect the benefit to equity income from Monster, Coca-Cola Beverages Africa and Coca-Cola European Partners to partially offset that impact at operating income, resulting in a three to four point negative structural impact to income before tax. Our underlying effective tax rate is expected to remain at 22.5% for 2016.

Finally, we expect approximately $2 billion to $2.5 billion in net share repurchases for 2016. We therefore expect comparable currency neutral EPS growth of 4% to 6%, inclusive of the three to four point structural headwind to income before tax.

As you well know, many of the world's currencies have continued to depreciate versus the U.S. dollar. Since we operate in over 200 markets, we are not immune to this effect. In addition, we will be cycling the Euro debt re-measurement gain we recorded in Other Income during the first two quarters of 2015. Based on current spot rates, hedging activity and what we are cycling, we expect a four point headwind to net revenue and a nine point headwind to income before tax. However, the currency headwind to operating income will be lower as we cycle the gain I just mentioned.

In terms of coverage, we are fully hedged on the euro, yen and sterling for 2016. We also have near-term coverage in place across several other major currencies.

Finally, we expect to spend $2.5 billion to $3 billion on CapEx, as we continue to maintain our facilities in advance of transitioning territories and production assets. By the end of 2017, our capital needs will decrease significantly, as we refranchise healthy businesses in North America and China.

As you model the first quarter, please remember that due to our reporting calendar cycle, there will be one less day in the first quarter of 2016 as compared to 2015. Based on current spot rates, hedging activity and what we are cycling, we expect that currency will be a five point headwind on net revenues and a 12 point headwind on income before tax in the first quarter of 2016. We expect the net impact of acquisitions and divestitures to be a slight headwind on net revenue and structural items to be a two point headwind on income before tax.

In summary, our financial performance for 2015 was slightly better than our expectations, and we executed our five point plan effectively. And we are already working diligently to deliver our commitments for 2016. We continue to focus on our core capabilities of building brands, driving customer value and leading the system, so that when we complete our refranchising, we will be a lower risk, higher return business with even greater confidence to achieve our long-term growth targets.

We look forward to sharing more with you at CAGNY.

Operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions]

Our first question is from Bill Schmitz of Deutsche Bank. Your line is now open. Please go ahead.

William G. Schmitz
Deutsche Bank Securities, Inc.

Q

Hi, good morning.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

A

Morning.

James Quincey
President & Chief Operating Officer

A

Morning, Bill.

William G. Schmitz
Deutsche Bank Securities, Inc.

Q

I'm great. How are you?

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

A

Great. Thanks.

William G. Schmitz
Deutsche Bank Securities, Inc.

Q

Hey, can you just talk about why now is the right time to pull all this stuff forward on the refranchising front because, obviously, there's like a ton of macro volatility? I know there was some challenges as you kind of wanted to standardize the IT platform and then even some of the key account stuff, which I thought had a little bit of a longer tail. So any thoughts you have on that would be appreciated.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

A

Yeah. Thanks, Bill. Ever since I took over as CEO, I have always emphasized the importance of our franchise model. And one of my clear priorities was to accelerate growth in our biggest profit pool, the United States. And we bought the business of CCE, U.S. operations with that goal in mind. So when you think about it now, we've been able to prove to ourselves that we can accelerate the business in North America. We've had the best year in 2015, and you saw the results from the quarter. And these results show that our strategic focus on driving consumption of smaller package sizes is continuing to pay off. Transactions are growing. Price/mix is healthy.

And so we're bringing those two things together, both the goal of going back, returning to our core model, which we've always emphasized, even the first time we announced the purchase of CCE's U.S. operations, we said there will be a role for partnerships going forward as soon as we can put some things right.

We have got the three legs of the stool in place, the customer governance, production governance, and the IT platforms. And so we feel very confident. We have proven to ourselves that we can do it and we feel very confident that this is the time. The new model is established. Bottler performance is improving. We have a new structure to last us the next number of decades. And we're putting our bottlers in the right hands. As Kathy said, the bottlers are very healthy and thanks to the great leadership and capability of our Bottling Investments Group.

And so, yes, we are now going to the core and this is the time. And we feel very confident that we can do the two things together, accelerate momentum and bring the franchising to a bookend that really, we feel, is going to be very beneficial both to our company, our shareowners, as well as to leading to better customer service and better value creation on the bottler side. So it's really a win-win from all those perspectives, Bill.

Operator: Thank you. Our next question is from Bonnie Herzog of Wells Fargo. Your line is now open. Please go ahead.

Bonnie L. Herzog
Wells Fargo Securities LLC **Q**

Good morning.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer **A**

Morning, Bonnie.

Kathy N. Waller
Chief Financial Officer & Executive Vice President **A**

Morning.

James Quincey
President & Chief Operating Officer **A**

Morning, Bonnie.

Bonnie L. Herzog
Wells Fargo Securities LLC **Q**

I was hoping you could actually give us a concrete example that gave you the confidence to make the decision to accelerate your refranchising plans. And then, while your margin should certainly expand and your returns will increase, could you help frame for us the incremental dilution expected from the new system? And then finally, I'd like to hear what your plans are for the cash you'll receive from the planned sale of the 39 production facilities, which I guess, I assume should raise a fair amount of cash, considering I think the earlier sales, the nine sites, had a book value of $280 million, if I'm not mistaken.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer **A**

Sure, Bonnie. I'll say a few words and then I'll let Kathy and James comment, too. But I'll say that certainly, we have the proof points in the United States. Our Chinese business, for example, also has great momentum, gaining share and growing in that difficult environment, if you look at the quarter, if you look at the full year results. And the capability that has been put into place in all our expanding bottlers, everywhere, is really giving us the confidence. And also just look at the momentum of the business. Our revenue growth was a priority. We got it up to the 4% to 5% range. And the increased marketing is working, clearly, and now better marketing was even going to enhance that.

And at the same time, we feel that every time the territory has transitioned, it's actually continued to do well, continued to gain share, continued to drive momentum, continued to drive incremental transactions. And from that, any of the territories in the last four, five quarters that have been transitioned, we have seen, without exception, that to be holding true. And if you look at all these bottlers that we're refranchising, look at the results. Look at the performance of our German bottler. It really has the greatest momentum in the continent of Europe right now.

So all of these bottlers are going in to a system, to a structure, to an architecture, to a geography that will continue to do even better when you combine it and when you create the synergies with the combination. And so, we feel confident.

And then, what took a little while to get right was the governance model around production in the United States, the governance model around the IT platform, the governance model around the customer service. All of those are in place and working well.

So, I'll just hand over to James to add some flavor to that in more details, and then Kathy can comment also on your questions related to the financial aspect of cash.

James Quincey
President & Chief Operating Officer
A

Yeah, Bonnie, let me just add one thought to what Muhtar has laid out there on we've been fixing and building. And we're finding the right partners. I mean, a simple way of looking at why it's working is there's just more people coming to the table saying, we want to be partners. Our existing partners want more territories. And new people who aren't in the system want to get into the system. So they're seeing that we've fixed the business and we've built momentum. And so, there's a lot of heightened interest in being part of a growing Coke system, particularly in North America.

Kathy N. Waller
Chief Financial Officer & Executive Vice President
A

Okay. Then, Bonnie, I think the next part of your question, you asked about the incremental dilution and the impact of that. I can help you with the impact of that.

So for 2016, we gave you the impact. And then for 2017, we are doing several things, because we know you all have lots of questions about 2017. So we are going to provide revised operating segment financial information later in the quarter. And then at CAGNY, we're going to give you a look at kind of what to anticipate the business will look like after everything is finished in 2018, because the actual dilution kind of depends really on the timing of these transactions.

Bonnie L. Herzog
Wells Fargo Securities LLC
Q

Okay.

Kathy N. Waller
Chief Financial Officer & Executive Vice President
A

And so the best way we can give you some indication of that is really to kind of help you understand what our business will look like when everything is said and done in 2018 and beyond, which is what we're going to try to do at CAGNY. So I would ask you just hold off on that, and more to come on that.

And then on the question about cash, so the cash will basically go into basically our capital structure and be part of just our normal mix. And at this point, no board level decisions have been made, so we anticipate that these proceeds will be used to strengthen our balance sheet.

Bonnie L. Herzog
Wells Fargo Securities LLC
Q

All right. Thanks, everyone.

Operator: Thank you. Our next question is from Dara Mohsenian of Morgan Stanley. Your line is now open. Please go ahead.

Dara W. Mohsenian
Morgan Stanley & Co. LLC
Q

Hi. Good morning.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer
A

Morning.

Dara W. Mohsenian
Morgan Stanley & Co. LLC
Q

So, Muhtar, you've posted a couple quarters in a row with volume growth back up in the 3% range, along with solid pricing, despite the difficult emerging markets macro environment we're seeing. So, I just wanted to get an update on your market share performance. Obviously, you're gaining share, but have you seen a relative change in terms of incremental market share performance and what level of payback you're getting on the higher marketing? And as you look out to 2016, 4% to 5% organic sales growth is a fairly tight range. So how much visibility do you think you have around that? Could macros pose a risk to that guidance, particularly given your assuming higher GDP growth? Thanks.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer
A

Thanks, Dara. As I mentioned, we're pleased with our market share performance, value share gains across the world, and I'll let James highlight some details on that.

James Quincey
President & Chief Operating Officer
A

Yeah, thanks, Muhtar. So, Dara, let me just give you a quick run round the world, in terms of share. I mean, firstly, on an overall global basis, perhaps consistent with our strong fourth quarter, we gained a little more share in the fourth quarter than we had in the whole year, so a better performance at the tail end. And in terms of how that played out across the world, you see, again, in line with the volume performance, strong results in North America. We gained share in sparkling. We gained share in stills, and we gained share overall in the quarter and in the year, so good momentum in North America coming through in share.

In Europe, we're gaining share in sparkling and in stills. Given our different starting points, that's netting out to kind of being flat overall, but we got a strong growth in Europe as we build our stills business.

Latin America, this is a long-term track record of success, so small gains there, building on a long history of building a great position.

Eurasia, despite some of the volatility in that part of the world, we gained share in both sparkling and stills and overall, pretty strong momentum there, in terms of share.

And then in Asia Pacific, we've focused more on re-staging and re-energizing the sparkling business, where we're gaining share. We lost a little bit in stills and overall flat. So I think wherever you look round the world, we're largely flat to gaining. And so, and consistent with our volume growth, which is broad-based and across the world, we're also largely winning across the world.

Which one do you want me to do, marketing payback? So I think what you're seeing is, there is results from the marketing payback. I mean, our organic revenue growth in 2015 was better than 2014. We're guiding for a good number that's ahead of 2015, in 2016. So, we see the marketing payout beginning to build the momentum globally. And I think if you doubled-down on that one and look under that, North America was one of the first places we started with the incremental marketing and that's self-evidently building momentum. So, we see the underlying business results coming through in revenue, very much tied to where the extra media money is going.

And then in terms of macro outlook and risk to top-line, I think we feel that we got underlying structural momentum in the business. Now, when I said we're planning on the macros slightly better in 2016, and I really do mean slightly, and I wouldn't be surprised if that was the same growth rate in 2015, but we think we have the right portfolio and the right optionality to be able to deliver our financial numbers in that environment.

Dara W. Mohsenian
Morgan Stanley & Co. LLC

Q

Okay, great. And then, if I could just slip a detail question in, Kathy, I was hoping you could give us clarity on the impact to 2017 earnings from FX, if spot rates stay at this level, given the hedging in 2016, and how much hedging you have in place for 2017 on some of the hard currencies.

Kathy N. Waller
Chief Financial Officer & Executive Vice President

A

Okay. So, for 2017, Dara, we are also fully hedged on our major currencies. So, obviously, the emerging market currencies are the ones where you can't really hedge more than a quarter or so out. So, obviously, we have done nothing on the emerging market currencies. But on the hard currencies, we are hedged at rates slightly worse than have been, in 2016. So there will be a slight impact, but I wouldn't think it would be terribly significant.

Dara W. Mohsenian
Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Our next question is from John Faucher of JPMorgan. Your line is now open. Please go ahead.

John A. Faucher
JPMorgan Securities LLC

Q

Thank you very much. Good morning, everyone. Two questions here; first off, it's a little tough with all the refranchising of the bottlers to get a handle in terms of what's truly going on on the gross margin. So, can you try and strip some of the impact out from the refranchising and give us an idea what the underlying gross margin is doing?

And then, Kathy, going back to your points on the balance sheet, can you just sort of talk about what you're seeing out there that's causing you to maybe term-out some of the longer term debt? Is it just sort of the short market volatility, or is this something where you would expect to maybe go with a more conservative balance sheet approach on a go-forward basis? Thanks.

Kathy N. Waller
Chief Financial Officer & Executive Vice President

A

Sure, John. So the gross margins in fourth quarter impacted by the six fewer days, and the currency and then the structural impact. So, if you take all of that out, basically, we had good growth margin expansion in the fourth quarter and for the full year.

What was the second question? So, the balance sheet, basically, as we've got so much cash that's outside of the United States, we are taking a little bit more of a conservative approach with our balance sheet. And it was just more prudent to manage with the longer-term maturities than with short-term maturities. So, we still have a robust portfolio of commercial paper. So we're just kind of balancing that out differently.

John A. Faucher
JPMorgan Securities LLC

Q

Okay, and if I can ask one quick follow-up on that, in terms of the interest income line and some of the cash balances overseas, any change in that approach, or is this mostly going to be on the interest expense line?

Kathy N. Waller
Chief Financial Officer & Executive Vice President

A

Yeah. Basically, it's going to be on the interest expense line. Yeah.

John A. Faucher
JPMorgan Securities LLC

Q

Okay.

Kathy N. Waller
Chief Financial Officer & Executive Vice President

A

I think we're expecting much more interest expense, given the rate changes. But also, the longer-term maturities are also causing more interest expense.

John A. Faucher
JPMorgan Securities LLC

Q

Got it. Thanks.

Kathy N. Waller
Chief Financial Officer & Executive Vice President

A

Okay.

Operator: Thank you. Our next question is from Brett Cooper of Consumer Edge Research. Your line is now open. Please go ahead.

Brett Cooper
Consumer Edge Research LLC

Q

Good morning. One of your stated strategies was to improve the balance of price/mix and volume in your developed markets, and we've clearly seen that in the U.S. But I was hoping you could walk around the world and offer us what you're seeing in other developed markets, provide us with your prospects and confidence for improving price/mix in other developed markets around the world going forward. Thanks.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

A

Yeah, Brett. I think, if you look at our overall for the whole year, and as well as for the quarter, our price/mix globally, you can see that that has improved. As was mentioned, part of the reason for that is we're beginning to see the results of the increased marketing play through as well as our packaging strategies and mix management. And coupled with that, the value share gains, which is even more pleasing, given that we're able to get healthy pricing in our business and in our markets around the world, but I'll let James comment in terms of Europe and Japan and what is being seen in some of the other developed markets in addition to the United States, okay?

James Quincey
President & Chief Operating Officer

A

Yeah, thanks, Muhtar. I think firstly, it's important to remember, starting with Europe, that our price positioning in Europe, we have, over time, substantially taken a lot of rate and mix in Europe, such that we are more premium priced compared to our competitors than we are in North America, so less runway in that sense. Now, having said that, we continue to focus on smaller packages, more premium offerings in terms of the brand portfolio, such that despite what is a pretty deflationary retail environment in a number of Western European markets, we're getting price/mix in Europe, both in the quarter and for the full year. So I think going out, one should not expect the same sort of levels the U.S. has been able to develop, especially given the macro environment in Europe at the moment.

In terms of Japan, we're very focused on rebuilding our ability to get positive price/mix in Japan. We've recently been able to get some, again, very focused on leveraging both packaging options and the brand portfolio to reshape it to allow us to drive positive mix. Again, I don't think you will see, in Japan, the same sorts of levels as the U.S., as much as anything to do with the deflationary pressures in Japan. But we are starting to see chances of a better pricing environment in Japan.

Operator: Thank you. Our next question is from Bryan Spillane of Bank of America. Your line is now open. Please go ahead.

Bryan D. Spillane
Bank of America Merrill Lynch
Q

Hey, good morning, everyone.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer
A

Morning, Bryan.

Kathy N. Waller
Chief Financial Officer & Executive Vice President
A

Morning.

Bryan D. Spillane
Bank of America Merrill Lynch
Q

Just wanted to get a couple of points of color on the productivity program. I guess, Kathy, to start, you're keeping the original $3 billion plan, but a portion of the COGS opportunity is now going to go off with the refranchising, so could you just give us some sort of idea of just how big that is, how much you had to sort of make up in terms of keeping the $3 billion where it is?

Kathy N. Waller
Chief Financial Officer & Executive Vice President
A

Certainly. So we will lose about $500 million of productivity, primarily out of cost of goods sold. But, again, we committed to making up that lost amount and we're going to make it up between cost of goods sold, operating expenses, and DME.

Bryan D. Spillane
Bank of America Merrill Lynch
Q

Okay. And so net, this productivity plan is actually now a little bit bigger than it originally would have been. Is that just a function of as you're doing more, you're finding more savings, or was the refranchising kind of motivating you to look for more savings, just trying to get a sense if there's more momentum building on the productivity program itself?

Kathy N. Waller
Chief Financial Officer & Executive Vice President
A

Well, we always said we were going to continue to look for additional productivity opportunities, and so we have done just that. And we've learned a lot about our costs as we have continued the programs, the [ph] ZBB (44:15) as well as other cost optimization programs. So basically, we've looked end-to-end and we saw additional opportunity and we're going to take it.

Bryan D. Spillane
Bank of America Merrill Lynch
Q

Okay. And then just last one, of that $500 million that essentially goes off in refranchising, will that actually still be realized within the franchise system? So does the Coke system itself still see the $500 million of savings, or is that kind of lost because it needed to be sort of integrated with Coke to get it?

Kathy N. Waller
Chief Financial Officer & Executive Vice President

A

No, it will be captured by the system.

Bryan D. Spillane
Bank of America Merrill Lynch

Q

Okay. Great. Thank you.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

A

We've been hoping that they can find additional areas, Bryan, to even increase that going forward. Part of the whole plan around the production governance is also to ensure that we can actually lever and pull more synergies out of our production system in the entire sort of template of North America production. So, yes, the answer is a definite yes.

Bryan D. Spillane
Bank of America Merrill Lynch

Q

Okay. So from a systems perspective, this is truly incremental savings. It's just a matter of where we're seeing it.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

A

That's right.

Kathy N. Waller
Chief Financial Officer & Executive Vice President

A

Correct.

Bryan D. Spillane
Bank of America Merrill Lynch

Q

Okay. Thank you.

Operator: Thank you. Our next question is from Kevin Grundy of Jefferies. Your line is now open. Please go ahead.

Kevin Grundy
Jefferies LLC

Q

Thanks. Good morning, guys.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

A

Morning.

Kevin Grundy
Jefferies LLC

Q

I wanted to come back to the Asia Pacific region. I have two questions. First is on price/mix, and then second on China specifically. So price/mix in the quarter was down 9%, and margins were down pretty significantly. James, I think you talked about re-staging the sparkling business, and I know there's been some negative geographic mix, so a little bit more color there would be helpful. And then the second piece on China, 1% volume growth, but you were cycling a pretty soft compare of down 1% last year. Maybe you could just elaborate a bit on what you're seeing in that market and your expectation here over the next 12 months. Thanks.

James Quincey
President & Chief Operating Officer

A

Sure. A, let me start with the price/mix in Asia Pacific. I think the most important thing to note here is because the different geographies in the Asia Pacific group have some quite different pricing and concentrate shipments can be lumpy, you do get some erratic price/mix numbers on a quarterly basis. And that's exactly what you're seeing in the fourth quarter in Asia Pacific. So there were more shipments to somewhere like India than Japan. You can actually see the flip side of this in the Eurasia group, where we got very strong price/mix in the fourth quarter, which was the flip side. We had more shipments to places like South Africa than the Middle East. So this is all about country mix. I think it's important for particularly those two groups, Asia Pacific and Eurasia, to look at some longer-term four quarter trend line on price/mix, given the very impactful country mix issue and the lumpiness of concentrate shipments. So that's the key thing there.

And then in terms of China, clearly not as much as we would have liked [ph] to grown in China in the first quarter; (47:18) I think that the environment in China is pretty clearly having slowed down, but we think we had a strong momentum over the last couple of years coming back into China. We're looking to do better in 2016, but we don't actually provide country-based forecasts. What I would say, however, is we're continuing to do very strongly in terms of share, particularly in sparkling, as we've re-energized that business.

Kevin Grundy
Jefferies LLC

Q

Very good. Thank you.

Operator: Thank you. Our next question is from Steve Powers from UBS. Your line is now open. Please go ahead.

Stephen R. Powers
UBS Securities LLC

Q

Thank you very much. So actually a relatively quick set of questions for each of you, if I could; first, Muhtar, on refranchising and the decision to retain hot-fill and juice assets, is that an indefinite plan or is that subject to further review? And similarly, thinking about China and the rest of the world, should we be thinking differently about your plans in India in terms of future refranchising in that market as well?

And then, Kathy, the 4% to 5% organic growth you're calling out for next year, can you just give us maybe a rough sense of volume versus price within that and how much, if any, you expect to spend incrementally on A&P in order to achieve what amounts to underlying acceleration?

And then finally, James, sorry for all the questions, we debated this a little while back, and I'm just wondering if you've got additional thoughts in terms of your longer-term growth, how much you expect the portfolio to lean on stills versus sparkling, and do you think you have the right balance of demand building support against each of that in order to achieve your long-term goals? Thank you.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

A

Yeah, Steve, so related to juice and hot-fill and stills, stills continues to perform very well in North America for us and the template for stills production is completely different in terms of how it is configured to cold-fill. And juice is an integrated business. So given those aspects, we intend that for the future to not change the structure related to both hot-fill as well as to juice and our foodservice business. All will remain as integrated in that respect, and they're doing very well. And we feel that they add value to the overall structure of North America, and they're an important strategic part of how we move forward and continue to increase momentum in North America.

India, look, you saw that number. Given all these changes we're announcing, basically, if you brought it back to 2015, the total bottling assets that we would have under our management and on our balance sheet would actually go down from 18% of the total mix globally to about 3%. So, yes, in India, there are opportunities in other parts of the world remaining, but it's a very small template based on where we are, and we'll look at opportunities.

As James said earlier, one of the litmus tests – I've always said, one of the great sort of litmus tests for the health of the Coca-Cola business is the desire of investors and our franchise partners to have more territory. That's at an all-time high, and we expect that to remain high. And therefore, there may be other opportunities in the remaining geographies, but I can't comment on that any further right now.

And then I'll pass it over to James to take you through the longer-term question on portfolio stills versus sparkling, and then Kathy, the question on 4%, 5% organic growth, volume versus price. So James?

James Quincey
President & Chief Operating Officer

A

Sure. Look, I think our aspiration is to have both of them growing, both bottling and stills, and that's what we achieved in the fourth quarter and in the full year of 2015. Now, I think in a total portfolio sense, much as in the same way has happened over the last decade or so, we've gone from about 10% of the portfolio being stills to roughly 25% of the portfolio being stills. I think mathematically, the stills will grow as a percent of the total portfolio.

And I would note, as Muhtar commented earlier, I think we need to break out the stills and not just look at them as one thing, but look at them in terms of their individual categories. And we gained share in packaged water. We gained share in juice and juice drinks. We gained share in energy, and we gained share in ready-to-drink tea. So we think we can do well in each of the categories that represent non-alcoholic ready-to-drink. And in particular, we can still grow sparkling. And that growth of sparkling into the future is not just in aggregate, but I think over the long-term, we'll see increased growth of low, no and reduced calorie variants. I know that's not the case yet in the North America, but globally in our international business, those drinks outgrow the regular drinks within sparkling and they're fueling our growth, so broad-based growth.

Kathy N. Waller
Chief Financial Officer & Executive Vice President

A

Okay. Then on your question of 4% to 5% organic growth, volume versus price/mix, so we expect that to be balanced, volume versus the price. So as you know, we have the strategy where we now focused more on net revenues. And as we are segmenting our markets and we're focused on price realization, so we do anticipate that strategy will continue and that will achieve a balance between both volume and price.

As advertising and promotions, in 2014, we announced this program. We said $800 million to $1 billion that we would invest. We are still going to invest, continue to invest behind our brands on that program, although we're also going to start investing in R&D. So basically, we're still on our program that we announced back in 2014, so you will continue to see investment in marketing kind of slightly above gross profits.

Stephen R. Powers
UBS Securities LLC

Q

Thank you very much.

Operator: Thank you. Our next question is from Ali Dibadj of Bernstein. Your line is now open. Please go ahead.

Ali Dibadj
Sanford C. Bernstein & Co. LLC

Q

Hey, guys. So on refranchisement, obviously, good news that it's going faster, but I still have a few questions on this. One is I get the discussion about holding onto juice. I'm not quite there on hot-fill, so if you can elaborate on that, that would be helpful.

Trying to get a better sense, secondarily, about when you think you will actually be able to grow out of the dilution. So there's clearly dilution right now, and then 2016, 3% to 4%, and then probably 2017, but at what point will you be able to grow out of that dilution, given kind of better margin top-line growth, et cetera?

And then kind of the core question is that you mentioned your goal was by buying the North America Bottling, that you would be able to accelerate momentum for sales and profitability. And I agree you've, excuse me, kind of done that, going to smaller pack sizes, increasing prices, closing some plants, increasing media spend, improving IT, but I guess I'm still confused why you had to buy one consolidated bottler, I guess, in North America to do a lot of those changes. I mean, why did you have to spend billions of dollars to push these changes through? Was there not a more efficient for shareholders way to do it? And I guess in that context, how do you give investors confidence? Because I get this question a lot, how do you give investors confidence that five, 10 years down the line, you won't have to buy these bottlers back again in North America?

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

A

Well, Ali, let me start with the last. First, when we announced the acquisition of CCE, it was, essentially, kind of a 25-year-old problem, and we said it would take a while to basically course correct. The level of investment was not where it was needed, and also the level of customer service was not where it was needed. And, essentially, we believe that having more than just one bottler essentially having that big a territory was a better way. Scalable size bottlers, right ownership values, right structure and right capability, and that's what we have today in North America. And so, we feel very good that this is a model that is going to stay where it is and continue to add value. All of the time, there will be tweaking necessary, but not the scale that was needed when we did the transaction back at the end of 2010. And so, that was a core decision that was needed. That was a major surgery that was needed, and that's really what took place.

As far as the juice business is concerned, as I said before, it's an integrated business. It basically performs well as an integrated business, similar to other juice businesses that we have around the world. It's a very different model. It's a very different production. It's a very different [ph] growth to table (57:22) model, and requires a different way in terms of its distribution, especially when it is chilled. And that's really where a lot of the growth is and value-added dairy. And that's what you see, whether it's in fairlife, or that's what you see, whether it's in juice. And it's a very distinct production model, very different, as well as hot-fill is also the same, so same with Innocent in Europe, the same with many parts of the world. And so, [ph] Jugos Del Valle (57:51) is also very similar in terms of the way it's produced, and that is just a needed aspect for success and for performance in the hot-fill and juice business, very different.

Now, to your other question related to dilution from franchising, maybe I'll pass it over to Kathy.

Kathy N. Waller
Chief Financial Officer & Executive Vice President

A

Certainly. So we've given you guidance for 2016. 2017, it totally depends on timing. So, we plan to give you more information to help with that, with your modeling, between CAGNY, and what we will give you before the end of the quarter, but it's all based on timing. In 2018, you asked when we would grow out of this. We plan to complete the program by the end of 2017. So, 2018, we are out of it.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

A

Yep. And our long-term outlook, just to add, for the industry, remains very positive, Ali. Our system is extremely well-positioned to take advantage of this. We're going to be a much more focused company. We're going to be building brands, leading the system, and driving new growth platforms. So, our core business will have attractive growth going forward, in terms of ROIC, free cash flow and so forth. And so we're very confident and very excited about where the company is going, from that aspect.

Ali Dibadj
Sanford C. Bernstein & Co. LLC

Q

So, I apologize. Maybe I wasn't clear on the dilution piece to it. I understand the timing of the program. I'm not looking for timing in terms of when in 2017 something happens. I'm more looking longer-term, and if you're getting rid of these businesses, you will be a better growing business, right, better margin, better growing business? That's the hope. That's, I think all of us, as we're trying to estimate longer-term. I'm just trying to figure out, because you're going to be better, when do you offset the dilution? So you're growing faster, you've taken a hit. When are you going to offset the dilution? At what point in time, effectively, do you become net positive and then go beyond that? So, that was the question. Maybe, Kathy, if you can kind of refine your answer. I'll leave it at that, if you can help there.

Kathy N. Waller
Chief Financial Officer & Executive Vice President

A

So in, basically, so 2018, obviously, there will be some dilution effect because the base hasn't been totally adjusted by that time. But once we get the base adjusted, short of other structural impacts, which will not be North America refranchising obviously, but short of other structural impacts, we will have "gone through that refranchising impact". Now, we do have some residual costs that will come out, as I said, throughout 2016, 2017, and there will be a little bit left in 2018, that, but that certainly by mid to late 2018, even the residual costs will be gone. So I think once the base is reset, short of other types of structural impacts, we will have transitioned through that.

Ali Dibadj
Sanford C. Bernstein & Co. LLC

Q

Okay. Just one last question, sorry, on diets, it looks like volumes are down 5%, but that's better than we've seen recently. Can you give us some color on whether you're seeing that actually kind of stabilize and perhaps a little bit improve, or is it because Pepsi changed formulation and you guys are kind of getting the benefit of it? Just some idea of whether that's getting better on diets would be helpful. Thank you. That's it for me.

James Quincey
President & Chief Operating Officer

A

Ali, it's James here. Look, I think in the U.S. business, we did reasonably well in growing Coke Zero. We're getting Coke Zero back to flat, and there's still a decline in Diet Coke. I think the bigger picture is in the 80% of our business which is the international business, the diets and lights and Coke Zeros outgrew Coke Classic, and so we're seeing broad-based growth outside the U.S. of those Coca-Cola variants, and that's what gives us the belief that in the long-term, we will be able to turn around the business also in the U.S.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

A

Yeah, just finally add on that, Ali, also with our recently-announced One Brand approach to marketing trademark Coke, we're extending the strong brand equity of Coca-Cola across the trademark to offer consumers more choice and to also better promote our great-tasting diet and light portfolio, which is going to, no question, help. So I think that's going to also help us with the stability that is the target. So I'll just leave it at that.

Operator: Thank you. I would now like to turn the call back to Muhtar Kent for closing remarks.

Ahmet Muhtar Kent
Chairman & Chief Executive Officer

Thanks, James, Kathy, and Tim.

So in summary, we delivered the plan that we laid out at the beginning of last year. And we made significant progress against our five strategic initiatives that we laid out. Importantly, our progress against these initiatives is leading to improving performance, even in a very challenging macro environment. And we are evolving and strengthening our global bottling system as we accelerate refranchising and return to a predominantly cost rate-driven model with significantly higher margins and returns.

The long-term dynamics of our industry remain promising, and we absolutely believe that The Coca-Cola Company is best-positioned to capture that growth in non-alcoholic beverages and to deliver long-term value to our shareowners. And, as always, we thank you for your interest, your investment in our company, and for joining us this morning.

Operator: Thank you, speakers. That concludes today's conference. Thank you for participating. You may now disconnect.