COCA COLA CO
Form 10-Q
April 28, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 1, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 001-02217
(Exact name of Registrant as specified in its Charter)

| | |
|---|---|
| Delaware | 58-0628465 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| One Coca-Cola Plaza<br>Atlanta, Georgia<br>(Address of principal executive offices) | 30313<br>(Zip Code) |

Registrant's telephone number, including area code: (404) 676-2121
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 ý No o
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 ý No o
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 ý | Accelerated filer o |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark if the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ý
Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

| Class of Common Stock | Outstanding at April 25, 2016 |
|---|---|
| $0.25 Par Value | 4,326,198,723 Shares |

THE COCA-COLA COMPANY AND SUBSIDIARIES
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FORWARD-LOOKING STATEMENTS

This report contains information that may constitute "forward-looking statements." Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results — are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. Our Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company's historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part II, "Item 1A. Risk Factors" and elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2015, and those described from time to time in our future reports filed with the Securities and Exchange Commission.

Part I. Financial Information
Item 1. Financial Statements (Unaudited)
THE COCA-COLA COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(In millions except per share data)

| | Three Months Ended | |
|---|---|---|
| | April 1, 2016 | April 3, 2015 |
| NET OPERATING REVENUES | $10,282 | $10,711 |
| Cost of goods sold | 4,069 | 4,103 |
| GROSS PROFIT | 6,213 | 6,608 |
| Selling, general and administrative expenses | 3,761 | 4,079 |
| Other operating charges | 311 | 233 |
| OPERATING INCOME | 2,141 | 2,296 |
| Interest income | 144 | 155 |
| Interest expense | 141 | 447 |
| Equity income (loss) — net | 92 | 2 |
| Other income (loss) — net | (342) | (25) |
| INCOME BEFORE INCOME TAXES | 1,894 | 1,981 |
| Income taxes | 401 | 415 |
| CONSOLIDATED NET INCOME | 1,493 | 1,566 |
| Less: Net income attributable to noncontrolling interests | 10 | 9 |
| NET INCOME ATTRIBUTABLE TO SHAREOWNERS OF THE COCA-COLA COMPANY | $1,483 | $1,557 |
| BASIC NET INCOME PER SHARE[1] | $0.34 | $0.36 |
| DILUTED NET INCOME PER SHARE[1] | $0.34 | $0.35 |
| DIVIDENDS PER SHARE | $0.35 | $0.33 |
| AVERAGE SHARES OUTSTANDING | 4,328 | 4,365 |
| Effect of dilutive securities | 54 | 57 |
| AVERAGE SHARES OUTSTANDING ASSUMING DILUTION | 4,382 | 4,422 |

[1] Calculated based on net income attributable to shareowners of The Coca-Cola Company.
Refer to Notes to Condensed Consolidated Financial Statements.

THE COCA-COLA COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(In millions)

| | Three Months Ended | |
|---|---|---|
| | April 1, 2016 | April 3, 2015 |
| CONSOLIDATED NET INCOME | $1,493 | $1,566 |
| Other comprehensive income: | | |
| Net foreign currency translation adjustment | (277) | (1,486) |
| Net gain (loss) on derivatives | (427) | 334 |
| Net unrealized gain (loss) on available-for-sale securities | 52 | (211) |
| Net change in pension and other benefit liabilities | 31 | 65 |
| TOTAL COMPREHENSIVE INCOME (LOSS) | 872 | 268 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | 4 | 3 |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO SHAREOWNERS OF THE COCA-COLA COMPANY | $868 | $265 |

Refer to Notes to Condensed Consolidated Financial Statements.

THE COCA-COLA COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In millions except par value)

| | April 1, 2016 | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $8,748 | $ 7,309 |
| Short-term investments | 10,003 | 8,322 |
| TOTAL CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS | 18,751 | 15,631 |
| Marketable securities | 3,460 | 4,269 |
| Trade accounts receivable, less allowances of $292 and $352, respectively | 4,147 | 3,941 |
| Inventories | 3,052 | 2,902 |
| Prepaid expenses and other assets | 3,314 | 2,752 |
| Assets held for sale | 3,786 | 3,900 |
| TOTAL CURRENT ASSETS | 36,510 | 33,395 |
| EQUITY METHOD INVESTMENTS | 12,610 | 12,318 |
| OTHER INVESTMENTS | 1,186 | 3,470 |
| OTHER ASSETS | 4,314 | 4,110 |
| PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation of $10,370 and $9,783, respectively | 12,613 | 12,571 |
| TRADEMARKS WITH INDEFINITE LIVES | 6,014 | 5,989 |
| BOTTLERS' FRANCHISE RIGHTS WITH INDEFINITE LIVES | 5,714 | 6,000 |
| GOODWILL | 11,396 | 11,289 |
| OTHER INTANGIBLE ASSETS | 906 | 854 |
| TOTAL ASSETS | $91,263 | $ 89,996 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | $9,626 | $ 9,660 |
| Loans and notes payable | 14,888 | 13,129 |
| Current maturities of long-term debt | 4,956 | 2,676 |
| Accrued income taxes | 275 | 331 |
| Liabilities held for sale | 1,242 | 1,133 |
| TOTAL CURRENT LIABILITIES | 30,987 | 26,929 |
| LONG-TERM DEBT | 26,990 | 28,311 |
| OTHER LIABILITIES | 3,820 | 4,301 |
| DEFERRED INCOME TAXES | 4,337 | 4,691 |
| THE COCA-COLA COMPANY SHAREOWNERS' EQUITY | | |
| Common stock, $0.25 par value; Authorized — 11,200 shares; Issued — 7,040 and 7,040 shares, respectively | 1,760 | 1,760 |
| Capital surplus | 14,507 | 14,016 |
| Reinvested earnings | 64,985 | 65,018 |
| Accumulated other comprehensive income (loss) | (10,789) | (10,174) |
| Treasury stock, at cost — 2,708 and 2,716 shares, respectively | (45,549) | (45,066) |
| EQUITY ATTRIBUTABLE TO SHAREOWNERS OF THE COCA-COLA COMPANY | 24,914 | 25,554 |
| EQUITY ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 215 | 210 |
| TOTAL EQUITY | 25,129 | 25,764 |
| TOTAL LIABILITIES AND EQUITY | $91,263 | $ 89,996 |

Refer to Notes to Condensed Consolidated Financial Statements.

THE COCA-COLA COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In millions)

| | Three Months Ended | |
|---|---|---|
| | April 1, 2016 | April 3, 2015 |
| OPERATING ACTIVITIES | | |
| Consolidated net income | $1,493 | $1,566 |
| Depreciation and amortization | 458 | 473 |
| Stock-based compensation expense | 69 | 60 |
| Deferred income taxes | (81) | 8 |
| Equity (income) loss — net of dividends | (79) | 8 |
| Foreign currency adjustments | 93 | (46) |
| Significant (gains) losses on sales of assets — net | 362 | 33 |
| Other operating charges | 142 | 139 |
| Other items | (173) | 522 |
| Net change in operating assets and liabilities | (1,680) | (1,189) |
| Net cash provided by operating activities | 604 | 1,574 |
| INVESTING ACTIVITIES | | |
| Purchases of investments | (4,763) | (4,003) |
| Proceeds from disposals of investments | 6,010 | 3,746 |
| Acquisitions of businesses, equity method investments and nonmarketable securities | (688) | (603) |
| Proceeds from disposals of businesses, equity method investments and nonmarketable securities | 291 | 229 |
| Purchases of property, plant and equipment | (536) | (516) |
| Proceeds from disposals of property, plant and equipment | 29 | 21 |
| Other investing activities | 5 | 314 |
| Net cash provided by (used in) investing activities | 348 | (812) |
| FINANCING ACTIVITIES | | |
| Issuances of debt | 8,530 | 16,373 |
| Payments of debt | (6,783) | (15,755) |
| Issuances of stock | 763 | 279 |
| Purchases of stock for treasury | (739) | (654) |
| Dividends | (1,505) | (1,441) |
| Other financing activities | 133 | 21 |
| Net cash provided by (used in) financing activities | 399 | (1,177) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 88 | (332) |
| CASH AND CASH EQUIVALENTS | | |
| Net increase (decrease) during the period | 1,439 | (747) |
| Balance at beginning of period | 7,309 | 8,958 |
| Balance at end of period | $8,748 | $8,211 |

Refer to Notes to Condensed Consolidated Financial Statements.

THE COCA-COLA COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K of The Coca-Cola Company for the year ended December 31, 2015.

When used in these notes, the terms "The Coca-Cola Company," "Company," "we," "us" or "our" mean The Coca-Cola Company and all entities included in our condensed consolidated financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended April 1, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. Sales of our nonalcoholic ready-to-drink beverages are somewhat seasonal, with the second and third calendar quarters accounting for the highest sales volumes. The volume of sales in the beverage business may be affected by weather conditions.

Each of our interim reporting periods, other than the fourth interim reporting period, ends on the Friday closest to the last day of the corresponding quarterly calendar period. The first quarter of 2016 and 2015 ended on April 1, 2016 and April 3, 2015, respectively. Our fourth interim reporting period and our fiscal year end on December 31 regardless of the day of the week on which December 31 falls.

Effective January 1, 2016, we transferred Coca-Cola Refreshments' ("CCR") bottling and associated supply chain operations in the United States and Canada from our North America segment to our Bottling Investments segment. Accordingly, all prior period segment information presented herein has been adjusted to reflect this change in our organizational structure.

### Advertising Costs

The Company's accounting policy related to advertising costs for annual reporting purposes, as disclosed in Note 1 of our 2015 Annual Report on Form 10-K, is to expense production costs of print, radio, television and other advertisements as of the first date the advertisements take place. All other marketing expenditures are expensed in the annual period in which the expenditure is incurred.

For interim reporting purposes, we allocate our estimated full year marketing expenditures that benefit multiple interim periods to each of our interim reporting periods. We use the proportion of each interim period's actual unit case volume to the estimated full year unit case volume as the basis for the allocation. This methodology results in our marketing expenditures being recognized at a standard rate per unit case. At the end of each interim reporting period, we review our estimated full year unit case volume and our estimated full year marketing expenditures in order to evaluate if a change in estimate is necessary. The impact of any changes in these full year estimates is recognized in the interim period in which the change in estimate occurs. Our full year marketing expenditures are not impacted by this interim accounting policy.

### Hyperinflationary Economies

A hyperinflationary economy is one that has cumulative inflation of 100 percent or more over a three-year period. In accordance with U.S. GAAP, local subsidiaries in hyperinflationary economies are required to use the U.S. dollar as their functional currency and remeasure the monetary assets and liabilities not denominated in U.S. dollars using the rate applicable to conversion of a currency for purposes of dividend remittances. All exchange gains and losses resulting from remeasurement are recognized currently in income.

Venezuela has been designated as a hyperinflationary economy. In February 2015, the Venezuelan government announced that the two previously used currency conversion mechanisms had been merged into a single mechanism called SICAD and introduced a new open market exchange rate system, SIMADI. Management determined that the

SIMADI rate was the most appropriate legally available rate and remeasured the net monetary assets of our Venezuelan subsidiary, resulting in a charge of $27 million recorded in the line item other income (loss) — net in our condensed consolidated statement of income during the three months ended April 3, 2015.

In addition to the foreign currency exchange exposure related to our Venezuelan subsidiary's net monetary assets, we also sell concentrate to our bottling partner in Venezuela from outside the country. These sales are denominated in U.S. dollars. During the three months ended April 3, 2015, as a result of the continued lack of liquidity and our revised assessment of the U.S. dollar value we expected to realize upon the conversion of Venezuelan bolivars into U.S. dollars by our bottling partner to pay our concentrate sales receivables, we recorded a write-down of $56 million in the line item other operating charges in our condensed consolidated statement of income.

We also have certain U.S. dollar denominated intangible assets associated with products sold in Venezuela. As a result of the Company's revised expectations regarding the convertibility of the local currency, we recognized an impairment charge of $52 million during the three months ended April 3, 2015, recorded in the line item other operating charges in our condensed consolidated statement of income.

During the three months ended April 1, 2016, the Venezuelan government devalued its currency and changed its official and most preferential exchange rate, which should be used for purchases of certain essential goods, to 10 bolivars per U.S. dollar from 6.3. The official and most preferential rate is now known as DIPRO and the SICAD rate has been eliminated. The Venezuelan government also announced that the SIMADI rate would be replaced by the DICOM rate, which will be allowed to float freely and is expected to fluctuate based on supply and demand. As a result, management determined that the DICOM rate was the most appropriate legally available rate to remeasure the net monetary assets of our Venezuelan subsidiary. As of April 1, 2016, the combined carrying value of the net monetary assets of our Venezuelan subsidiary, the receivables from our bottling partner in Venezuela and the intangible assets associated with products sold in Venezuela was $140 million.

Despite the additional currency conversion mechanisms, the Company's ability to pay dividends from Venezuela is still restricted due to the low volume of U.S. dollars available for conversion. As a result of the newly announced floating DICOM rate, the Company expects to continue to record losses on foreign currency exchange, may incur additional write-downs of receivables or impairment charges and will continue to record our proportionate share of any charges recorded by our equity method investee that has operations in Venezuela.

Recently Issued Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance in U.S. GAAP and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 allows for both retrospective and prospective methods of adoption and will be effective for the Company beginning January 1, 2018. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the guidance in ASU 2014-09 and has the same effective date as the original standard. The Company is currently evaluating the impact that the adoption of ASU 2014-09 and ASU 2016-08 will have on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The standard was retrospectively adopted by the Company on January 1, 2016. As a result, $96 million and $1 million of debt issuance costs at December 31, 2015, were reclassified from other assets to long-term debt and current maturities of long-term debt, respectively.

In November 2015, the FASB issued ASU 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes. The amendments in this update simplify the presentation of deferred income taxes and require that deferred tax liabilities and assets be classified as noncurrent in a consolidated statement of financial position. These amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The amendments will be effective for the Company beginning January 1, 2017. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The amendment will be effective for the Company beginning January 1, 2018 and we are currently evaluating the impact that ASU 2016-01 will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires lessees to recognize on the balance sheet a right-of-use asset, representing their right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. ASU 2016-02 is effective for the Company beginning January 1, 2019 and we are currently evaluating the impact that ASU 2016-02 will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation — Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for the Company on January 1, 2017 and we are currently evaluating the impact that ASU 2016-09 will have on our consolidated financial statements.

## NOTE 2: ACQUISITIONS AND DIVESTITURES

### Acquisitions

During the three months ended April 1, 2016, our Company's acquisitions of businesses, equity method investments and nonmarketable securities totaled $688 million, which primarily related to our acquisition of Xiamen Culiangwang Beverage Technology Co., Ltd. ("China Green"), a maker of plant-based protein beverages in China, and a minority investment in CHI Limited ("CHI"), a Nigerian producer of value-added dairy and juice beverages, which is accounted for under the equity method of accounting. Under the terms of the agreement for our investment in CHI, the Company is obligated to acquire the remaining ownership interest from the existing shareowners in 2019 based on an agreed-upon formula.

During the three months ended April 3, 2015, our Company's acquisitions of businesses, equity method investments and nonmarketable securities totaled $603 million, which primarily included an investment in a bottling partner in Indonesia that is accounted for under the equity method of accounting. The bottling partner in Indonesia is a subsidiary of Coca-Cola Amatil Limited, an equity method investee. We also acquired the remaining outstanding shares of a bottling partner in South Africa ("South African bottler"), which was previously accounted for as an equity method investment. We remeasured our previously held equity interest in the South African bottler to fair value upon the close of the transaction and recorded a loss on the remeasurement of $19 million during the three months ended April 3, 2015. This bottler will be included in the Coca-Cola Beverages Africa Limited transaction discussed further below.

### Divestitures

During the three months ended April 1, 2016, proceeds from disposals of businesses, equity method investments and nonmarketable securities totaled $291 million, primarily related to proceeds from the refranchising of certain of our territories in North America.

During the three months ended April 3, 2015, proceeds from disposals of businesses, equity method investments and nonmarketable securities totaled $229 million, primarily related to proceeds from the sale of a 10 percent interest in a Brazilian bottling partner as a result of the majority owners exercising their right to acquire additional shares from us. Also included in this amount are proceeds from the refranchising of certain of our territories in North America.

### Keurig Green Mountain, Inc.

In February 2014, the Company purchased the newly issued shares in Keurig Green Mountain, Inc. ("Keurig") for approximately $1,265 million, including transaction costs of $14 million. In May 2014, the Company purchased additional shares of Keurig in the market for $302 million, which represented an additional 2 percent equity position in Keurig.

Subsequent to these purchases, the Company entered into an agreement with Credit Suisse Capital LLC ("CS") to purchase additional shares of Keurig which would increase the Company's equity position to a 16 percent interest based on the total number of issued and outstanding shares of Keurig as of May 1, 2014. Under the agreement, the Company was to purchase from CS, on a date selected by CS no later than February 2015, the lesser of (1) 6.5 million shares of Keurig or (2) the number of shares that shall cause our ownership to equal 16 percent. The purchase price per share was the average of the daily volume-weighted average price per share from May 15, 2014, to the date selected by CS, as adjusted in certain circumstances specified in the agreement. CS had exclusive ownership and control over any such shares until delivered to the Company. In February 2015, the Company purchased 6.4 million shares from CS under this agreement for a total purchase price of $830 million. As this agreement qualified as a derivative, we recognized a loss of $58 million in the line item other income (loss) — net in the condensed consolidated statement of income during the three months ended April 3, 2015. The Company recognized a cumulative loss of $47 million in the line item other income (loss) — net in the condensed consolidated statements of income over the term of the agreement. The purchases of the shares were included in the line item purchases of investments in our condensed consolidated statement of cash flows, net of any related derivative impact. The Company accounted for the investment in Keurig as an available-for-sale security, which was included in the line item other investments in our condensed consolidated balance sheet.

During the three months ended April 1, 2016, a JAB Holding Company-led investor group acquired Keurig for $92 per share. The Company received proceeds of $2,380 million, which were recorded in the line item proceeds from disposals of investments in our condensed consolidated statement of cash flows, and recorded a gain of $18 million, net of transaction costs, related to the disposal of our shares of Keurig in the line item other income (loss) — net in our condensed consolidated statements of income.

North America Refranchising

In conjunction with implementing a new beverage partnership model in North America, the Company refranchised territories that were previously managed by CCR to certain of our unconsolidated bottling partners. These territories generally border these bottlers' existing territories, allowing each bottler to better service local customers and provide more efficient execution. By entering into comprehensive beverage agreements ("CBAs") with each of the bottlers, we granted certain exclusive territory rights for the distribution, promotion, marketing and sale of Company-owned and licensed beverage products as defined by the CBA. In some cases, the Company has entered into, or agreed to enter into, manufacturing agreements that authorize certain bottlers that have executed a CBA to manufacture certain beverage products. If a bottler has not entered into a specific manufacturing agreement, then under the CBA for these territories, CCR retains the rights to produce these beverage products and the bottlers will purchase from CCR (or other Company-authorized manufacturing bottlers) substantially all of the related finished products needed in order to service the customers in these territories.

Each CBA generally has a term of 10 years and is renewable, in most cases by the bottler and in some cases by the Company, indefinitely for successive additional terms of 10 years each. Under the CBA, the bottlers will make ongoing quarterly payments to the Company based on their gross profit in the refranchised territories throughout the term of the CBA, including renewals, in exchange for the grant of the exclusive territory rights.

Contemporaneously with the grant of these rights, the Company sold the distribution assets, certain working capital items, and the exclusive rights to distribute certain beverage brands not owned by the Company, but distributed by CCR, in each of these territories to the respective bottlers in exchange for cash. These rights include, where applicable, the distribution rights acquired from Monster Beverage Corporation ("Monster") in 2015 for the respective territories. During the three months ended April 1, 2016 and April 3, 2015, cash proceeds from these sales totaled $277 million and $30 million, respectively. Included in the cash proceeds for the three months ended April 1, 2016 and April 3, 2015 was $105 million and $30 million, respectively, from Coca-Cola Bottling Co. Consolidated ("CCBCC"), an equity method investee. Under the applicable accounting guidance, we were required to derecognize all of the tangible assets sold as well as the intangible assets transferred, including distribution rights, customer relationships and an allocated portion of goodwill related to these territories.

Additionally, in September 2015, the Company announced the formation of a new National Product Supply System ("NPSS") which will facilitate optimal operation of the U.S. product supply system. Under the NPSS, the Company

and several of its existing independent producing bottlers will administer key national product supply activities for these bottlers, which currently represent approximately 95 percent of the U.S. produced volume. As part of the NPSS, it is anticipated that each of these bottlers will acquire certain production facilities from CCR in exchange for cash, subject to the parties reaching definitive agreements.

We recognized noncash losses of $369 million and $21 million during the three months ended April 1, 2016 and April 3, 2015, respectively. These losses primarily related to the derecognition of the intangible assets transferred or reclassified as held for sale and were included in the line item other income (loss) — net in our condensed consolidated statements of income. See further discussion of assets and liabilities held for sale below. We expect to recover the value of the intangible assets transferred to the bottlers under the CBAs through the future quarterly payments; however, as the payments for the territory rights are dependent on the bottlers' future gross profit in these territories, they are considered a form of contingent consideration.

There is diversity in practice as it relates to the accounting for contingent consideration by the seller. The seller can account for the future contingent payments received as a gain contingency, recognizing the amounts in the income statement only after the related contingencies are resolved and the gain is realized, which in this arrangement will be quarterly as the bottlers earn gross profit in the transferred territories. Alternatively, the seller can record a receivable for the contingent consideration at fair value on the date of sale and record any future differences between the payments received and this receivable in the income statement as they occur. We elected the gain contingency treatment since the quarterly payments will be received throughout the terms of the CBAs, including all subsequent renewals, regardless of the cumulative amount received as compared to the value of the intangible assets transferred.

Assets and Liabilities Held for Sale

North America Refranchising

As of April 1, 2016, the Company had entered into agreements to refranchise additional territories in North America. These territories met the criteria to be classified as held for sale, and we were required to record their assets and liabilities at the lower of carrying value or fair value less any costs to sell based on the agreed-upon sale price. The Company expects these transactions to close at various times throughout 2016.

Coca-Cola European Partners

In August 2015, the Company entered into an agreement to merge our German bottling operations with Coca-Cola Enterprises, Inc. ("CCE") and Coca-Cola Iberian Partners, S.A.U., formerly known as Coca-Cola Iberian Partners, S.A. ("CCIP"), to create Coca-Cola European Partners ("CCEP"). At closing, the Company will own 18 percent of CCEP, which we anticipate accounting for as an equity method investment based on our equity ownership percentage, our representation on CCEP's Board of Directors and other governance rights. The Boards of Directors of the Company, CCE and CCIP have approved the transaction. The proposed merger is subject to approval by CCE's shareowners, receipt of regulatory clearances and other customary conditions. The merger is expected to close in the second quarter of 2016. As a result of this agreement, our German bottling operations met the criteria to be classified as held for sale as of April 1, 2016. We were not required to record the related assets and liabilities at fair value less any costs to sell because their fair value exceeded our carrying value.

Coca-Cola Beverages Africa Limited

In November 2014, the Company, SABMiller plc, and Gutsche Family Investments entered into an agreement to combine the bottling operations of each of the parties' nonalcoholic ready-to-drink beverage businesses in Southern and East Africa. Upon completion of the proposed merger, the Company will have an ownership of 11 percent in the bottler, which will be called Coca-Cola Beverages Africa Limited. The Company will also acquire or license several brands in exchange for cash as a result of the transaction. As of April 1, 2016, our South African bottling operations and related equity method investments met the criteria to be classified as held for sale, but we were not required to record these assets and liabilities at fair value less any costs to sell because their fair value exceeded our carrying value. The Company expects the transaction to close in the second quarter of 2016, subject to regulatory approval. Based on the proposed governance structure, the Company expects to account for its resulting interest in the new entity as an equity method investment.

The following table presents information related to the major classes of assets and liabilities that were classified as held for sale in our condensed consolidated balance sheets (in millions):

| | April 1, 2016 | December 31, 2015 |
|---|---|---|
| Cash, cash equivalents and short-term investments | $116 | $ 143 |
| Trade accounts receivable, less allowances | 425 | 485 |
| Inventories | 282 | 276 |
| Prepaid expenses and other assets | 82 | 83 |
| Equity method investments | 93 | 92 |
| Other assets | 27 | 25 |
| Property, plant and equipment — net | 1,980 | 2,021 |
| Bottlers' franchise rights with indefinite lives | 961 | 1,020 |
| Goodwill | 389 | 333 |
| Other intangible assets | 56 | 115 |
| Allowance for reduction of assets held for sale | (625 ) | (693 ) |
| Total assets | $3,786 [1] | $ 3,900 [3] |
| Accounts payable and accrued expenses | $808 | $ 712 |
| Current maturities of long-term debt | 21 | 12 |
| Accrued income taxes | 4 | 4 |
| Long-term debt | 81 | 74 |
| Other liabilities | 102 | 79 |
| Deferred income taxes | 226 | 252 |
| Total liabilities | $1,242 [2] | $ 1,133 [4] |

[1] Consists of total assets relating to CCEP of $3,048 million, North America refranchising of $329 million, Coca-Cola Beverages Africa Limited of $390 million and other assets held for sale of $19 million, which are included in the Bottling Investments, Eurasia and Africa, and Corporate operating segments.

[2] Consists of total liabilities relating to CCEP of $1,084 million, North America refranchising of $82 million and Coca-Cola Beverages Africa Limited of $76 million, which are included in the Bottling Investments and Eurasia and Africa operating segments.

[3] Consists of total assets relating to CCEP of $2,894 million, North America refranchising of $589 million, Coca-Cola Beverages Africa Limited of $398 million and other assets held for sale of $19 million, which are included in the Bottling Investments, Eurasia and Africa, and Corporate operating segments.

[4] Consists of total liabilities relating to CCEP of $924 million, North America refranchising of $123 million and Coca-Cola Beverages Africa Limited of $86 million, which are included in the Bottling Investments and Eurasia and Africa operating segments.

We determined that the operations included in the table above did not meet the criteria to be classified as discontinued operations under the applicable guidance.

NOTE 3: INVESTMENTS

Investments in debt and marketable securities, other than investments accounted for under the equity method, are classified as trading, available-for-sale or held-to-maturity. Our marketable equity investments are classified as either trading or available-for-sale with their cost basis determined by the specific identification method. Our investments in debt securities are carried at either amortized cost or fair value. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are carried at amortized cost and classified as held-to-maturity. Investments in debt securities that are not classified as held-to-maturity are carried at fair value and classified as either trading or available-for-sale. Realized and unrealized gains and losses on trading securities and realized gains and losses on available-for-sale securities are included in net income. Unrealized gains and losses, net of deferred taxes, on available-for-sale securities are included in our consolidated balance sheets as a component of accumulated other comprehensive income (loss) ("AOCI"), except for the change in fair value attributable to the currency risk being

hedged. Refer to Note 5 for additional information related to the Company's fair value hedges of available-for-sale securities.

Trading Securities

As of April 1, 2016 and December 31, 2015, our trading securities had a fair value of $353 million and $322 million, respectively, and consisted primarily of equity securities. The Company had net unrealized gains on trading securities of $23 million and $19 million as of April 1, 2016 and December 31, 2015, respectively.

The Company's trading securities were included in the following line items in our condensed consolidated balance sheets (in millions):

| | April 1, 2016 | December 31, 2015 |
|---|---|---|
| Marketable securities | $ 256 | $ 229 |
| Other assets | 97 | 93 |
| Total trading securities | $ 353 | $ 322 |

Available-for-Sale and Held-to-Maturity Securities

As of April 1, 2016 and December 31, 2015, the Company did not have any held-to-maturity securities. As of April 1, 2016, available-for-sale securities consisted of the following (in millions):

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Available-for-sale securities:[1] | | | | |
| Equity securities | $1,240 | $483 | $(49) | $ 1,674 |
| Debt securities | 4,275 | 99 | (30) | 4,344 |
| Total | $5,515 | $582 | $(79) | $ 6,018 |

[1] Refer to Note 13 for additional information related to the estimated fair value.

As of December 31, 2015, available-for-sale securities consisted of the following (in millions):

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Available-for-sale securities:[1] | | | | |
| Equity securities | $3,573 | $485 | $(84) | $ 3,974 |
| Debt securities | 4,593 | 64 | (25) | 4,632 |
| Total | $8,166 | $549 | $(109) | $ 8,606 |

[1] Refer to Note 13 for additional information related to the estimated fair value.

The sale and/or maturity of available-for-sale securities resulted in the following realized activity (in millions):

| | Three Months Ended April 1, 2016 | Three Months Ended April 3, 2015 |
|---|---|---|
| Gross gains | $100 | $ 34 |
| Gross losses | (30) | (7) |
| Proceeds | 4,516 | 1,442 |

As of April 1, 2016 and December 31, 2015, the Company had investments classified as available-for-sale in which our cost basis exceeded the fair value of our investment. Management assessed each of the available-for-sale securities that were in a gross unrealized loss position on an individual basis to determine if the decline in fair value was other than temporary. Management's assessment as to the nature of a decline in fair value is based on, among other things, the length of time and the extent to which the market value has been less than our cost basis; the financial condition and near-term prospects of the issuer; and our intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value. As a result of these assessments, management determined that the decline in fair value of these investments was not other than temporary and did not record any impairment charges.

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The Company uses two of its insurance captives to reinsure group annuity insurance contracts that cover the pension obligations of certain of our European and Canadian pension plans. In accordance with local insurance regulations, our insurance captives are required to meet and maintain minimum solvency capital requirements. The Company elected to invest its solvency capital in a portfolio of available-for-sale securities, which are classified in the line item other assets in our condensed consolidated balance sheets because the assets are not available to satisfy our current obligations. As of April 1, 2016 and December 31, 2015, the Company's available-for-sale securities included solvency capital funds of $873 million and $804 million, respectively.

The Company's available-for-sale securities were included in the following line items in our condensed consolidated balance sheets (in millions):

| | April 1, 2016 | December 31, 2015 |
|---|---|---|
| Cash and cash equivalents | $ 802 | $ 361 |
| Marketable securities | 3,204 | 4,040 |
| Other investments | 1,002 | 3,280 |
| Other assets | 1,010 | 925 |
| Total available-for-sale securities | $ 6,018 | $ 8,606 |

The contractual maturities of these available-for-sale securities as of April 1, 2016 were as follows (in millions):

| | Cost | Fair Value |
|---|---|---|
| Within 1 year | $ 2,109 | $ 2,110 |
| After 1 year through 5 years | 1,744 | 1,790 |
| After 5 years through 10 years | 122 | 133 |
| After 10 years | 300 | 311 |
| Equity securities | 1,240 | 1,674 |
| Total available-for-sale securities | $ 5,515 | $ 6,018 |

The Company expects that actual maturities may differ from the contractual maturities above because borrowers have the right to call or prepay certain obligations.

Cost Method Investments

Cost method investments are initially recorded at cost, and we record dividend income when applicable dividends are declared. Cost method investments are reported as other investments in our condensed consolidated balance sheets, and dividend income from cost method investments is reported in other income (loss) — net in our condensed consolidated statements of income. We review all of our cost method investments quarterly to determine if impairment indicators are present; however, we are not required to determine the fair value of these investments unless impairment indicators exist. When impairment indicators exist, we generally use discounted cash flow analyses to determine the fair value. We estimate that the fair values of our cost method investments approximated or exceeded their carrying values as of April 1, 2016 and December 31, 2015. Our cost method investments had a carrying value of $184 million and $190 million as of April 1, 2016 and December 31, 2015, respectively.

NOTE 4: INVENTORIES

Inventories consist primarily of raw materials and packaging (which include ingredients and supplies) and finished goods (which include concentrates and syrups in our concentrate operations and finished beverages in our finished product operations). Inventories are valued at the lower of cost or market. We determine cost on the basis of the average cost or first-in, first-out methods. Inventories consisted of the following (in millions):

| | April 1, 2016 | December 31, 2015 |
|---|---|---|
| Raw materials and packaging | $ 1,629 | $ 1,564 |
| Finished goods | 1,117 | 1,032 |
| Other | 306 | 306 |
| Total inventories | $ 3,052 | $ 2,902 |

NOTE 5: HEDGING TRANSACTIONS AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company is directly and indirectly affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company's financial performance and are referred to as "market risks." When deemed appropriate, our Company uses derivatives as a risk management tool to mitigate the potential impact of certain market risks. The primary market risks managed by the Company through the use of derivative and non-derivative financial instruments are foreign currency exchange rate risk, commodity price risk and interest rate risk.

The Company uses various types of derivative instruments including, but not limited to, forward contracts, commodity futures contracts, option contracts, collars and swaps. Forward contracts and commodity futures contracts are agreements to buy or sell a quantity of a currency or commodity at a predetermined future date, and at a predetermined rate or price. An option contract is an agreement that conveys the purchaser the right, but not the obligation, to buy or sell a quantity of a currency or commodity at a predetermined rate or price during a period or at a time in the future. A collar is a strategy that uses a combination of options to limit the range of possible positive or negative returns on an underlying asset or liability to a specific range, or to protect expected future cash flows. To do this, an investor simultaneously buys a put option and sells (writes) a call option, or alternatively buys a call option and sells (writes) a put option. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. We do not enter into derivative financial instruments for trading purposes. The Company may also designate certain non-derivative instruments, such as our foreign-denominated debt, in hedging relationships.

All derivative instruments are carried at fair value in our condensed consolidated balance sheets in the following line items, as applicable: prepaid expenses and other assets; other assets; accounts payable and accrued expenses; and other liabilities. The carrying values of the derivatives reflect the impact of legally enforceable master netting agreements and cash collateral held or placed with the same counterparties, as applicable. These master netting agreements allow the Company to net settle positive and negative positions (assets and liabilities) arising from different transactions with the same counterparty.

The accounting for gains and losses that result from changes in the fair values of derivative instruments depends on whether the derivatives have been designated and qualify as hedging instruments and the type of hedging relationships. Derivatives can be designated as fair value hedges, cash flow hedges or hedges of net investments in foreign operations. The changes in the fair values of derivatives that have been designated and qualify for fair value hedge accounting are recorded in the same line item in our condensed consolidated statements of income as the changes in the fair values of the hedged items attributable to the risk being hedged. The changes in the fair values of derivatives that have been designated and qualify as cash flow hedges or hedges of net investments in foreign operations are recorded in AOCI and are reclassified into the line item in our condensed consolidated statement of income in which the hedged items are recorded in the same period the hedged items affect earnings. Due to the high degree of effectiveness between the hedging instruments and the underlying exposures being hedged, fluctuations in the values of the derivative instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. The changes in fair values of derivatives that were not designated and/or did not qualify as hedging instruments are immediately recognized into earnings.

For derivatives that will be accounted for as hedging instruments, the Company formally designates and documents, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective and the strategy for undertaking the hedge transaction. In addition, the Company formally assesses, both at inception and at least quarterly thereafter, whether the financial instruments used in hedging transactions are effective at offsetting changes in either the fair values or cash flows of the related underlying exposures. Any ineffective portion of a financial instrument's change in fair value is immediately recognized into earnings.

The Company determines the fair values of its derivatives based on quoted market prices or pricing models using current market rates. Refer to Note 13. The notional amounts of the derivative financial instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, foreign currency exchange rates or other financial indices. The Company does

not view the fair values of its derivatives in isolation but rather in relation to the fair values or cash flows of the underlying hedged transactions or other exposures. Virtually all of our derivatives are straightforward over-the-counter instruments with liquid markets.

The following table presents the fair values of the Company's derivative instruments that were designated and qualified as part of a hedging relationship (in millions):

| Derivatives Designated as Hedging Instruments | Balance Sheet Location[1] | Fair Value[1,2] April 1, 2016 | December 31, 2015 |
|---|---|---|---|
| Assets: | | | |
| Foreign currency contracts | Prepaid expenses and other assets | $423 | $ 572 |
| Foreign currency contracts | Other assets | 153 | 246 |
| Commodity contracts | Prepaid expenses and other assets | 1 | 1 |
| Interest rate contracts | Prepaid expenses and other assets | 15 | 20 |
| Interest rate contracts | Other assets | 203 | 62 |
| Total assets | | $795 | $ 901 |
| Liabilities: | | | |
| Foreign currency contracts | Accounts payable and accrued expenses | $297 | $ 51 |
| Foreign currency contracts | Other liabilities | 82 | 75 |
| Interest rate contracts | Accounts payable and accrued expenses | 145 | 53 |
| Interest rate contracts | Other liabilities | 128 | 231 |
| Total liabilities | | $652 | $ 410 |

[1] All of the Company's derivative instruments are carried at fair value in our condensed consolidated balance sheets after considering the impact of legally enforceable master netting agreements and cash collateral held or placed with the same counterparties, as applicable. Current disclosure requirements mandate that derivatives must also be disclosed without reflecting the impact of master netting agreements and cash collateral. Refer to Note 13 for the net presentation of the Company's derivative instruments.

[2] Refer to Note 13 for additional information related to the estimated fair value.

The following table presents the fair values of the Company's derivative instruments that were not designated as hedging instruments (in millions):

| Derivatives Not Designated as Hedging Instruments | Balance Sheet Location[1] | Fair Value[1,2] April 1, 2016 | December 31, 2015 |
|---|---|---|---|
| Assets: | | | |
| Foreign currency contracts | Prepaid expenses and other assets | $254 | $ 105 |
| Foreign currency contracts | Other assets | 10 | 241 |
| Commodity contracts | Prepaid expenses and other assets | 5 | 2 |
| Commodity contracts | Other assets | 4 | 1 |
| Other derivative instruments | Prepaid expenses and other assets | 38 | 17 |
| Other derivative instruments | Other assets | 4 | 3 |
| Total assets | | $315 | $ 369 |
| Liabilities: | | | |
| Foreign currency contracts | Accounts payable and accrued expenses | $75 | $ 59 |
| Foreign currency contracts | Other liabilities | 7 | 9 |
| Commodity contracts | Accounts payable and accrued expenses | 106 | 154 |
| Commodity contracts | Other liabilities | 4 | 19 |
| Interest rate contracts | Other liabilities | 1 | 1 |
| Other derivative instruments | Accounts payable and accrued expenses | 2 | 5 |
| Other derivative instruments | Other liabilities | 2 | 2 |
| Total liabilities | | $197 | $ 249 |

[1] All of the Company's derivative instruments are carried at fair value in our condensed consolidated balance sheets after considering the impact of legally enforceable master netting agreements and cash collateral held or placed with the same counterparties, as applicable. Current disclosure requirements mandate that derivatives must also be

disclosed without reflecting the impact of master netting agreements and cash collateral. Refer to Note 13 for the net presentation of the Company's derivative instruments.

[2] Refer to Note 13 for additional information related to the estimated fair value.

Credit Risk Associated with Derivatives
We have established strict counterparty credit guidelines and enter into transactions only with financial institutions of investment grade or better. We monitor counterparty exposures regularly and review any downgrade in credit rating immediately. If a downgrade in the credit rating of a counterparty were to occur, we have provisions requiring cash collateral for substantially all of our transactions. To mitigate presettlement risk, minimum credit standards become more stringent as the duration of the derivative financial instrument increases. In addition, the Company's master netting agreements reduce credit risk by permitting the Company to net settle for transactions with the same counterparty. To minimize the concentration of credit risk, we enter into derivative transactions with a portfolio of financial institutions. Based on these factors, we consider the risk of counterparty default to be minimal.
Cash Flow Hedging Strategy
The Company uses cash flow hedges to minimize the variability in cash flows of assets or liabilities or forecasted transactions caused by fluctuations in foreign currency exchange rates, commodity prices or interest rates. The changes in the fair values of derivatives designated as cash flow hedges are recorded in AOCI and are reclassified into the line item in our condensed consolidated statement of income in which the hedged items are recorded in the same period the hedged items affect earnings. The changes in fair values of hedges that are determined to be ineffective are immediately reclassified from AOCI into earnings. The maximum length of time for which the Company hedges its exposure to future cash flows is typically three years.
The Company maintains a foreign currency cash flow hedging program to reduce the risk that our eventual U.S. dollar net cash inflows from sales outside the United States and U.S. dollar net cash outflows from procurement activities will be adversely affected by fluctuations in foreign currency exchange rates. We enter into forward contracts and purchase foreign currency options (principally euros and Japanese yen) and collars to hedge certain portions of forecasted cash flows denominated in foreign currencies. When the U.S. dollar strengthens against the foreign currencies, the decline in the present value of future foreign currency cash flows is partially offset by gains in the fair value of the derivative instruments. Conversely, when the U.S. dollar weakens, the increase in the present value of future foreign currency cash flows is partially offset by losses in the fair value of the derivative instruments. The total notional values of derivatives that were designated and qualified for the Company's foreign currency cash flow hedging program were $9,287 million and $10,383 million as of April 1, 2016 and December 31, 2015, respectively.
The Company uses cross-currency swaps to hedge the changes in cash flows of certain of its foreign currency denominated debt due to changes in foreign currency exchange rates. For this hedging program, the Company records the change in carrying value of the foreign currency denominated debt due to changes in exchange rates into earnings each period. The changes in fair value of the cross-currency swap derivatives are recorded in AOCI with an immediate reclassification into earnings for the change in fair value attributable to fluctuations in foreign currency exchange rates. During the three months ended April 3, 2015, the Company discontinued the cash flow hedge relationships related to swaps that had a notional amount of $2,590 million. Upon discontinuance, the Company recognized a loss of $92 million in other comprehensive income ("OCI"), which will be reclassified from AOCI into interest expense over the remaining life of the debt, a weighted-average period of approximately 10 years. The Company did not discontinue any cash flow hedging relationships during the three months ended April 1, 2016. During the year ended December 31, 2015, the Company entered into new cross-currency swaps, which had a notional value of $566 million as of April 1, 2016 and December 31, 2015.
The Company has entered into commodity futures contracts and other derivative instruments on various commodities to mitigate the price risk associated with forecasted purchases of materials used in our manufacturing process. These derivative instruments have been designated and qualify as part of the Company's commodity cash flow hedging program. The objective of this hedging program is to reduce the variability of cash flows associated with future purchases of certain commodities. The total notional values of derivatives that were designated and qualified for the Company's commodity cash flow hedging program were $6 million and $8 million as of April 1, 2016 and December 31, 2015, respectively.
Our Company monitors our mix of short-term debt and long-term debt regularly. From time to time, we manage our risk to interest rate fluctuations through the use of derivative financial instruments. The Company has entered into interest rate swap agreements and has designated these instruments as part of the Company's interest rate cash flow

hedging program. The objective of this hedging program is to mitigate the risk of adverse changes in benchmark interest rates on the Company's future interest payments. The total notional values of these interest rate swap agreements that were designated and qualified for the Company's interest rate cash flow hedging program were $3,894 million and $3,328 million as of April 1, 2016 and December 31, 2015, respectively.

The following table presents the pretax impact that changes in the fair values of derivatives designated as cash flow hedges had on AOCI and earnings during the three months ended April 1, 2016 (in millions):

| | Gain (Loss) Recognized in OCI | Location of Gain (Loss) Recognized in Income[1] | Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) |
|---|---|---|---|---|
| Foreign currency contracts | $ (346) | Net operating revenues | $ 140 | $ —[1,2] |
| Foreign currency contracts | (24) | Cost of goods sold | 20 | —[1,2] |
| Foreign currency contracts | — | Interest expense | (2) | — |
| Foreign currency contracts | 42 | Other income (loss) — net | 43 | — |
| Interest rate contracts | (157) | Interest expense | (2) | — |
| Total | $ (485) | | $ 199 | $ — |

[1] The Company records gains and losses reclassified from AOCI into income for the effective portion and the ineffective portion, if any, to the same line items in our condensed consolidated statements of income.
[2] Includes a de minimis amount of ineffectiveness in the hedging relationship.

The following table presents the pretax impact that changes in the fair values of derivatives designated as cash flow hedges had on AOCI and earnings during the three months ended April 3, 2015 (in millions):

| | Gain (Loss) Recognized in OCI | Location of Gain (Loss) Recognized in Income[1] | Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) |
|---|---|---|---|---|
| Foreign currency contracts | $ 764 | Net operating revenues | $ 120 | $ —[1,2] |
| Foreign currency contracts | 19 | Cost of goods sold | 12 | — |
| Foreign currency contracts | 18 | Interest expense | (2) | — |
| Interest rate contracts | (132) | Interest expense | (3) | — |
| Commodity contracts | (1) | Cost of goods sold | — | — |
| Total | $ 668 | | $ 127 | $ — |

[1] The Company records gains and losses reclassified from AOCI into income for the effective portion and the ineffective portion, if any, to the same line items in our condensed consolidated statements of income.
[2] Includes a de minimis amount of ineffectiveness in the hedging relationship.

As of April 1, 2016, the Company estimates that it will reclassify into earnings during the next 12 months $472 million of gains from the pretax amount recorded in AOCI as the anticipated cash flows occur.

Fair Value Hedging Strategy

The Company uses interest rate swap agreements designated as fair value hedges to minimize exposure to changes in the fair value of fixed-rate debt that results from fluctuations in benchmark interest rates. The Company also uses cross-currency interest rate swaps to hedge the changes in the fair value of foreign currency denominated debt relating to changes in foreign currency exchange rates and benchmark interest rates. The changes in fair values of derivatives

designated as fair value hedges and the offsetting changes in fair values of the hedged items are recognized in earnings. The ineffective portions of these hedges are immediately recognized in earnings. As of April 1, 2016, such adjustments had cumulatively increased the carrying value of our long-term debt by $192 million. When a derivative is no longer designated as a fair value hedge for any reason, including termination and maturity, the remaining unamortized difference between the carrying value of the hedged item at that time and the face value of the hedged item is amortized to earnings over the remaining life of the hedged item, or immediately if the hedged item has matured. The total notional values of derivatives that related to our fair value hedges of this type were $8,227 million and $7,963 million as of April 1, 2016 and December 31, 2015, respectively.

The Company also uses fair value hedges to minimize exposure to changes in the fair value of certain available-for-sale securities from fluctuations in foreign currency exchange rates. The changes in fair values of derivatives designated as fair value hedges and the offsetting changes in fair values of the hedged items due to changes in foreign currency exchange rates are recognized in earnings. As a result, any difference is reflected in earnings as ineffectiveness. The total notional values of derivatives that related to our fair value hedges of this type were $1,744 million and $2,159 million as of April 1, 2016 and December 31, 2015, respectively.

The following table summarizes the pretax impact that changes in the fair values of derivatives designated as fair value hedges had on earnings during the three months ended April 1, 2016 and April 3, 2015 (in millions):

| Hedging Instruments and Hedged Items | Location of Gain (Loss) Recognized in Income | Gain (Loss) Recognized in Income[1] Three Months Ended | |
|---|---|---|---|
| | | April 1, 2016 | April 3, 2015 |
| Interest rate contracts | Interest expense | $306 | $ 29 |
| Fixed-rate debt | Interest expense | (277 ) | (19 ) |
| Net impact to interest expense | | $29 | $ 10 |
| Foreign currency contracts | Other income (loss) — net | $51 | $ 112 |
| Available-for-sale securities | Other income (loss) — net | (58 ) | (118 ) |
| Net impact to other income (loss) — net | | $(7 ) | $ (6 ) |
| Net impact of fair value hedging instruments | | $22 | $ 4 |

[1] The net impacts represent the ineffective portions of the hedge relationships and the amounts excluded from the assessment of hedge effectiveness.

Hedges of Net Investments in Foreign Operations Strategy

The Company uses forward contracts and non-derivative financial instruments to protect the value of our investments in a number of foreign subsidiaries. During the year ended December 31, 2015, the Company designated a portion of its euro-denominated debt as a hedge of a net investment in our European operations. The change in the carrying value of the designated portion of the euro-denominated debt due to changes in exchange rates is recorded in net foreign currency translation adjustment, a component of AOCI. For derivative instruments that are designated and qualify as hedges of net investments in foreign operations, the changes in fair values of the derivative instruments are recognized in net foreign currency translation adjustment, to offset the changes in the values of the net investments being hedged. Any ineffective portions of net investment hedges are reclassified from AOCI into earnings during the period of change.

The following table summarizes the notional values and pretax impact of changes in the fair values of instruments designated as net investment hedges (in millions):

| | Notional Amount as of | | Gain (Loss) Recognized in OCI Three Months Ended | |
|---|---|---|---|---|
| | April 1, 2016 | December 31, 2015 | April 1, 2016 | April 3, 2015 |
| Foreign currency denominated debt | $11,095 | $ 10,912 | $(521) | $ 74 |
| Foreign currency contracts | 1,000 | 1,347 | (145 ) | 424 |
| Total | $12,095 | $ 12,259 | $(666) | $ 498 |

The Company did not reclassify any deferred gains or losses related to net investment hedges from AOCI into earnings during the three months ended April 1, 2016 and April 3, 2015. In addition, the Company did not have any ineffectiveness related to net investment hedges during the three months ended April 1, 2016 and April 3, 2015. The cash inflows and outflows associated with the Company's derivative contracts designated as net investment hedges are classified in the line item other investing activities in our condensed consolidated statements of cash flows.

Economic (Nondesignated) Hedging Strategy

In addition to derivative instruments that are designated and qualify for hedge accounting, the Company also uses certain derivatives as economic hedges of foreign currency, interest rate and commodity exposure. Although these derivatives were not designated and/or did not qualify for hedge accounting, they are effective economic hedges. The

changes in fair values of economic hedges are immediately recognized into earnings.
The Company uses foreign currency economic hedges to offset the earnings impact that fluctuations in foreign currency exchange rates have on certain monetary assets and liabilities denominated in nonfunctional currencies. The changes in fair values of economic hedges used to offset those monetary assets and liabilities are immediately recognized into earnings in the line item other income (loss) — net in our condensed consolidated statements of income. In addition, we use foreign currency economic hedges to minimize the variability in cash flows associated with fluctuations in foreign currency exchange rates. The changes in fair values of economic hedges used to offset the variability in U.S. dollar net cash flows are recognized into earnings in the line items net operating revenues or cost of goods sold in our condensed consolidated statements of income, as

applicable. The total notional values of derivatives related to our foreign currency economic hedges were $4,118 million and $3,605 million as of April 1, 2016 and December 31, 2015, respectively.
The Company also uses certain derivatives as economic hedges to mitigate the price risk associated with the purchase of materials used in the manufacturing process and for vehicle fuel. The changes in fair values of these economic hedges are immediately recognized into earnings in the line items net operating revenues, cost of goods sold, and selling, general and administrative expenses in our condensed consolidated statements of income, as applicable. The total notional values of derivatives related to our economic hedges of this type were $915 million and $893 million as of April 1, 2016 and December 31, 2015, respectively.
The following table presents the pretax impact that changes in the fair values of derivatives not designated as hedging instruments had on earnings (in millions):

| | | Three Months Ended | |
|---|---|---|---|
| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income | April 1, 2016 | April 3, 2015 |
| Foreign currency contracts | Net operating revenues | $(25) | $ 9 |
| Foreign currency contracts | Cost of goods sold | (3) | — |
| Foreign currency contracts | Other income (loss) — net | (62) | (17) |
| Commodity contracts | Net operating revenues | (1) | (3) |
| Commodity contracts | Cost of goods sold | 23 | (24) |
| Commodity contracts | Selling, general and administrative expenses | (2) | (5) |
| Other derivative instruments | Selling, general and administrative expenses | 8 | — |
| Other derivative instruments | Other income (loss) — net | (10) | (68) |
| Total | | $(72) | $ (108) |

## NOTE 6: COMMITMENTS AND CONTINGENCIES

### Guarantees

As of April 1, 2016, we were contingently liable for guarantees of indebtedness owed by third parties of $563 million, of which $262 million related to variable interest entities. These guarantees are primarily related to third-party customers, bottlers, vendors and container manufacturing operations and have arisen through the normal course of business. These guarantees have various terms, and none of these guarantees was individually significant. The amount represents the maximum potential future payments that we could be required to make under the guarantees; however, we do not consider it probable that we will be required to satisfy these guarantees.
We believe our exposure to concentrations of credit risk is limited due to the diverse geographic areas covered by our operations.

### Legal Contingencies

The Company is involved in various legal proceedings. We establish reserves for specific legal proceedings when we determine that the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Management has also identified certain other legal matters where we believe an unfavorable outcome is reasonably possible and/or for which no estimate of possible losses can be made. Management believes that the total liabilities to the Company that may arise as a result of currently pending legal proceedings will not have a material adverse effect on the Company taken as a whole.

### Tax Audits

The Company is involved in various tax matters, with respect to some of which the outcome is uncertain. We establish reserves to remove some or all of the tax benefit of any of our tax positions at the time we determine that it becomes uncertain based upon one of the following conditions: (1) the tax position is not "more likely than not" to be sustained, (2) the tax position is "more likely than not" to be sustained, but for a lesser amount, or (3) the tax position is "more likely than not" to be sustained, but not in the financial period in which the tax position was originally taken. For purposes of evaluating whether or not a tax position is uncertain, (1) we presume the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information; (2) the technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case

law and their applicability to the facts and circumstances of the tax position; and (3) each tax position is evaluated without consideration of the possibility of offset or aggregation with other tax positions taken. A number of years may elapse before a particular uncertain tax position is audited and finally resolved or when a tax assessment is raised. The number of years subject to tax assessments varies depending on the tax jurisdiction. The tax benefit that has been previously reserved because of a failure to meet the "more likely than not" recognition threshold would be

recognized in our income tax expense in the first interim period when the uncertainty disappears under any one of the following conditions: (1) the tax position is "more likely than not" to be sustained, (2) the tax position, amount, and/or timing is ultimately settled through negotiation or litigation, or (3) the statute of limitations for the tax position has expired. Refer to Note 12.

On September 17, 2015, the Company received a Statutory Notice of Deficiency ("Notice") from the Internal Revenue Service ("IRS") for the tax years 2007 through 2009, after a five-year audit. In the Notice, the IRS claims that the Company's United States taxable income should be increased by an amount that creates a potential additional federal income tax liability of approximately $3.3 billion for the period, plus interest. No penalties were asserted in the Notice; however, the IRS has since taken the position that it is not precluded from asserting penalties and notified the Company that it may do so. The disputed amounts largely relate to a transfer pricing matter involving the appropriate amount of taxable income the Company should report in the United States in connection with its licensing of intangible property to certain related foreign licensees regarding the manufacturing, distribution, sale, marketing and promotion of products in overseas markets.

The Company has followed the same transfer pricing methodology for these licenses since the methodology was agreed with the IRS in a 1996 closing agreement that applied back to 1987. The closing agreement provides prospective penalty protection as long as the Company follows the prescribed methodology and material facts and circumstances and relevant Federal tax law have not changed. On February 11, 2016, the IRS notified the Company, without further explanation, that the IRS has determined that material facts and circumstances and relevant Federal tax law have changed and that it may assert penalties. The Company does not agree with this determination. The Company's compliance with the closing agreement was audited and confirmed by the IRS in five successive audit cycles covering the subsequent 11 years through 2006, with the last audit concluding as recently as 2009.

The Notice represents a repudiation of the methodology previously adopted in the 1996 closing agreement. The IRS designated the matter for litigation on October 15, 2015. Therefore, the Company will be prevented from pursuing any administrative settlement at IRS Appeals or under the IRS Advance Pricing and Mutual Agreement Program.

The Company firmly believes that the IRS' claims are without merit and plans to pursue all available administrative and judicial remedies necessary to resolve this matter. To that end, the Company filed a petition in the U.S. Tax Court on December 14, 2015, and the IRS filed its answer on February 2, 2016. The trial date has not yet been set. The Company intends to vigorously defend its position and is confident in its ability to prevail on the merits. The Company regularly assesses the likelihood of adverse outcomes resulting from examinations such as this to determine the adequacy of its tax reserves. The Company believes that the final adjudication of this matter will not have a material impact on its consolidated financial position, results of operations or cash flows and that it has adequate tax reserves for all tax matters. However, the ultimate outcome of disputes of this nature is uncertain, and if the IRS were to prevail on its assertions, the additional tax, interest, and any potential penalties could have a material adverse impact on the Company's financial position, results of operations or cash flows.

Risk Management Programs

The Company has numerous global insurance programs in place to help protect the Company from the risk of loss. In general, we are self-insured for large portions of many different types of claims; however, we do use commercial insurance above our self-insured retentions to reduce the Company's risk of catastrophic loss. Our reserves for the Company's self-insured losses are estimated using actuarial methods and assumptions of the insurance industry, adjusted for our specific expectations based on our claim history. Our self-insurance reserves totaled $570 million and $560 million as of April 1, 2016 and December 31, 2015, respectively.

NOTE 7: COMPREHENSIVE INCOME

AOCI attributable to shareowners of The Coca-Cola Company is separately presented in our condensed consolidated balance sheets as a component of The Coca-Cola Company's shareowners' equity, which also includes our proportionate share of equity method investees' AOCI. OCI attributable to noncontrolling interests is allocated to, and included in, our condensed consolidated balance sheets as part of the line item equity attributable to noncontrolling interests.

AOCI attributable to shareowners of The Coca-Cola Company consisted of the following (in millions):

| | April 1, 2016 | December 31, 2015 |
|---|---|---|
| Foreign currency translation adjustment | $(9,438) | $(9,167) |
| Accumulated derivative net gains (losses) | 269 | 696 |
| Unrealized net gains (losses) on available-for-sale securities | 340 | 288 |
| Adjustments to pension and other benefit liabilities | (1,960) | (1,991) |
| Accumulated other comprehensive income (loss) | $(10,789) | $(10,174) |

The following table summarizes the allocation of total comprehensive income between shareowners of The Coca-Cola Company and noncontrolling interests (in millions):

| | Three Months Ended April 1, 2016 | | |
|---|---|---|---|
| | Shareowners of The Coca-Cola Company | Noncontrolling Interests | Total |
| Consolidated net income | $1,483 | $ 10 | $1,493 |
| Other comprehensive income: | | | |
| Net foreign currency translation adjustment | (271) | (6) | (277) |
| Net gain (loss) on derivatives[1] | (427) | — | (427) |
| Net unrealized gain (loss) on available-for-sale securities[2] | 52 | — | 52 |
| Net change in pension and other benefit liabilities | 31 | — | 31 |
| Total comprehensive income | $868 | $ 4 | $872 |

[1] Refer to Note 5 for additional information related to the net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments.
[2] Refer to Note 3 for additional information related to the net unrealized gain or loss on available-for-sale securities.
The following tables present OCI attributable to shareowners of The Coca-Cola Company, including our proportionate share of equity method investees' OCI (in millions):

| Three Months Ended April 1, 2016 | Before-Tax Amount | Income Tax | After-Tax Amount |
|---|---|---|---|
| Foreign currency translation adjustments: | | | |
| Translation adjustment arising during the period | $ 34 | $ 106 | $ 140 |
| Unrealized gains (losses) on net investment hedges arising during the period | (666) | 255 | (411) |
| Net foreign currency translation adjustments | (632) | 361 | (271) |
| Derivatives: | | | |
| Unrealized gains (losses) arising during the period | (485) | 182 | (303) |
| Reclassification adjustments recognized in net income | (199) | 75 | (124) |
| Net gain (loss) on derivatives[1] | (684) | 257 | (427) |
| Available-for-sale securities: | | | |
| Unrealized gains (losses) arising during the period | 133 | (28) | 105 |
| Reclassification adjustments recognized in net income | (70) | 17 | (53) |
| Net change in unrealized gain (loss) on available-for-sale securities[2] | 63 | (11) | 52 |
| Pension and other benefit liabilities: | | | |
| Net pension and other benefits arising during the period | 6 | (3) | 3 |
| Reclassification adjustments recognized in net income | 43 | (15) | 28 |
| Net change in pension and other benefit liabilities[3] | 49 | (18) | 31 |
| Other comprehensive income (loss) attributable to The Coca-Cola Company | $ (1,204) | $ 589 | $ (615) |

[1] Refer to Note 5 for additional information related to the net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments.
[2] Includes reclassification adjustments related to divestitures of certain available-for-sale securities. Refer to Note 3 for additional information related to these divestitures.
[3] Refer to Note 11 for additional information related to the Company's pension and other postretirement benefit liabilities.

| Three Months Ended April 3, 2015 | Before-Tax Amount | Income Tax | After-Tax Amount |
| --- | --- | --- | --- |
| Foreign currency translation adjustments: | | | |
| Translation adjustment arising during the period | $ (1,439) | $ (90) | $ (1,529) |
| Reclassification adjustments recognized in net income | 63 | (14) | 49 |
| Net foreign currency translation adjustments | (1,376) | (104) | (1,480) |
| Derivatives: | | | |
| Unrealized gains (losses) arising during the period | 669 | (256) | 413 |
| Reclassification adjustments recognized in net income | (127) | 48 | (79) |
| Net gain (loss) on derivatives[1] | 542 | (208) | 334 |
| Available-for-sale securities: | | | |
| Unrealized gains (losses) arising during the period | (312) | 120 | (192) |
| Reclassification adjustments recognized in net income | (27) | 8 | (19) |
| Net change in unrealized gain (loss) on available-for-sale securities[2] | (339) | 128 | (211) |
| Pension and other benefit liabilities: | | | |
| Net pension and other benefits arising during the period | 52 | (17) | 35 |
| Reclassification adjustments recognized in net income | 47 | (17) | 30 |
| Net change in pension and other benefit liabilities[3] | 99 | (34) | 65 |
| Other comprehensive income (loss) attributable to The Coca-Cola Company | $ (1,074) | $ (218) | $ (1,292) |

1 Refer to Note 5 for additional information related to the net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments.

2 Includes reclassification adjustments related to divestitures of certain available-for-sale securities. Refer to Note 3 for additional information related to these divestitures.

3 Refer to Note 11 for additional information related to the Company's pension and other postretirement benefit liabilities.

The following table presents the amounts and line items in our condensed consolidated statements of income where adjustments reclassified from AOCI into income were recorded during the three months ended April 1, 2016 (in millions):

| Description of AOCI Component | Financial Statement Line Item | Amount Reclassified from AOCI into Income Three Months Ended April 1, 2016 |
| --- | --- | --- |
| Derivatives: | | |
| Foreign currency contracts | Net operating revenues | $ (140) |
| Foreign currency contracts | Cost of goods sold | (20) |
| Foreign currency contracts | Other income (loss) — net | (43) |
| Foreign currency and interest rate contracts | Interest expense | 4 |
| | Income before income taxes | (199) |
| | Income taxes | 75 |
| | Consolidated net income | $ (124) |
| Available-for-sale securities: | | |
| Sale of securities | Other income (loss) — net | $ (70) |
| | Income before income taxes | (70) |
| | Income taxes | 17 |

| | | |
|---|---|---|
| | Consolidated net income | $ (53 ) |
| Pension and other benefit liabilities: | | |
| Recognized net actuarial loss (gain) | * | $ 48 |
| Recognized prior service cost (credit) | * | (5 ) |
| | Income before income taxes | 43 |
| | Income taxes | (15 ) |
| | Consolidated net income | $ 28 |

* This component of AOCI is included in the Company's computation of net periodic benefit cost and is not reclassified out of AOCI into a single line item in our condensed consolidated statements of income in its entirety. Refer to Note 11 for additional information.

NOTE 8: CHANGES IN EQUITY

The following table provides a reconciliation of the beginning and ending carrying amounts of total equity, equity attributable to shareowners of The Coca-Cola Company and equity attributable to noncontrolling interests (in millions):

| | | Shareowners of The Coca-Cola Company | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Reinvested Earnings | Accumulated Other Comprehensive Income (Loss) | Common Stock | Capital Surplus | Treasury Stock | Non-controlling Interests |
| December 31, 2015 | $25,764 | $65,018 | $ (10,174) | $ 1,760 | $14,016 | $(45,066) | $ 210 |
| Comprehensive income (loss) | 872 | 1,483 | (615) | — | — | — | 4 |
| Dividends paid/payable to shareowners of The Coca-Cola Company | (1,516) | (1,516) | — | — | — | — | — |
| Dividends paid to noncontrolling interests | (1) | — | — | — | — | — | (1) |
| Purchases of treasury stock | (956) | — | — | — | — | (956) | — |
| Impact related to stock compensation plans | 964 | — | — | — | 491 | 473 | — |
| Other activities | 2 | — | — | — | — | — | 2 |
| April 1, 2016 | $25,129 | $64,985 | $ (10,789) | $ 1,760 | $14,507 | $(45,549) | $ 215 |

NOTE 9: SIGNIFICANT OPERATING AND NONOPERATING ITEMS

Other Operating Charges

During the three months ended April 1, 2016, the Company recorded other operating charges of $311 million. These charges primarily consisted of $63 million due to the Company's productivity and reinvestment program and $199 million due to the integration of our German bottling operations. In addition, the Company recorded charges of $45 million related to costs incurred to refranchise our North America bottling territories. These costs include, among other items, internal and external costs for individuals directly working on the refranchising efforts, severance and costs associated with the implementation of information technology systems to facilitate consistent data standards and availability throughout the North America bottling system. Refer to Note 10 for additional information on the Company's productivity, integration and restructuring initiatives. Refer to Note 14 for the impact these charges had on our operating segments.

During the three months ended April 3, 2015, the Company incurred other operating charges of $233 million. These charges consisted of $90 million due to the Company's productivity and reinvestment program and $35 million due to the integration of our German bottling operations. In addition, the Company incurred a charge of $108 million due to the write-down of receivables from our bottling partner in Venezuela and an impairment of a Venezuelan trademark primarily due to changes in exchange rates as a result of the establishment of the new open market exchange system. Refer to Note 10 for additional information on the Company's productivity, integration and restructuring initiatives. Refer to Note 1 for additional information on the Venezuelan currency conversion mechanisms. Refer to Note 14 for the impact these charges had on our operating segments.

Other Nonoperating Items

Interest Expense

During the three months ended April 3, 2015, the Company recorded charges of $320 million due to the early extinguishment of certain long-term debt. These charges included the difference between the reacquisition price and the net carrying amount of the debt extinguished, including the impact of the related fair value hedging relationship. Refer to Note 14 for the impact this charge had on our operating segments.

Equity Income (Loss) — Net

During the three months ended April 1, 2016 and April 3, 2015, the Company recorded net charges of $3 million and $73 million, respectively. These amounts represent the Company's proportionate share of unusual or infrequent items recorded by certain of our equity method investees, including charges incurred by an equity method investee due to changes in the Venezuelan bolivar exchange rates. Refer to Note 14 for the impact these items had on our operating segments.

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Other Income (Loss) — Net

During the three months ended April 1, 2016, the Company recognized noncash losses of $369 million due to the refranchising of certain territories in North America, partially offset by a gain of $18 million, net of transaction costs, resulting from the Company's disposal of its investment in Keurig. Refer to Note 2 for additional information on the North America refranchising and Keurig investment disposal. Refer to Note 14 for the impact these items had on our operating segments.

During the three months ended April 3, 2015, the Company recognized noncash losses of $21 million due to the refranchising of certain territories in North America, $19 million as a result of the remeasurement of our previously held equity interest in a South African bottler to fair value upon our acquisition of the bottling operations, and $6 million as a result of a Brazilian bottling entity's majority interest owners exercising their option to acquire from us an additional equity interest at an exercise price less than that of our carrying value. The Company recognized a foreign currency exchange gain of $80 million associated with our euro-denominated debt partially offset by a charge of $27 million due to the remeasurement of the net monetary assets of our Venezuelan subsidiary using the SIMADI exchange rate. Refer to Note 2 for more information related to the North America refranchising and the acquisition of the South African bottler. Refer to Note 1 for more information related to the charge due to the remeasurement in Venezuela. Refer to Note 14 for the impact these charges had on our operating segments.

NOTE 10: PRODUCTIVITY, INTEGRATION AND RESTRUCTURING INITIATIVES

Productivity and Reinvestment

In February 2012, the Company announced a four-year productivity and reinvestment program designed to further enable our efforts to strengthen our brands and reinvest our resources to drive long-term profitable growth. This program is focused on the following initiatives: global supply chain optimization; global marketing and innovation effectiveness; operating expense leverage and operational excellence; data and information technology systems standardization; and the integration of Coca-Cola Enterprises Inc.'s ("Old CCE") former North America business.

In February 2014, the Company announced the expansion of our productivity and reinvestment program to drive incremental productivity by 2016 that will primarily be redirected into increased media investments. Our incremental productivity goal consists of two relatively equal components. First, we will expand savings through global supply chain optimization, data and information technology systems standardization, and resource and cost reallocation. Second, we will increase the effectiveness of our marketing investments by transforming our marketing and commercial model to redeploy resources into more consumer-facing marketing investments to accelerate growth.

In October 2014, the Company announced that we were further expanding our productivity and reinvestment program and extending it through 2019. The expansion of the productivity initiatives will focus on four key areas: restructuring the Company's global supply chain, including manufacturing in North America; implementing zero-based work, an evolution of zero-based budget principles, across the organization; streamlining and simplifying the Company's operating model; and further driving increased discipline and efficiency in direct marketing investments.

The Company has incurred total pretax expenses of $2,119 million related to this program since it commenced. These expenses were recorded in the line item other operating charges in our condensed consolidated statements of income. Refer to Note 14 for the impact these charges had on our operating segments. Outside services reported in the table below primarily relate to expenses in connection with legal, outplacement and consulting activities. Other direct costs reported in the table below include, among other items, internal and external costs associated with the development, communication, administration and implementation of these initiatives; accelerated depreciation on certain fixed assets; contract termination fees; and relocation costs.

The following table summarizes the balance of accrued expenses related to these productivity and reinvestment initiatives and the changes in the accrued amounts as of and for the three months ended April 1, 2016 (in millions):

| | Accrued Balance December 31, 2015 | Costs Incurred Three Months Ended | Payments | Noncash and Exchange | Accrued Balance April 1, 2016 |
|---|---|---|---|---|---|

| | | April 1, 2016 | | | |
|---|---|---|---|---|---|
| Severance pay and benefits | $ 144 | $ 12 | $ (47) | $ (5) | $ 104 |
| Outside services | 8 | 4 | (6) | 1 | 7 |
| Other direct costs | 52 | 47 | (38) | (39) | 22 |
| Total | $ 204 | $ 63 | $ (91) | $ (43) | $ 133 |

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Integration of Our German Bottling Operations

In 2008, the Company began the integration of our German bottling operations acquired in 2007. The Company incurred expenses of $199 million related to this initiative during the three months ended April 1, 2016, and has incurred total pretax expenses of $1,326 million related to this initiative since it commenced. These charges were recorded in the line item other operating charges in our condensed consolidated statements of income and impacted the Bottling Investments operating segment. The expenses recorded in connection with these integration activities have been primarily due to involuntary terminations. The Company had $226 million and $122 million accrued related to these integration costs as of April 1, 2016 and December 31, 2015, respectively.

We are currently reviewing additional restructuring opportunities within the German bottling operations, which if implemented will result in additional charges in future periods. However, as of April 1, 2016, the Company had not finalized any additional plans. Our German bottling operations are classified as held for sale. Refer to Note 2.

NOTE 11: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Net periodic benefit cost for our pension and other postretirement benefit plans consisted of the following (in millions):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | Three Months Ended | | | |
| | April 1, 2016 | April 3, 2015 | April 1, 2016 | April 3, 2015 |
| Service cost | $59 | $ 67 | $5 | $ 7 |
| Interest cost | 80 | 95 | 8 | 9 |
| Expected return on plan assets | (164) | (177) | (3) | (3) |
| Amortization of prior service cost (credit) | — | — | (5) | (5) |
| Amortization of net actuarial loss | 46 | 49 | 2 | 3 |
| Net periodic benefit cost (credit) | $21 | $ 34 | $7 | $ 11 |
| Special termination benefits[1] | 8 | — | — | — |
| Total cost (credit) recognized in statements of income | $29 | $ 34 | $7 | $ 11 |

[1] The special termination benefits were primarily related to the Company's productivity, restructuring and integration initiatives. Refer to Note 10 for additional information related to our productivity, restructuring and integration initiatives.

During the three months ended April 1, 2016, the Company contributed $493 million to our pension plans, and we anticipate making additional contributions of approximately $27 million during the remainder of 2016. The Company contributed $78 million to our pension plans during the three months ended April 3, 2015.

NOTE 12: INCOME TAXES

Our effective tax rate reflects the benefits of having significant operations outside the United States, which are generally taxed at rates lower than the U.S. statutory rate of 35 percent. As a result of employment actions and capital investments made by the Company, certain tax jurisdictions provide income tax incentive grants, including Brazil, Costa Rica, Singapore and Swaziland. The terms of these grants expire from 2016 to 2023. We anticipate that we will be able to extend or renew the grants in these locations. In addition, our effective tax rate reflects the benefits of having significant earnings generated in investments accounted for under the equity method of accounting, which are generally taxed at rates lower than the U.S. statutory rate.

At the end of each interim period, we make our best estimate of the effective tax rate expected to be applicable for the full fiscal year. This estimate reflects, among other items, our best estimate of operating results and foreign currency exchange rates. Based on current tax laws, the Company's estimated effective tax rate for 2016 is 22.5 percent. However, in arriving at this estimate we do not include the estimated impact of unusual and/or infrequent items, which may cause significant variations in the customary relationship between income tax expense and income before income taxes.

On September 17, 2015, the Company received a Statutory Notice of Deficiency from the IRS for the tax years 2007 through 2009, after a five-year audit. Refer to Note 6.

The Company recorded income tax expense of $401 million (21.2 percent effective tax rate) and $415 million (20.9 percent effective tax rate) during the three months ended April 1, 2016 and April 3, 2015, respectively.

The following table illustrates the tax expense (benefit) associated with unusual and/or infrequent items for the interim periods presented (in millions):

| | Three Months Ended | |
|---|---|---|
| | April 1, 2016 | April 3, 2015 |
| Productivity and reinvestment program | $(21)[1] | $ (42 )[1] |
| Other productivity, integration and restructuring initiatives | —[2] | —[2] |
| Transaction gains and losses | (143 )[3] | (10 )[4] |
| Certain tax matters | (6 )[5] | (16 )[6] |
| Other — net | (1 )[7] | (130 )[8] |

1 Related to charges of $63 million and $90 million during the three months ended April 1, 2016 and April 3, 2015, respectively. These charges were due to the Company's productivity and reinvestment program. Refer to Note 9 and Note 10.

2 Related to charges of $199 million and $35 million during the three months ended April 1, 2016 and April 3, 2015, respectively. These charges were due to the integration of our German bottling operations. Refer to Note 9 and Note 10.

3 Related to net charges of $397 million primarily related to $369 million of noncash losses due to the refranchising of certain territories in North America and $45 million related to costs incurred to refranchise our North America bottling territories, partially offset by an $18 million gain, net of transaction costs, related to the disposal of our investment in Keurig. Refer to Note 2 and Note 9.

4 Related to charges of $46 million that consisted of $21 million of charges due to the refranchising of certain territories in North America, a $6 million additional charge related to the sale of a portion of our equity investment in a Brazilian bottling entity and a $19 million charge related to the remeasurement of our equity interest in a South African bottler to fair value. Refer to Note 2 and Note 9.

5 Primarily related to amounts required to be recorded as a result of a tax rate change in Japan and for changes to our uncertain tax positions, including interest and penalties. The components of the net change in uncertain tax positions were individually insignificant.

6 Primarily related to amounts required to be recorded for changes to our uncertain tax positions, including interest and penalties. The components of the net change in uncertain tax positions were individually insignificant.

7 Related to charges of $6 million that consisted of $3 million due to our proportionate share of unusual or infrequent items recorded by certain of our equity method investees and $3 million due to tax litigation expense and costs associated with restructuring and transitioning the Company's Russian juice operations to an existing joint venture with an unconsolidated bottling partner. Refer to Note 9.

8 Related to charges of $528 million that consisted of $320 million associated with the early extinguishment of long-term debt, $27 million due to the remeasurement of the net monetary assets of our Venezeulan subsidiary into U.S. dollars using the SIMADI exchange rate, $108 million due to the write-down we recorded related to receivables from our bottling partner in Venezuela and an impairment of a Venezuelan trademark, and $73 million due to our proportionate share of unusual or infrequent items recorded by certain of our equity method investees. Refer to Note 1 and Note 9.

The Company evaluates the recoverability of our deferred tax assets in accordance with U.S. GAAP. We perform our recoverability tests on a quarterly basis, or more frequently, to determine whether it is more likely than not that any of our deferred tax assets will not be realized within their life cycle based on the available evidence. The Company's deferred tax valuation allowances are primarily a result of uncertainties regarding the future realization of recorded tax benefits on tax loss carryforwards from operations in various jurisdictions.

NOTE 13: FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the

inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1. We value assets and liabilities included in this level using dealer and broker quotations, certain pricing models, bid prices, quoted prices for similar assets and liabilities in active markets, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Recurring Fair Value Measurements

In accordance with accounting principles generally accepted in the United States, certain assets and liabilities are required to be recorded at fair value on a recurring basis. For our Company, the only assets and liabilities that are adjusted to fair value on a recurring basis are investments in equity and debt securities classified as trading or available-for-sale and derivative financial instruments. Additionally, the Company adjusts the carrying value of certain long-term debt as a result of the Company's fair value hedging strategy.

Investments in Trading and Available-for-Sale Securities

The fair values of our investments in trading and available-for-sale securities using quoted market prices from daily exchange traded markets are based on the closing price as of the balance sheet date and are classified as Level 1. The fair values of our investments in trading and available-for-sale securities classified as Level 2 are priced using quoted market prices for similar instruments or non-binding market prices that are corroborated by observable market data. Inputs into these valuation techniques include actual trade data, benchmark yields, broker/dealer quotes and other similar data. These inputs are obtained from quoted market prices, independent pricing vendors or other sources.

Derivative Financial Instruments

The fair values of our futures contracts are primarily determined using quoted contract prices on futures exchange markets. The fair values of these instruments are based on the closing contract price as of the balance sheet date and are classified as Level 1.

The fair values of our derivative instruments other than futures are 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 have been classified as Level 2. Inputs used in these standard valuation models for derivative instruments other than futures include the applicable exchange rates, forward rates, interest rates, discount rates and commodity prices. The standard valuation model for options also uses implied volatility as an additional input. The discount rates are based on the historical U.S. Deposit or U.S. Treasury rates, and the implied volatility specific to options is based on quoted rates from financial institutions.

Included in the fair value of derivative instruments is an adjustment for nonperformance risk. The adjustment is based on current credit default swap ("CDS") rates applied to each contract, by counterparty. We use our counterparty's CDS rate when we are in an asset position and our own CDS rate when we are in a liability position. The adjustment for nonperformance risk did not have a significant impact on the estimated fair value of our derivative instruments.

The following table summarizes those assets and liabilities measured at fair value on a recurring basis as of April 1, 2016 (in millions):

| | Level 1 | Level 2 | Level 3 | Other[4] | Netting Adjustment[5] | Fair Value Measurements |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Trading securities[1] | $ 185 | $ 105 | $ 3 | $ 60 | $ — | $ 353 |
| Available-for-sale securities[1] | 1,670 | 4,210 | 138 [3] | — | — | 6,018 |
| Derivatives[2] | 2 | 1,108 | — | — | (720) [6] | 390 [7] |
| Total assets | $ 1,857 | $ 5,423 | $ 141 | $ 60 | $ (720) | $ 6,761 |
| Liabilities: | | | | | | |
| Derivatives[2] | $ 21 | $ 828 | $ — | $ — | $ (570) | $ 279 [7] |
| Total liabilities | $ 21 | $ 828 | $ — | $ — | $ (570) | $ 279 |

[1] Refer to Note 3 for additional information related to the composition of our trading securities and available-for-sale securities.

[2] Refer to Note 5 for additional information related to the composition of our derivative portfolio.

[3] Primarily related to long-term debt securities that mature in 2018.

[4] Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy but are included to reconcile to the amounts presented in Note 3.

[5] Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions and also cash collateral held or placed with the same counterparties. There are no

amounts subject to legally enforceable master netting agreements that management has chosen not to offset or that do not meet the offsetting requirements. Refer to Note 5.

[6] The Company is obligated to return $168 million in cash collateral it has netted against its net asset derivative position.

[7] The Company's derivative financial instruments are recorded at fair value in our condensed consolidated balance sheets as follows:$16 million in the line item prepaid expenses and other assets; $374 million in the line item other assets; $55 million in the line item accounts payable and accrued expenses; and $224 million in the line item other liabilities. Refer to Note 5 for additional information related to the composition of our derivative portfolio.

The following table summarizes those assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 (in millions):

| | Level 1 | Level 2 | Level 3 | Other[4] | Netting Adjustment[5] | Fair Value Measurements |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Trading securities[1] | $183 | $101 | $2 | $36 | $— | $322 |
| Available-for-sale securities[1] | 3,913 | 4,574 | 119[3] | — | — | 8,606 |
| Derivatives[2] | 2 | 1,268 | — | — | (638)[6] | 632[8] |
| Total assets | $4,098 | $5,943 | $121 | $36 | $(638) | $9,560 |
| Liabilities: | | | | | | |
| Derivatives[2] | $24 | $635 | $— | $— | $(488)[7] | $171[8] |
| Total liabilities | $24 | $635 | $— | $— | $(488) | $171 |

1 Refer to Note 3 for additional information related to the composition of our trading securities and available-for-sale securities.

2 Refer to Note 5 for additional information related to the composition of our derivative portfolio.

3 Primarily related to long-term debt securities that mature in 2018.

4 Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy but are included to reconcile to the amounts presented in Note 3.

5 Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions and also cash collateral held or placed with the same counterparties. There are no amounts subject to legally enforceable master netting agreements that management has chosen not to offset or that do not meet the offsetting requirements. Refer to Note 5.

6 The Company is obligated to return $184 million in cash collateral it has netted against its derivative position.

7 The Company has the right to reclaim $17 million in cash collateral it has netted against its derivative position.

8 The Company's derivative financial instruments are recorded at fair value in our condensed consolidated balance sheets as follows: $79 million in the line item prepaid expenses and other assets; $553 million in the line item other assets; and $171 million in the line item other liabilities. Refer to Note 5 for additional information related to the composition of our derivative portfolio.

Gross realized and unrealized gains and losses on Level 3 assets and liabilities were not significant for the three months ended April 1, 2016 and April 3, 2015.

The Company recognizes transfers between levels within the hierarchy as of the beginning of the reporting period. Gross transfers between levels within the hierarchy were not significant for the three months ended April 1, 2016 and April 3, 2015.

Nonrecurring Fair Value Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company records assets and liabilities at fair value on a nonrecurring basis as required by accounting principles generally accepted in the United States. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges.

The gains or losses on assets measured at fair value on a nonrecurring basis are summarized in the table below (in millions):

| | Gains (Losses) Three Months Ended | |
|---|---|---|
| | April 1, 2016 | April 3, 2015 |
| Assets held for sale[1] | $(315) | $(23) |
| Intangible assets | — | (52)[2] |
| Investment in formerly unconsolidated subsidiary | — | (19)[3] |
| Valuation of shares in equity method investee | — | |