Operator

At this time, I would like to welcome everyone to The Coca-Cola Company's Third Quarter 2012 Earnings Results Conference Call. Today's call is being recorded. If you have any objection, you may disconnect at this time. [Operator Instructions]

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

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

Jackson Kelly

Good morning, and thank you for being with us today. I'm joined by Muhtar Kent, our Chairman and Chief Executive Officer; and Gary Fayard, our Chief Financial Officer. Following prepared remarks this morning, we will turn the call over for your questions.

Before we begin, I would like to remind you that this conference call may contain forward-looking statements, including statements concerning long-term earnings objectives, and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic SEC report.

In addition, I would also like to note that we have posted schedules on our company website at www.thecoca-colacompany.com under the Reports and Financial Information tab in the Investors section, which reconcile certain non-GAAP financial measures that may be referred to by our senior executives in our discussions this morning, and from time to time in discussing our financial performance to our results as reported under Generally Accepted Accounting Principles. Please look on our website for this information.

Now let me turn the call over to Muhtar.

Muhtar Kent

Thank you, Jackson, and good morning, everyone. Let me begin by saying that we're pleased with our third quarter and year-to-date performance. We continue to deliver consistent quality results, with our business growing worldwide volume by 4% in the quarter and 5% year-to-date. Importantly, we realized positive growth across all 5 of our geographic operating groups this quarter despite facing a still uncertain global economy. Together with our global system, we are operating from a position of real strength.

This past quarter, we built on this advantage by once again leading industry growth and extending our volume and value share gains globally in nonalcoholic ready-to-drink beverages. We gained global share in the sparkling beverage category, where our portfolio is up 3% in both the quarter and on a year-to-date basis.

To put this in perspective, our global sparkling business has generated nearly 450 million incremental cases year-to-date or the equivalent of adding another Russia to our global business. And this growth has been consistently and reliably led by brand Coca-Cola, which has grown every quarter over the past 3.5 years and is up a healthy 3% year-to-date. We also gained global share in the still beverage category, where our portfolio grew a solid 10% in the quarter and 9% year-to-date. This quarter's still beverage results were well balanced, with high single-digit growth in juice and juice drinks and sports drinks, as well as double-digit growth in the water, energy and ready-to-drink tea categories. We are committed to striking a sound balance between the growth of our sparkling and still beverages. We see this balance as the key to growing our total business while sustainably enhancing our margins and profits, in line with our 2020 Vision.

We're also committed to providing consumers more choice in brands, beverage types and calories or no calories, all of which contributes new growth to our business. The balance results that we have achieved across our portfolio demonstrate that we are delivering on this commitment.

As we've shared during our prior earnings calls this year, we recognize that consumers across the globe are still feeling the effects of the prolonged uncertainty in Europe, the ongoing cooling of the economy in China and a mild recovery in the United States. We believe these global macroeconomic pressures will extend through 2012 and likely into 2013. Despite this, we are heartened by our ability to consistently deliver quality results, as well as by our global systems commitment to invest in the business for the long-term growth.

We're also encouraged by how we have successfully and systematically adapted our business model these past few years to readily address the changing demands of the global marketplace. First, we better positioned our company to capture North America's long-term growth opportunity by acquiring CCE's North America business. Our North America business has delivered volume growth every quarter since we executed this important transaction. Second, we broadened the relevance of our Bottling

Investments Group, evolving it further from its initial role of fixing challenging markets to a more significant role of spiriting our growth in select strategic markets, such as India and China.

Constant renewal is in our DNA. Now with solid fundamentals and real momentum in our business, we are ready to take the next step towards our 2020 Vision. As announced last quarter, effective January 1, 2013, we're organizing our company around 3 major operating businesses: Coca-Cola International, consisting of our Europe, Pacific and Eurasia & Africa operations; Coca-Cola Americas, consisting of our North America and Latin America operations; and Bottling Investments Group, which will continue to oversee our company-owned bottling operations outside of North America. By consolidating leadership of our global operations under 2 large and similar-sized geographic regions, as well as in our Bottling Investments Group, we will streamline reporting lines and intensify our focus on key markets. This newly evolved structure will also enable us to better leverage synergies and more flexibly adjust our business strategies within those geographies in the future. All of this will further strengthen our efforts to achieve long-term sustainable growth as we advance our momentum towards our 2020 Vision.

Now let's review our performance across our global markets in more detail, beginning with our flagship market, North America. This past quarter, our business in North America delivered its 10th consecutive quarter of growth, up 2% for the quarter and year-to-date. We also captured volume and value share in nonalcoholic ready-to-drink beverages while sustaining a positive 3% price mix for our total North America beverage business. Our growth in North America was once again driven by our still beverage portfolio, which was up 7% this quarter. This is the 10th consecutive quarter that our North America still beverage portfolio has either maintained or gained both volume and value share. In sports drinks, POWERADE grew volume 9% this quarter while also leading the North America sports drink category in absolute unit case volume growth for the fourth consecutive quarter.

Our juice and juice drinks portfolio in North America outpaced the category, up 6% for the quarter while gaining both volume and value share. Our positive result in this category was broad-based, driven by strong growth in our juice drinks business, volume and value share growth across our Minute Maid Light portfolio, and further value share gains in the 100% chilled orange juice segment.

Our glacéau brands were up mid-single digits in North America once again this quarter, gaining both volume and value share, and led by the 18th straight quarter of double-digit growth for our premium smartwater brand. The rest of our North America water business grew 4% in the quarter, led by

DASANI, which maintained its premium price position, and saw further gains across key brand equity measures, driven by consumer awareness of our innovative PlantBottle packaging.

And our key portfolio in North America sustained its momentum, up double digits while gaining both volume and value share. This result was led by Gold Peak, which has now grown strong double digits for 22 consecutive quarters. Our sparkling beverages in North America were even in the third quarter, a sequential improvement over our second quarter results and ahead of the broader sparkling beverage industry. Importantly, our sparkling beverage portfolio earned a positive 3% price mix in both the quarter and year-to-date in what continues to be a rational pricing environment. Coca-Cola Zero growth accelerated, up 9% this quarter. We also sustained our momentum behind Fanta, which was up mid-single digits for the third consecutive quarter.

We are encouraged by our consistent progress in North America, and we remain positive about the long-term outlook for this very important market.

We're also leading the effort across communities in the United States to tackle obesity. Last week, we joined fellow members of the beverage industry to announce the first-of-its-kind partnership with the cities of Chicago and San Antonio, encouraging the citizens of these cities to be more health aware and physically active. We introduced a city-to-city wellness challenge, as well as our new Calories Count Vending Program that will provide consumers with the choices and information they need to choose beverages that are right for themselves and for their families. When it comes to non-communicable diseases such as obesity, we know that there are no simple answers. But we also know that a lack of physical activity is a primary contributor to obesity. We also know that there is a lack of understanding of how many calories people consume in a day. As such, our company is committed to partnering with customers and cities to promote active, healthy, balanced lifestyles, as well as making calorie information more transparent.

Now let me turn to our Pacific Group, which grew 3% in the third quarter and 6% year-to-date. Our business in Japan was up 2% this quarter, bringing our year-to-date volume growth in Japan to 3%. Japan has now delivered volume growth in 8 of the last 9 quarters. Our business in Japan continues to gain share in nonalcoholic ready-to-drink beverages this quarter and also grew both volume and value share in still beverages. This positive result was driven by the sustained momentum of our Georgia coffee brand and water and sports drink category offerings, which led to consistent volume growth across channels, including drugstores, convenience retail outlet, as well as supermarkets. Looking ahead and consistent with what we said during our last earnings call, we expect our fourth quarter volume results in Japan to moderate somewhat below our year-to-date trend as we cycle strong growth from prior year. Having said that, our business in Japan is on track to deliver full year low-single-digit growth.

Moving now to China. Our business delivered 2% volume growth this quarter, cycling last year's double-digit growth. On a year-to-date basis, our volume in China has grown 6%, cycling strong 15% growth from last year. And once again, this quarter, we captured both volume and value share in sparkling beverages. Importantly and in alignment with our strategic priorities in China, we are growing transactions ahead of volume, with total transactions up 10% year-to-date. One package that is helping us deliver against that strategy is our 300 ml, milliliter, package. On a year-to-date basis, this new package has generated over 0.5 billion incremental transactions in China. We will keep driving our 300 ml package to provide consumers with a great offering at the right price point while also building our brands and the sparkling category in a healthy way over the long term.

As we look ahead to the next 6 months, it is reasonable to expect that China's ongoing economic slowdown may have a short-term effect on our industry and on our business. In our view, the Chinese economy is undergoing a natural and necessary economic transition as the government places greater emphasis on controlling long-term inflation over injecting short-term economic stimulus. While the Chinese economy undergoes this period of transition, we have every confidence in the long-term resilience of our business for 3 key reasons. First, our brands in China are strong. In our latest survey of consumers aged 12 to 49 years old, Coca-Cola was rated as both the most favorite sparkling and nonalcoholic ready-to-drink brand. In this same survey, Minute Maid was rated as the most favorite juice drinks brand.

Second, we hold the leadership position in the sparkling category. This is the ninth consecutive quarter in which our sparkling beverages in China either maintained or gained both volume and value share. And third, our system in China is strategically focused, well aligned and committed to invest for sustainable long-term growth. As such, we remain encouraged and excited about our opportunities in this region and continue to believe that China will serve as the long-term growth driver for our business.

I also want to share our perspective on a few other markets in the Pacific that are exhibiting strong growth, starting with Thailand, which again delivered double-digit growth, up a sound 19% this quarter. Thailand growth was led by brand Coca-Cola, which was up 26% in the quarter and 34% year-to-date. I also want to highlight our result in South Korea, another market which has grown double digits in both the quarter and on a year-to-date basis. As additional context, our business in South Korea has nearly doubled since 2007. This is a testament to our system's ability to implement a robust set of occasion-based price and packaging offerings to consumers and drive growth across this region. We're excited about the growth opportunities in both Thailand and South Korea, and we'll keep investing for the future in these vibrant markets.

Moving now to Latin America, our volume grew 5% for both the quarter, as well as year-to-date. As in previous quarters, this growth was led by brand Coca-Cola, up 3% in both the quarter and year-to-date. In Latin America, we once again captured both volume and value share in nonalcoholic ready-to-drink beverages. Our 2 largest markets in Latin America, Mexico and Brazil, were both up a solid 6% this past quarter while also growing volume and value share in sparkling, still and also the entire nonalcoholic ready-to-drink category. Importantly, our growth in both these markets was well balanced across all categories. Mexico grew sparkling beverages 3%, and still beverages were up double digits for the quarter. Similarly, Brazil delivered 4% sparkling beverage growth and double-digit still beverage growth for the quarter. Brazil was up 5% on a year-to-date basis. In light of these strong results, we now expect our 2012 growth in Brazil to be in the mid-single digits.

Let me also share our perspective on a few other markets in Latin America that we see as great opportunities for long-term growth; specifically, Colombia, Ecuador and Peru. Together, these markets are 1/3 the size of our current Brazilian business. Our system is very focused on implementing the same winning strategies in these markets that have driven such positive results in Brazil this past decade. We will keep investing in Colombia, investing in Ecuador and Peru and across the entire Latin America region, as we execute our 2020 Vision. As such, it is easy to see why we are excited about the long-term growth opportunity represented by these 3 dynamic Latin American markets.

Our Eurasia & Africa business extended its strong momentum, growing a solid 11% in both the quarter and year-to-date, including 11% year-to-date growth for brand Coca-Cola. During the quarter, our business in Eurasia & Africa grew both volume and value share in total nonalcoholic ready-to-drink beverages. On a country level, India once again led this group's performance, delivering balanced and consistent quality growth. Our business in India was up 15% for the quarter, with double-digit growth and volume and value share gains realized across both sparkling and still beverages. Sparkling beverage growth in India was led by brand Coca-Cola, up over 30% for the second consecutive quarter, as we sustained our focus on immediate consumption offerings. And still beverages in India were led by our juice drink brands, with Maaza up over 20% again in the quarter.

Russia was up 7% in both the quarter and year-to-date, with the strong result driven by the further acceleration of brand Coca-Cola, which grew 18% in the quarter and 20% year-to-date. Like last quarter, we observed similarly strong results across our broader sparkling portfolio in Russia, with Fanta up 15% and Sprite up 7%. And our Dobriy juice brand built on its recent success, delivering 16% growth in the quarter and raising this brand's year-to-date performance up to 12%.

Our strong performance across the Eurasia & Africa Group was supported by our partnership with Aujan. We're excited about the further growth opportunities represented by our partnership with Aujan, which holds the #1 position in the still beverage business across the entire Middle East. And our collaborations in Eurasia & Africa extend beyond business relationships, as exemplified by our partnership with The Global Fund to bring critical medicines to rural Africa. At last month's Clinton Global Initiative, we announced our plans to expand the reach of project Last Mile, which was established in 2010 to help Tanzania's government-run medicine distribution network build a more efficient supply chain by leveraging our expansive distribution system and core business expertise. Nearly 20 million Africans have benefited from this partnership since 2010. The newest phase of this partnership will increase the availability of medicines to 75% of Tanzania and expand the project's reach to Ghana and Mozambique. The success of this project demonstrates our belief in the power of civil society, government and the private sector, or what we call the Golden Triangle, working closely together to solve real global issues and problems.

Moving now to Europe. We saw our business return to growth, up a solid 1% for the quarter. These results were achieved despite the continuation of unseasonably poor weather in the first half of the quarter, as well as the impact of ongoing macroeconomic uncertainty. Even with these external headwinds, all 4 of our European business units saw positive growth this quarter, demonstrating our ability to execute with excellence across this entire region.

Germany once again led the region, up 3% for the quarter and 2% year-to-date. This marks Germany's seventh consecutive quarter of positive growth. And while our business in Germany is winning today, we are connecting with consumers to ensure continued success for tomorrow. An example of this was our award-winning Coca-Cola summer campaign in Germany, which was named the best 2012 out-of-home campaign by Germany's leading marketing industry weekly. Understanding that music is a passion point for teenagers, our campaign in Germany leveraged our global partnership with Spotify, a leading music streaming platform, to offer teenagers access to millions of songs and exclusive Coca-Cola content. This campaign generated more than 1.5 billion contacts and reached more than 90% of all teenagers in Germany as they created their own Coca-Cola playlists and shared them with their friends via Facebook.

We are successfully applying the same consumer engagement principles across regions, as exemplified by our highly successful global activation of the 2012 London Summer Olympic Games. Our internal indicators show that the marketing programs we executed across almost 100 markets drove global improvements in recruitment, frequency and brand equity with our consumers. Our television commercials were acknowledged by Ace Metrix as consistently being among the highest-rated ads during the Olympics. Our efforts across the digital and mobile space were also recognized. We received a Digital Gold Award by Unmetric, a brand tracker, who analyzed the social media performance of every major sponsor. And we were honored with the Global Marketer of the Year award by the Mobile Marketing Association while also taking home a Best in Show nod at their awards ceremony for our Olympic Games Move to the Beat campaign.

Our social media programs' success goes well beyond our Olympics activation. Over just the last 9 months, Coca-Cola's Facebook page has grown by over 40%. This past quarter, Coca-Cola became the first brand to achieve over 50 million likes. And as of today, this number has increased further, surpassing 52 million. This rise parallels the growth of our social engagements footprint across all major social networks that generate conversation and content with our consumers. The recent study by PQ Media found that Coca-Cola was the #1 brand in social media impressions by nearly a 2:1 margin over the next most-mentioned brand.

Another area of emphasis for our system is to support sustainable communities by replenishing 100% of the water used in our finished beverages by 2020. To advance this goal, we recently announced the global clean water partnership with DEKA Research & Development to bring clean water to communities where potable water access is limited. This partnership will leverage innovative technology to deliver clean drinking water to schools, health clinics and community centers in rural regions of Africa, Asia and Latin America. When fully scaled, this partnership is expected to add more than 0.5 billion liters of clean drinking water per year to the global water supply.

While water is the lifeblood of our business, we're committed to doing our part to replenish the water we use and give back to communities we proudly serve. By partnering with DEKA, we hope to empower local entrepreneurs with a specific focus on women by delivering, as well as maintaining, a clean water solution for communities and improving the daily lives of thousands of people around the world.

Finally, we were humbled and honored earlier this month when brand Coca-Cola topped the list of Interbrand's Best Global Brands rankings. Interbrand has rated Coca-Cola as the #1 brand on its list every year since 2000. This is a testament to our ongoing commitment to invest in our brands, innovate our marketing and engage with our consumers in a sustainable manner that builds long-term value.

Certainly, the world has been very volatile from a macroeconomic perspective over the last 4 years. As a global company and also on behalf of all our associates, I'm pleased to say that we continue to crack the calculus for growth in this challenging and volatile environment. We've done this by consistently increasing our investments in our system and our brands to ensure that our global portfolio is more relevant and healthier today than it's ever been during our history. We remain resolutely focused on ensuring that we leverage our unique heritage and fuse it with what is expected by our consumers today in order to earn and sustain our place in their daily lives today and tomorrow.

I want to thank all of our consumers who invite us into their lives 1.8 billion times each and every day. And I want to thank all of our shareholders for your interest and investment in our company. It's a great responsibility. You can rest assured that our entire leadership team is working diligently to protect and grow the value of your investment in our company, both today and for tomorrow.

So with that, let me now turn the call over to Gary.

Gary P. Fayard

Thanks, Muhtar, and good morning, everyone. We delivered another quarter of solid performance results, reflecting our global system's ability to consistently execute our strategic plans while managing through a still unpredictable macroeconomic environment. As you'll recall, I provided a commentary about the third quarter during our last earnings call because we knew there were several unique timing and cycling factors to consider when modeling the third quarter. Taking these factors into account, I'm pleased to say that our third quarter results were consistent with the commentary we provided in our last earnings call. And as such, we remain confident in our ability to deliver full year volume, revenue and operating income results in line with our long-term growth targets.

So let me start our review with our third quarter results with our comparable earnings per share, which came in at $0.51 this quarter and at $1.56 on a year-to-date basis, up 2% year-to-date despite facing considerable currency headwinds throughout the year. Our comparable currency-neutral operating income was up 1% this quarter, in line with our expectations. And on a comparable basis, the impact of currency on this quarter's operating income results was a 7% headwind.

On a year-to-date basis, our comparable currency-neutral operating income is up 4%, also in line with our expectations. As per my previous comment, we expect to deliver full year operating income results in line with our long-term growth targets, and we understand that this implies we will achieve double-digit comparable currency-neutral operating income growth in the fourth quarter.

Comparable currency-neutral net revenues grew 6% in the quarter. The currency impact on this quarter's comparable net revenue results was a 5% headwind. On a year-to-date basis, comparable currency-neutral net revenue growth is also at 6%. As we discuss profit and revenue growth rates, let me take a moment to remind everyone that the profits and revenues generated by some of our more recent strategic partnerships, including Aujan and Innocent, among others, are accounted for under the equity method of accounting. So while unit cases related to these businesses are fully reflected in our volume growth, their associated concentrate sales or concentrate gallons-associated profits and revenues are not currently contributing to our operating income and revenue growth rates. Instead, these profits are consolidated into our equity income results. While this did not materially impact our third quarter results, I think it's important because there is an impact on growth rates.

Returning now to a review of our third quarter results, our concentrate sales came in slightly ahead of unit case volume by approximately 0.5%. As a reminder, growth rates for concentrate sales and unit cases can vary from quarter-to-quarter. Having said that, concentrate sales are in line with unit cases year-to-date, and we expect our full year concentrate sales growth to be in line with unit case volume growth.

As for our consolidated price mix, this came in slightly positive in the quarter, rounding to even, consistent with outlook we provided in our last quarter call. On a year-to-date basis, our consolidated price mix is up 2%. We continue to expect our full year 2012 consolidated price mix results to come in between 1% and 2%, in line with our long-term target range.

Our third quarter comparable gross margins were in line with our second quarter comparable gross margins. This was a slight improvement over the estimate we provided during our last earnings call, as we successfully offset some of the currency and mix shift headwinds faced by our business. For the full year, we still expect our comparable gross margins to come in below our second and third quarter comparable gross margins.

On comparable currency-neutral SG&A expenses, they were up 8% in the quarter and 6% year-to-date. These results include a mid-single-digit increase in our third quarter direct marketing expenses, as we continue to invest in the health and strength of our brands. Our third quarter SG&A also reflects an increase due to the timing of certain operating expenses, as well as the cost of adding incremental feet on the street, primarily in North America, in support of our growing business. And one point of both our quarter and year-to-date SG&A rate is related to the impact of structural items, primarily in our Bottling Investments Group and North American business. As we look to the rest of the year, we expect our full year SG&A to come in close to our current year-to-date rate. Our operating expense leverage was minus 4 points this quarter, right in line with the minus 3- to a minus 5-point range that we estimated during our last earnings call.

As we've stated in our last call, we expect this trend to reverse in the fourth quarter, as we benefit from having 2 additional selling days. This should enable us to achieve slightly positive operating expense leverage on a full year basis. Our net interest came in at a positive $16 million in the third quarter, which is ahead of our initial expectations. This raised our year-to-date net interest income to $43 million. Looking ahead, we still expect our net interest to come in as an expense in the fourth quarter, primarily due to expected lower rates in some of our international locations, as well as ongoing currency headwinds. As a result, we're updating our full year net interest income outlook to a $30 million to $40 million range.

Our underlying effective tax rate held steady at 24%, and we expect to carry this 24% tax rate into next year. And our cash flow from operations increased a very healthy and very strong 15% year-to-date. Our year-to-date share repurchases, net of employee stock option exercises, totaled $2.3 billion, placing us well on track to achieve the $2.5 billion to $3 billion range for full year 2012 that we communicated at the outset of this year.

With regard to commodities, in our last call, we reduced the estimated full year incremental impact of our Big 4 commodity cost on our results to $300 million. Based on our latest forecast and hedge positions, we now expect our full year incremental cost of commodities will come in at approximately $225 million.

As for currencies, we previously provided an outlook that we would have an 8% to 9% headwind on an operating income in the third quarter. Today, I can confirm that currency came in slightly better than our initial outlook, resulting in a 7% headwind on third quarter comparable operating income. Based on our hedge positions, current spot rates and the cycling of our prior year rates, we continue to expect currencies to be a mid-single-digit headwind on our operating income in both the fourth quarter and on a full year basis.

In closing, and as Muhtar said earlier, we are strategically and successfully advancing our global momentum while navigating through a challenging global economy. Our system is focused on maximizing economic profit and long-term cash flow, which allows us to continue to reinvest in the business and anticipate changes in the marketplace and competitive dynamics. While we have made several important and strategic investments this year, our financial priorities remain the same. We'll reinvest in the core business. We still expect to spend around $3 billion in capital expenditures in 2012. We will strategically invest in acquisitions and partnerships, the strength in our bottling system, and to increase our position in key nonalcoholic ready-to-drink growth categories.

We will continue to pay dividends. In 2012, we increased our quarterly dividend 8.5%, and we have returned $4.3 billion in dividends to shareholders in 2011. And further, we expect our Board of Directors to approve another quarterly dividend this week, which by the way will be paid in December of this year, as it has been every year since 1934.

And we'll continue to repurchase shares with excess cash. In our current program, which we started in 2006, we've already repurchased 533 million shares at an average price of $31.17. Since our share repurchase program started in 1984, we have repurchased 2.9 billion shares at an average price of $12.55.

As a result of our strong cash flow and that of our bottlers, I remain very confident that we can continue to invest and deliver our long-term growth targets on a sustainable basis to achieve our 2020 Vision and deliver value to our shareowners. Operator, we're now ready for questions.

Question-and-Answer Session

Operator

Our first question today comes from Bill Pecoriello from Consumer Edge Research.

William Pecoriello - Consumer Edge Research, LLC

Gary, you talked about the double-digit operating profit growth expected for Q4 versus the 4% year-to-date, I think it's something like 14% you need to hit the 6% lower end of the long-term range for the full year. I know you have the 2 extra days in the fourth quarter. You mentioned commodities were easing. Anything else about the timing of expenses in the fourth quarter versus year-to-date, as well as what you're lapping in the fourth quarter that'll explain the strength? I know last year's fourth quarter was strange, you had some of the timing differences related to the CCE transaction. So I don't know if that's also coming into play in the lap there.

Muhtar Kent

Bill, this is Muhtar. Let me just address a few of the things in your question, and then Gary will add some more commentary. First, I want to just ensure and stress that our business momentum continues in the midst of ongoing global economic challenges. Our system is very well aligned and on track to achieve our 2020 Vision. And the appetite for investment by our bottling partners is strong as it has ever been. And consumers' love for our brands is stronger than ever. And as such, we do remain confident in our ability to meet our long-term targets, while also delivering sustainable, profitable growth and value for our shareowners. With respect -- and so -- at the outset. With respect to your question on the fourth quarter, let me -- as Gary said, we -- based on what we know today, we feel very confident that we can dock our ship for 2012, in line with our long-term growth targets for both top line and bottom in terms of operating profit. And so as Gary mentioned, that will imply having a double-digit growth in our operating income for the fourth quarter. We feel confident that, that can be achieved based on what we know and based on current trends. And that is a host of reasons; cycling of marketing expenses, as you saw total marketing for the company was up quite significantly in the fourth quarter. We had spend related to -- a onetime spend related to the Olympics, to the UEFA Cup, spending on our brands in a healthy way. And I think it is important to note that you can find many companies today around the world, around -- in the United States, around the world that can generate their profit line from no growth in top line. That is not sustainable. We feel very confident that we're doing the right thing for our business, right thing for our brand and we will dock our ship in 2012, yet again, in line with our long-term growth target, despite having -- facing significant commodity headwinds in both 2011 and cycling also on top of that, headwinds in 2012, investing in our brands, growing our top line and also earning our price/mix. So I'd like to just emphasize that, and pass it over to Gary.

Gary P. Fayard

Okay. Bill, a couple of things. As you mentioned, the 2 extra days helped significantly, most particularly in the finished products business, so both in North America and in BIG. And we saw the opposite impact of the 1 less day in the first quarter. So the 2 extra days helped significantly. There are quite a bit of cycling things. And you see a lot of that cycling in the third quarter, which made the third quarter so complex, and that's why we try to give a lot of extra guidance at the end of the second quarter because of the third. But a lot of that is what we've been saying all year, particularly about the North America business, how we would expect to see sequential improvement in the North America business. If you remember, just it went from minus 9 to even, now to plus 3, and you'll continue to see improvement in North America. The easing of commodities is -- obviously is helping some, although a lot of that commodity now has come through, the easing has come through into the standard costs, but that's helping. And currency will help as well, in that the headwinds of currency from the minus 7 in the third quarter to lower in the fourth quarter, not just on the translation of the results but the transactional impact, particularly inside of BIG where that currency owned -- the cost of their commodities or in their cost of goods, we do not pull out our currency-neutral calculation. So the impact of currency does hurt BIG results, and so that will improve as well in the fourth quarter. So I think everything we're seeing -- the brands are healthy. We've taken pricing across the world, we've seen much better elasticities than what we've ever had historically, which give -- has given us a lot of optimism as well.

Operator

Our next question comes from Judy Hong from Goldman Sachs.

Judy E. Hong - Goldman Sachs Group Inc., Research Division

Just in terms of North America, so it's nice to see the profitability of slight positively in the quarter. If you could just maybe talk about as you look 2013, your ability to sort of sustain kind of a positive pricing mix. And also just color as it relates to some of the commentary on channel mix that you've alluded to in the last quarter where you continue to see that pressure in terms of shift towards take home versus immediate consumption and how that's kind of playing out so far.

Muhtar Kent

Sure. Judy, let me address some of those. I'm very pleased with the performance of our United -- U.S. business. I think in terms of -- we've increased total beverage volume and value share in this past quarter once again, driven by the 2% overall volume growth, led by 7% growth in still beverages, while -- and also maintaining sparkling volume on a year-to-date basis. And this is, again, 10th quarter in a row of volume growth in our North America business. And I think we continue to build our occasion-based price, pack, channel strategy that provides increased consumer choice, along with preferred packages, preferred price points, which is very important in this economic environment. We see also some more positive trends in the channel mix compared to last quarter. I think the overall convenience retail channel in the third quarter was stronger. Industry grew almost -- certainly above 4%, almost 5%. And we have not only taken significant pricing, 3% price/mix, up again in the quarter and maintained it for the full year, but also we are focused very much on transactions getting pricing, maintaining share and growing transactions in the United States. That's the model. That's working. And specifically, we've got a great package in the 12.5 ounce, which is retailing for under $1 in that channel, for example. And then also, we continue to expand in our food service channel with our innovative Freestyle. We will pass, for the first time this year the 10,000 mark in terms of dispensers deployed in this coming quarter, in the quarter that we're in, the fourth quarter. The average incidence lift there is more than 6%, the volume lift is significant, as well as revenue lift for the customer. So that's another very important point of reference in our business in the United States. And again our growth is led by strong performance with Coke Zero, up almost double digits in this past quarter, coming back very strongly, strong performance across multiple categories, such as POWERADE continuing, Gold Peak growing strong double digits, Fuze growing, smartwater, glacéau, Minute Maid, all growing in a very significant manner. So we feel confident that our North America strategies are working. We are focused on execution. We can always improve and strive for more, we always do. And we're optimistic about our outlook, despite the challenging competitive and macroeconomic backdrop. But important channels, we see better light coming through in some of the really important critical channels in the third quarter. I hope that's helpful.

Gary P. Fayard

Judy, it's Gary. On your -- the rest of your question, in 2013, we're going through business plans now. And on the year-end call, we'll give you an outlook on what we see, both for North America and rest of world, as well as -- because that will obviously encompass things like commodities, currencies, et cetera. So we'll go through that at the end of the year. And -- but we can't do it today.

Muhtar Kent

And again, just to close the question, we feel confident about sequential improvement in this year and the fourth quarter in the U.S. business in terms of results. And again, we feel that the strategies that we've deployed are working in the United States. We have invested. Our total marketing, again, in the United States in the quarter, and this past quarter is up. And also I would say to you that we feel that specifically also that the packaging strategies are working really well for us.

Operator

Our next question comes from Bryan Spillane from Bank of America.

Bryan D. Spillane - BofA Merrill Lynch, Research Division

Just have a question regarding productivity in the productivity and reinvestment program. I guess one is just, Gary, if you could give us some idea of how much productivity is contributing to this year and kind of where you stand in terms of the 2015 target. And then, Muhtar, I think in your comments you talked about the new reporting lines and how that would help enable leveraging synergies. And so I just wanted to see if you could tie that comment back to the productivity and reinvestment program. Does it -- do the new reporting -- does the new reporting structure accelerate it? Does it increase, enhance it in some way? Just trying to get a sense of kind of where we stand on productivity.

Gary P. Fayard

Yes. Bryan, thanks. This is Gary. On the program just to remind everyone, what we announced earlier this year is a new productivity and reinvestment program from 2012 through 2015. And $550 million to $650 million composed of quite a few different focus areas. And we would take all of the productivity that we realize, and then take that and reinvest it back behind -- into the brands. We have started. We're well on the way. In fact, I can tell you that I have a sightline today to where we can achieve the entire target, so it's not an issue at all on achieving. Relative to the current year, I would say it's probably in the $40 million to $50 million range that's already been achieved and reflected in the results or will be in this year. So it's already flowing through. And we're doing, I think, really well. Just to remind everyone, the focus areas were around supply chain optimization, around marketing and innovation effectiveness, around operational excellence, which leads to OpEx leverage and around standardizing data and IT systems, where places where you can really get a lot of leverage, and then take that and reinvest it behind the brands. Muhtar?

Muhtar Kent

Yes. And again, Bryan, in terms of the structure, I think we have a new leadership structure that is going to be leaner, more effective, more flexible structure; and that is going to drive a further, I believe, enhancement in our productivity initiatives. Gary and Ahmet Bozer and Irial and Steve and myself will be -- in terms of looking at these productivity initiatives, feel confident. And as Gary can see the -- have sight in the numbers and in the productivity being achieved, I think that we will certainly be looking at what we can do to enhance it even further. As you know, we came in, in the last productivity cycle for the past 3 years significantly over our targets, and we feel that we have again room to improve always. And also, as Gary said, importantly, while we deliver our results, this allows us to continue to invest successfully and making our brands even stronger. That is the key, and that's what you should always be looking for and that's what we always look for.

Operator

Our next question comes from Bill Schmitz with Deutsche Bank.

William Schmitz - Deutsche Bank AG, Research Division

Can you just sort of circle the square for me here? So you had great organic growth in both Latin America and Eurasia with terrific price and mix. But those are the 2 regions where you had the biggest margin compression. So is that really just sort of year-over-year comparisons and maybe some of the FX transaction here? Because you would have thought that with that kind of growth, perhaps the margins would have been a little bit better.

Muhtar Kent

Just very quickly on that. I'll tell you, first, we had very significant marketing spend in our international operations and total company for the third quarter. Our total marketing was up double digits for our international operations. And I think that again, that is partly cycling from prior year, particularly in certain geographic areas. But also it was to do with the onetime spend related to the Olympics, related to brand building around the UEFA Cup, particularly for Europe, but also for Eurasia, as well as for Latin America. So I think you need to take it into that context, from the perspective of marketing spend, cycling and prior year comparisons. And I'll see if Gary wants to add anything to that.

Gary P. Fayard

Yes, one thing I would add, and I don't know if this is directly responsive to your question, but when I made a few comments in the prepared remarks about volume and how we have different business models like the Innocent, Aujan, et cetera. So you've got some volume in Eurasia this quarter, for example. So if you look at the table in the release, if I remember correctly, it would show that Eurasia and Africa's volume, volumes up 11% and comparable currency-neutral operating income is up 11% as well. So you're not seeing a lot of leverage in that. If you -- but remember, there is no income in there related to Aujan. It's sitting down in equity income, but the volume is in that 11%. So if you adjust for that, Eurasia, Africa actually has some really nice operating leverage within their P&L. And so on operating margins, they're actually sitting in a really nice place for the quarter and year-to-date. So and then on Latin America, I don't think anything really unusual at all. I think they just continue to hum along as they have for the last number of years. And there's nothing other than we continue to invest in Latin America because it's such a great, great, strong market.

Muhtar Kent

One other thing about Latin America, just want to add context is in the -- a couple of years ago, we had this discussion. And many were questioning Latin America's ability to continue grow. And I always said, "Latin America is just beginning its journey in still beverages." The key is to have balanced growth. Still beverages, though, growing, of course, from a very small base at a higher rate of growth than sparkling beverages. But I think there's -- Latin America is a great model for how we can continue to grow at even high per capita as for sparkling beverages entering into new categories. And I think that is adding tremendous value to our business and also tremendous strength to our bottom line as we continue to progress in Latin America. We're cycling a very strong quarter from Latin America last year and we still achieved 5% and generating very healthy returns.

Gary P. Fayard

Yes. The only –I'd add one other thing as well. We're probably starting to give you too much detail. But within the quarter in Latin America -- in Brazil actually, they started making -- we started making our initial investments around the 2014 World Cup. That's in marketing. And while in absolute dollars it's not that big, it will continue. But in fact, it does have an impact of 1 point or 2 points on the leverage that you're seeing in Latin America. So I guess, all in, what we're saying is we are continuing to invest in the brands. We're investing well ahead of the curve. We're getting ready for 2014 World Cup. It's flowing through in the third quarter. And you'll see it flow-through next quarter as well because we're going to make sure that we do these things right.

Operator

Our next question comes from John Faucher with JPMorgan.

John A. Faucher - JP Morgan Chase & Co, Research Division

In taking a look at the price/mix number, obviously didn't come in as strongly as we've anticipated in Europe and the Pacific. Can you talk a little bit about what's driving those price/mix numbers and sort of how you see that playing out over the next couple of quarters?

Gary P. Fayard

Yes. Thanks, John. Let's go to Europe first. And there, I think, price/mix was negative 4, and there are a couple of things going on there. But I'd say it's primarily actually the economic condition of Europe. And we've been seeing this flow through for some time now. So I think it's kind of the new normal until we start seeing some more favorable results. But what you're seeing is go to Madrid and what you -- and look at the cafes, and there aren't a lot of people sitting around drinking cokes or coffee or whatever. It is a shift in consumer spending in Europe from immediate consumption much more to future consumption. So while we grew our volume across the region or across each of the business units, there is a shift, and it's all about the macroeconomic environment that we're dealing with. So we feel very confident because people continue to love the brands. They continue to buy the brands. They are just buying them in more of a take home because they're not going out. So it's the macros that are impacting that. And additionally, if you look at the growth rates, there's negative geographic price/mix in Europe as well, just look at the growth rates. Europe and Central and Southern Europe grew faster than Spain and Northwest Europe. So that's some of it as well. And we're cycling through the tax increase in France. So it's all of those kinds of things together. Don't expect to see it get worse. I think we're kind of at the bottom now and should be okay. Relative to price/mix in the Pacific, I think your initial reaction would probably be, "Oh my God, it's minus 6." And your initial reaction is probably that it's all China. Well, it's not actually. A lot of it is actually because if you look at cases and gallons while, as I said in the prepared remarks, that gallons are slightly about 0.5 point ahead of cases in the quarter, in Japan, where Japan volume was up 2, gallons were actually down 2. And it's normal and it'll be fine at the end of the year. But that's 4-point swing in Japan, which as a very high profit per gallon market causes significant price/mix, negative price/mix, and that's a large part of what we're seeing in the Pacific. It's not a big deal. I think Japan was, I think, pretty much in line year-to-date and will be full year.

John A. Faucher - JP Morgan Chase & Co, Research Division

Got it, that's great. And then if I can just ask a follow-up on the -- particularly on the Spain piece of this, which is are you guys running on a straight incidence pricing model then in Spain? Because that negative channel mix would probably -- I'm trying to figure out how that's impacting you so quickly unless you're providing either a, you're on a straight incidence, in which case the channel mix would hit you immediately? Or are you providing a little extra funding into the bottlers in terms of trying to help them get through this?

Muhtar Kent

John, the primary reason, I'd say probably 70% -- this is Muhtar, 70% of the mix in Europe is geographic, related to the fact that lower price regions like Germany and Eastern Europe and Central Europe were growing faster than some of the other regions in Europe that have a higher pricing like France, like England, and that has really -- and like Spain. Spain has one of the highest prices in Europe. And so that has had the biggest contributing factor. One of the reasons for that was very unseasonable weather in Northern Europe during half of the quarter. It's never been wetter than -- in history than this – than the beginning of the quarter for 2.5 -- 2 months, 1.5 months, half of the quarter in Northern Europe. So that is coming back, and we feel that, that is one of the primary reasons. As we have more balanced growth in Europe, which we expect will happen, and as Gary said, we feel that it's not going to get any worse than it is and it may even -- and even in these conditions, we can generate growth and crack the calculus for growth, then we feel that, that will certainly be coming back quite significantly. Spain remains today, on a net revenue per unit case basis, the highest in Europe. So I just want to make sure that those -- that commentary gets through.

Operator

Our next question comes from Caroline Levy from CLSA.

Caroline S. Levy - Credit Agricole Securities (USA) Inc., Research Division

Obviously, my concern is definitely around China. And just I'm just wondering how margins in the Pacific would not be impacted by what's happening in China. Can you just dig a little deeper? Was there -- did you have increased promotional activity in China during the quarter? Or should we expect that in the next period? Just as we know the competitive environment there has got more -- both more price competitive and there's more distribution for Pepsi brands there.

Muhtar Kent

Well firstly, I mean I think, Caroline, on China, we are confident in our ability to continue growing in China, in this important market despite the changing, as you mentioned, competitive landscape and softness -- comparative softness in the macro conditions. And our transactions are up a healthy 7% in the past quarter. We have said it before in previous quarters that we're focused on transactions and that's the health of the business in China. And certainly, we're driving transactions in a very favorable way. Year-to-date, volume is a solid 6% and our brands are very strong. We have a clear leadership position in the sparkling category, and I have total confidence in both our bottling partners, COFCO and Swire beverages and Bottling

Investment Group were to continue to deliver. You have noted from previous calls that on a total comparative basis, relative basis, China's contribution to profit is less than its contribution to volume in the Pacific Group for a number of reasons. One is because we've got much more developed countries that have much bigger margins for like, of course, Japan, but like also Australasia. And therefore, it is -- the impact -- even if we were to promote in China and not that, again, we feel it's a rational environment. But even if we were to promote, it would not have significant impact on the results of the Pacific Group, simply because of the size and scale of the profit pools that are generated out of markets like Japan and out of markets like Australasia. And again, given the size of our Japan profit pool in the Pacific Group, what Gary mentioned is the primary cause of that, which is an increase in volume, 2%, but a commensurate decrease at the same percent point in actually concentrate shipments.

Operator

Our final question today comes from Mark Swartzberg with Stifel, Nicolaus.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc., Research Division

Muhtar, I was hoping we could talk a little bit more about North America c-stores, and I had 2 questions there. Firstly, on the sparkling part of your portfolio, can you give us a little more detail on what's going on with some of the smaller pack sizes? I think they were having some difficulty in the second quarter. What's happening there? And also within sparkling in c-stores competing products, with Mountain Dew spending a lot more, what's your strategy versus that particular brand with your portfolio? So that's on the sparkling side. And then can you just give us an update on the energy segment sequentially in c-stores?

Muhtar Kent

Yes, I think in terms of -- firstly, the good news is that there is more positives to talk about the c-store channel in the quarter than in the first half of the year, we feel. And certainly, it is also important to note that we aggressively led the industry on competition and pricing in the channel. And also that the industry grew at around just under -- shy of 5% roughly in the channel. And we led the pricing. And we have, again, very healthy growth in transactions. And we held share in the channel and of course in total market. And in terms of packaging, our variety of packages starting with the entry pack of 12.5 ounce is really working well for us at the entry price of under $1. And then that puts us -- our 16 ounce significantly ahead of competition and pricing at $1.19 and so on and so forth. So I would say we are very confident and very pleased with the progress that we have in that channel as we have in the Foodservice channel where we see increased traffic coming through, particularly in the latter part of the quarter. And then in energy, you asked, we had double-digit volume growth. Our brands were up and gained volume and value share in the energy channel, in -- which is primarily the c-store, the convenient store channel. But also I'd say that our variety of packages, including the mini cans, 8.5 ounce mini cans and all the way through the 1.25 liter combined with the 2-liter, et cetera, are working really well for us in the future consumption channel as well.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc., Research Division

So it sounds like Mountain Dew -- of all the things competitively happening in c-stores, Mountain Dew is not, on the margin, a big impact on your business, at least for now?

Muhtar Kent

I wouldn't want to comment on competition. I just would say that I think it's healthy for everyone.

So thank you Gary and Jackson. And in closing, we had a strong third quarter, have again delivered quality year-to-date performance results. Our business continues to grow even in the midst of global economic challenges. Our system is clearly aligned, on track to achieve our 2020 Vision. The appetite for investment by our bottling partners is as strong as it's ever been. And together we, as a system, continue to invest in our brands on a global scale through world-class marketing and also through world-class commercial strategies. And as a result, consumers' love for our brands is stronger than ever. As always, we thank you for your interest and your investment in our company and for joining us this morning.