Operator

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

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

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

Timothy K. Leveridge - Vice President & Director-Investor Relations

Good morning and thank you for being with us today. I'm joined by Muhtar Kent, our Chairman and Chief Executive Officer; James Quincey, our President and Chief Operating Officer; and Kathy Waller, our Chief Financial Officer.

Before we begin, I would like to inform you that you can find webcast materials in the Investors section of our company website at www.coca-colacompany.com that support the prepared remarks by Muhtar, James and Kathy this morning. I would also like to note that we have posted schedules under the financial reports and information tab in the Investors section of our company website. These schedules reconcile certain non-GAAP financial measures, which may be referred to by our senior executive during this morning's discussion to our results as reported under generally accepted accounting principles. Please look on our website for this information.

In addition, this conference call may contain forward-looking statements, including statements concerning long-term earnings objectives, and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic SEC report. Following prepared remarks this morning, we will turn the call over for your questions. In order to allow as many people to ask questions as possible, we ask that you limit yourself to one question. If you have multiple questions, please re-enter the queue in order to ask additional questions.

Now, I'll turn the call over to Muhtar.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Thank you, Tim, and good morning, everyone. 12 months ago, we announced a five-point strategic plan to reignite our performance. Since then, our company has undergone substantial change while navigating a slowing global macroeconomic environment. Before handing the call over to James Quincey, our recently announced President and Chief Operating Officer, to review our third quarter performance results, let me recap the decisive actions we've taken over the past year, as well as highlight why we believe The Coca-Cola Company is well positioned to continue winning in the vibrant non-alcoholic beverage industry.

First, we said we would drive revenue and profit growth with clear portfolio roles across our markets. We have and will continue to do so. We segmented our markets to develop long-term revenue growth strategies based on clear volume, price investment and profit expectations, which were built into our 2015 plans and strategies going forward. Importantly, we revised our annual incentive metrics to include revenue growth, and tied them directly to these clear portfolio roles in order to drive the right behavior in each market.

Second, we said we would target disciplined brand and growth investments. Last year, we significantly increased our media investments, and we're doing so again this year. Also, under the leadership of Marcos de Quinto, who was named Chief Marketing Officer at the beginning of this year, we've improved the quality of our advertising while rewiring our marketing organization around consumer clusters to drive speed, efficiency and effectiveness, and we're seeing results, with year-to-date value share performance accelerating across several markets.

In addition, the incremental marketing is helping to accelerate revenue growth in some of our key markets, including North America. We also made investments in new growth platforms. We closed a transaction with Monster Beverage Corporation to compete more effectively in the global energy category, and just recently, our brands launched on the Keurig KOLD system in the home dispensing platform. In China, we have announced plans to expand into plant-based protein drinks through the acquisition of the beverage business of China Green Culiangwang Beverages Holdings that recently received regulatory approval. And in the United States, we invested in and signed a distribution agreement with Suja, a high growth organic cold-pressed juice company. All these are long-term investments that we believe will allow us to add profitable new transactions in the non-alcoholic beverage industry.

Third, we said we would drive efficiency through more aggressive productivity. Our current $3 billion productivity program touches every part of our business and organization, from our operating model to cost of goods sold to marketing expenses. We're driving these savings through a disciplined process that involves our entire leadership team and associates. And ultimately, it's about building a culture that is focused on getting better every single day and challenging every dollar we spend. We're on track against our overall goals, and importantly, have implemented a broad set of changes in 2015 that will help us continue progress into 2016 and beyond. These include the implementation of zero-based work across our entire company as well as our corporate center and operating units, a disciplined program management approach to drive cost of goods sold savings in everything from our formulas to our packaging to our day-to-day operations in our plans.

Fourth, we said we would streamline and simplify our organization. To date, we've standardized key processes, linked our business units with our corporate center and eliminated group functional roles in order to speed up decision making and enhance focus at the local level to drive growth. Our previously announced head count reductions are substantially completed, and we are operating within our new structure. Importantly, we are ahead in terms of scope and timing.

Finally, we said we would refocus on our core business model of building the world's greatest beverage brands and leading an unmatched global system. And over the past year, we've made substantial progress in evolving and strengthening our bottling landscape. Starting in North America, so far, we have transferred or signed agreements for territories covering over 30% of U.S. bottle can volume. And just recently, we announced the creation of the National Product Supply System in order to align on a clear path forward for our 21st century manufacturing footprint in the United States. In Europe, we announced the creation of Coca-Cola European partners, which will transform the Western European bottling landscape. And looking outside the developed world, we've made critical changes to our bottling system in key emerging markets. At the end of last year, we entered into an agreement to re-architect our African bottling system with the creation of Coca-Cola Beverages Africa, which will have the scale, resources and efficiencies to fund the investment required to capture the strong long-term growth potential in Africa. Also, during the first quarter of this year, we invested in our Indonesian bottler to help our system capture the long-term opportunity in this attractive and large emerging market.

In short, our company has undergone a significant amount of streamlining and change these past 12 months. And while we are encouraged by our progress, we know we need to do more, which leads me to our most recent change. As we continue to increase our focus on improving global execution, we recently appointed James Quincey to the position of President and Chief Operating Officer. James has a deep knowledge of the global system and solid existing relationships with both bottlers and customers all around the world. He's uniquely qualified to accelerate the company's five strategic initiatives for growth in the months and years ahead.

I will now hand the call over to James, who will walk you through our quarterly performance.

James Quincey - President & Chief Operating Officer

Thank you, Muhtar. Good morning, everyone.

Let me start on this first earnings call by saying that it's a tremendous honor for me to serve as the President and Chief Operating Officer of The Coca-Cola Company. In my 19 years with the company, I've seen our business evolve and grow, while remaining strategically focused on doing the right things to drive long-term sustainable growth. As Muhtar referenced, we are resolutely focused on executing against the five strategic initiatives laid out last year. And a significant part of my role will be ensuring that we deliver.

Now, during the quarter, we made two important announcements that provide clarity on the future of our distribution and bottling structures in the United States and in Europe. First, in our flagship market, we announced the creation of the National Product Supply System, or NPSS, to strengthen and streamline U.S. production as part of our effort to refranchise bottling territories in North America. Our approach embodies the best of both worlds by encompassing a national production system that generates efficiencies and scale for our system in combination with regional production that leverages the expertise and local knowledge of our longstanding bottling partners, Coca-Cola Consolidated, Coca-Cola United and Swire Coca-Cola USA. These bottlers will continue to own and operate their own plants and, where applicable, acquire additional production assets from the company-owned Coca-Cola Refreshments. This will provide a clear profit incentive to make the local operations as efficient as possible.

However, to ensure the benefits of scale remain, the NPSS will have a governing board with the power to implement measures to ensure the production assets owned by NPSS bottlers are optimally deployed to produce the lowest cost, benefiting the entire system. This board will focus on making decisions on infrastructure planning, innovation planning, and optimal sourcing at the national level. The board will be comprised of representatives from Coca-Cola North America, Coca-Cola Refreshments and the three independent bottlers, which, together, currently represent approximately 95% of the U.S. produced volume. We believe this structure allows us to leverage our significant system scale with a unique competitive advantage of being able to act locally with speed. Together, with our focus on driving revenue, this will result in system margin expansion over the coming years.

So in addition to system-wide benefits, this approach has the additional benefit for The Coca-Cola Company in that it accelerates our return to an asset-light model, which will result in higher operating margins, lower capital spending and invested capital, and improved return on invested capital for our company as we transition these production assets.

We also continue to make progress on the refranchising of the U.S. distribution territories. Just this morning, we announced that we signed non-binding Letters of Intent on additional distribution territories in seven states. As Muhtar referenced, this will bring the total amount of volume in territories transitioned to date, all covered by agreements, to over 30% of U.S. bottle can volume.

Also during the quarter, we announced the merger of our company-owned German bottling operations with Coca-Cola Iberian Partners and Coca-Cola Enterprises into a new company named Coca-Cola European Partners. This will transform our Western European bottling landscape and create the world's largest independent Coca-Cola bottler, based on revenue. The creation of a larger unified bottling partner in Western Europe represents an important step in our global systems evolution, as we continue to adapt our business model to innovate, invest, and grow along with the changing demands of the marketplace. This merger enhances alignment within the Coca-Cola system, enabling us to more effectively compete and drive growth across developed European markets. Importantly, the new company will position to deliver world-class execution and customer service by leveraging the best practices of each party to drive sustainable growth in multiple categories.

Now, turning to the performance in this quarter, well, the global economic environment remains challenging. As the slowdown in the Chinese economy and the lower oil prices are putting pressure on many commodity-dependent economies such as Australia, Brazil, and Russia, while volatility rippling through the Middle East causes further economic uncertainty. Despite these macroeconomic challenges, our five-point plan and our focus on execution and reinvestment drove improved results, with both unit case volume and price/mix growing 3% each in the quarter, as outlined in our quarterly performance scorecard on slide 11. Organic revenues grew 3%, driven by the previously-mentioned strong price/mix and slight growth in concentrate shipments.

Our top line performance was broad based, with five of the six operating segments delivering organic revenue growth. North America continued its disciplined approach to volume, price, and mix management, and I'm encouraged by the solid progress we've seen in this market over the past two years. In Europe, we drove top-line growth through strong commercial and marketing activities whilst also benefiting from some good weather in much of the region. We are seeing green shoots in Europe, and our business in Central and Southern Europe delivered a particularly strong quarter due to investments in media, changes in our price/pack architecture, and favorable weather. In Latin America, we delivered double-digit organic revenue growth despite worsening conditions in Brazil. Our Mexico business unit helped to balance the weakness in Brazil by accelerating unit case volume growth to 4% in the quarter, with growth across all the major categories. In Eurasia and Africa, deteriorating conditions in Russia and volatility in the Middle East partially offset the solid performance in the Africa businesses.

Turning finally to the Asia-Pacific group, China and India both grew unit case volume mid-single digits in the quarter. In India, this marks a return to growth for our business after a tough second quarter, with our volume growth trends improving in each month. In China, our consistent strategy and focus on execution led to continued value and volume share gains in non-alcoholic ready-to-drink beverages. Notably, trademark Coca-Cola reached its highest year-to-date share levels since 2011. In Japan, volume did decline, driven by poor weather in the quarter as well as a move to focus on price realization by reducing discounting on certain low-value multi-serve packs. While this may have short-term consequences in volume and share, it is more important to improve our pricing in the marketplace.

Finally, our Bottling Investments group delivered 3% organic revenue growth, led by operations in Germany, India, and Vietnam. As a result, we once again gained global value share in non-alcoholic ready-to-drink beverages in the quarter, with gains in both sparkling and still beverages worldwide.

In summary, our third quarter performance marks another positive step towards achieving our goal of accelerating top line growth, with the company delivering both solid pricing and unit case volume growth. We are confident in our strategies and execution, and remain on track to deliver against expectations for this year.

I will now hand over to Kathy, who will provide you a more detailed look at our financial performance, as well as our outlook on our business for the rest of 2015.

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

Thank you, James, and good morning, everyone.

Organic revenue growth was driven by three points of positive price/mix. Consolidated price/mix in the quarter was driven by positive pricing and product mix initiatives across many of our key markets, and benefited from positive geographic mix due to the strong volume growth in our Bottling Investments group. After adjusting for the additional days in the first quarter, year-to-date concentrate shipments were slightly behind unit cases, primarily due to the timing of shipments in the prior year in our Asia-Pacific and Eurasia and Africa groups. For the full year, we continue to expect concentrate shipments to be generally in line with unit cases.

Our comparable currency neutral growth margin expanded on a consolidated basis, due to positive pricing, productivity savings, and a slightly lower commodity cost partially offset by structural changes. Positive comparable currency neutral operating leverage was driven primarily by cycling the timing of marketing expenses (19:00), the impact of which we expect to reverse in the fourth quarter, as well as by a continued focus on controlling our operating costs.

For the quarter, comparable currency neutral operating income grew 8%. Below the operating line, net interest income was lower versus prior year, resulting in 7% growth in comparable currency neutral income before tax, which included a one point structural headwind. Our third quarter comparable EPS was $0.51, which included a 12-point currency headwind. On a comparable currency neutral basis, our EPS grew 8% in the quarter. Items impacting comparability in the quarter were primarily related to non-cash charges related to the announced refranchising of territories in North America. During the first nine months of the year, we generated $6.7 billion in free cash flow, up 6%, primarily due to the efficient management of working capital and the impact of six additional days, partially offset by an unfavorable impact from currency exchange rates, the impact from refranchising territories in North America and the brand transfer agreement with Monster Beverage Corporation. Our focus on improving working capital contributed an incremental $600 million of cash flow for the first nine months of 2015 versus the prior year. We returned $5.6 billion to shareowners in the form of dividends and net share repurchases during the first nine months.

Turning to outlook, we are broadly in line with our expectations for the first nine months of the year. With one quarter remaining, we expect our full year comparable currency neutral EPS to grow 5%, in line with our previous expectations. However, due to the strength of the U.S. dollar, we now expect the currency impact to be slightly more unfavorable. After considering our hedge positions, current spot rates and the cycling of our prior year rates, we now expect an approximate seven-point currency headwind on net revenue, 11-point headwind on operating income, and an eight-point headwind on income before tax for the full year 2015. Therefore, we expect our comparable EPS to decline 3% for the year. Our full year outlook implies that our fourth quarter comparable currency neutral EPS will decline mid- to high-single digits. There are a couple of points to consider when modeling the fourth quarter.

As we communicated at the beginning of the year, our fourth quarter will have six fewer selling days this year. Due to the timing of expenses last year, combined with the increase in media investments this year, we expect DME to increase substantially in the fourth quarter. We expect structural items to be a slight headwind on net revenue, and a two-point headwind on both gross profit and income before tax. We currently estimate currency will be a six-point headwind on net revenues, a 12-point headwind on operating income, and a 10-point headwind on income before tax in the fourth quarter as we cycle more favorable rates from the prior year. As a reminder, these impacts are based on current spot rates, and given the volatile currency environment, these amounts are subject to change.

In summary, as you heard from Muhtar and James, our financial performance is consistent with what we discussed early in the year, and we continue to execute as we outlined. Operator, we are now ready for questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer portion of today's call. Our first question is from Dara Mohsenian of Morgan Stanley. Your line is open. You may proceed.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Hi. Good morning.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Good morning.

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

Good morning.

James Quincey - President & Chief Operating Officer

Good morning, Dara.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

So, Muhtar, it's been a year since you announced the plans to focus on greater pricing in developed markets as well as boost marketing spend starting in 2015. And I was hoping you could just take a step back and give us a more detailed review of your progress on those fronts. How much top-line growth is responding to those efforts relative to your expectations, both in terms of the market share payback from the higher marketing as well as the demand elasticity from higher pricing? And then just in terms of the quarter, on an adjusted basis ex the concentrate lag, it looks like underlying revenue results are returning to your long-term goals with 3% unit case result and 3% price/mix. So, at this point, do you feel comfortable you can generally meet those long-term top line growth goals going forward, ex any timing issues, or with emerging markets macros still decelerating and perhaps easy comps from this quarter, it's a bit too early to call for that? Thanks.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Yeah, Dara, thanks for the question. What I would say in general overall is yes, we're pleased with the quarter and the progress we're making but lots of more work to do. This is a transition year. When we talked to you about 12 months ago, we outlined to you that with the changes we're going to make that our goal is to get to mid-single digit currency neutral revenue growth for the comparable revenue growth for the company overall. And I think if you look at our progress to date for the first three quarters of the year, we're at sort of the bottom end of that range, the mid-single digit, if you look at where we are in revenue in terms of currency neutral comparable, and what we have posted in this past quarter, in the third quarter, you would see us if you take those numbers that you mentioned in terms of volume growth of 3% and price/mix of 3%, at the top end of that range.

So in essence, we're pleased with the progress that we – what all the five-point strategy and executing it diligently over the last nine months and even starting at the end of last year has brought us to where we are. And so we feel that we've always said that marketing has a lag, the incremental marketing, there's a lag in terms of when we input it and the results that we're getting, but we see that the plan is working. And we certainly see that we're taking a very strategic approach in terms of marketing spend versus optimal levels. Consistent quality investment in media continues to be one of the strongest drivers of our business, enabling us to generate those – that revenue. We look at each market. How many weeks of consumer engagement there is, the goal over time is to apply the right pressure in the right way to each of our brands and each of the segments that you mentioned, which is developed, developing and emerging. And the system alignment in our bottling system is matching our alignments with investments – I'm sorry, with capabilities, execution, output development, cooler placement, et cetera. So we're pleased with what we see there.

And of course, all of this being said, we have a volatile macroeconomic environment, which obviously is not getting any better anytime soon. We realize that. The global growth for 2015 is projected to be below last year, and even having said that, the disposable income are even lagging the growth rates that are projected. So, yeah. But, in general, that's how I would frame your question and both James and I and Kathy believe that the incremental and better marketing is certainly giving us the results in terms of the top line currency neutral comparable top line growth.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Great, thanks.

Operator

Thank you. The next question is from Steve Powers of UBS. Sir, your line is open. You may proceed.

Stephen R. Powers - UBS Securities LLC

Great, thanks. Good morning.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Good morning.

Stephen R. Powers - UBS Securities LLC

I actually want to talk a little bit more about the National Product Supply System that James detailed. And I guess specifically, maybe Muhtar or James, could you talk more about the governance process there and the makeup of the managing board? As I understand it, there are five voting members, CCR, Coke North America and then the three bottlers Consolidated, United and Swire. And I guess I'm curious as to how you ensure that tough decisions get made in that structure and implemented in that structure. Do you need unanimous consents? Is it majority rules? And if there isn't unanimous consent or support for a given measure, what gives the NPSG the power to enforce successful implementation? Thanks.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Thanks, Steve. What we said, again, at the beginning of this journey back three years, four years ago, is that we said that we have an intention to create a system in the United States that can benefit from the local empowerment in each of the communities and the markets that have built our business so successful over the last 130 years. The franchise system, the alignment that brings, the value and trust between us and our bottling partners. But at the same time, create the mechanisms, so to speak, the processes, flexible processes in the marketplace whether it be information systems, whether it be the customer management system so that we can speak with one voice to customers coast-to-coast in the United States, and the National Product Supply System. All of those negotiations with our expanding bottlers took some time to achieve. They're all achieved. That's why we're progressing rapidly with our refranchising program, which is working very well because when we have those processes in place, we can refranchise with confidence and speed and have the business continue to generate the results and the growth that we are seeing in revenue, particularly in the United States of America. And the United States non-alcoholic beverage business is healthy. It is growing in revenues and dollars and cents, and that's the really important element that I want to leave with you. But, just to add more color and flavor to the National Product Supply System question that you had in terms of the governance model, I'll ask James to comment further and give you more insights. James?

James Quincey - President & Chief Operating Officer

Yeah I think, just specifically on governance, it's not going to be around unanimity. It's going to be based on the driving of the business case. Everyone's committed to doing what is economically the most rational answer for the system. Again, this is when it comes to the national issues. It's not necessarily the management of each local plant, which will remain the job of each of the participating bottlers, or CCNA.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Steve, does that address your question?

Stephen R. Powers - UBS Securities LLC

Yes, sorry, I was on mute. No, thank you. That does help. But I guess, James, just to follow up. If there is friction on a given issue, right, if there's debate about what is in the best sort of economic interest of the system, what's the tiebreaker? How does the majority view get pushed through?

James Quincey - President & Chief Operating Officer

We're not laying out the precise mechanic, but I can tell you that there's not going to be a full consensus required for every decision. It's going to be a large majority, and if they support the economic case, then that's what's going to move forward. So, we're not creating a system that can become blocked. We're creating a system that's going to (31:48) focus on the best economics of the system in North America, and there are mechanisms for that to go forward.

Stephen R. Powers - UBS Securities LLC

Great. There are mechanisms in place to break a tie.

James Quincey - President & Chief Operating Officer

Correct.

Stephen R. Powers - UBS Securities LLC

Thank you very much.

Operator

Thank you. The next question is from Judy Hong of Goldman Sachs. Your line is open. You may proceed.

Judy E. Hong - Goldman Sachs & Co.

Thank you. Good morning. I guess I was hoping to get a little bit more color in your performance in Europe this quarter. So, 4% volume growth, certainly an improvement there. You called out some of the factors, the green shoots in Europe. You've got the favorable weather conditions, as well as the marketing spending step-up. So, number one, can you just talk about a little bit more behind, what really drove the volume improvement? How sustainable those improvements are in terms of volume. And then, if you think about price/mix performance in Europe, kind of flattish performance in a more developed market. So, how should we think about that number? How much was that geographic mix, and are you seeing actual price realization in some of the markets, understanding that, obviously, it's a tough deflationary market there.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Yeah Judy, thanks. This is Muhtar. Good morning. Unit cases, as you said, did grow 4% in the quarter in Europe. They were cycling a minus 5% from prior year, and sparkling was up, as well as stills growing faster than sparkling in Western Europe. And then our concentrate sales did trail also the unit cases in Western Europe, as it did for the whole company. And we were pleased with the results. And certainly, again, some early results from the marketing, but more to come, and I'll ask James to add more color to that. James?

James Quincey - President & Chief Operating Officer

Yeah, thanks, Muhtar. As Muhtar referenced, we were cycling a pretty poor quarter from last year. So, I think it was a favorable comparison, and we had strong results from very favorable weather in the Southern and the Central part of Europe. So I wouldn't read too much into the one quarter. I think if you look at the longer term trends, you can see that we're getting some volume growth in the year-to-date, where the price/mix is bouncing around flat. I think it's important to recognize two things as it comes to price/mix in the case of Europe. One is the general deflationary nature of the European market. Retail pricing is 0% to 1% at best, in general. And then secondly, it's worth remembering that the starting point of pricing in Europe is, in comparison to the U.S., higher. So the opportunity is to drive price/mix on a sustained long-term basis. In a sense, we've already captured some of that in Europe, and we will be chasing that in the U.S. So I don't think we'll see the same sort of price/mix over time in Europe, given our starting point.

Judy E. Hong - Goldman Sachs & Co.

Got it. Okay. Thank you.

Operator

Thank you. The next question is from Bryan Spillane of Bank of America. Sir, your line is open. Please proceed.

Bryan D. Spillane - Bank of America Merrill Lynch

Hi. Good morning, everyone.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Good morning.

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

Good morning.

Bryan D. Spillane - Bank of America Merrill Lynch

Kathy, just a question for you. And just thinking about some of the, I guess, the macro drivers of the P&L as we move into the fourth quarter and maybe beyond, into 2016. Other income this quarter was an expense. Is that at all related to the euro bond gain that you had in the first half, and how we think about lapping that next year? FX, the negative effect on operating income, is greater in the fourth quarter than it was in the third quarter. So should we think about FX carrying into 2016?

And then, in terms of structural change, I guess with Germany now essentially being contributed to the partnership, or the new entity in Europe, that will be a structural change for next year, but just anything we should be thinking about in terms of changes in the structural change component of modeling, I guess, going into the fourth quarter, and maybe into next year, would be helpful. Thanks.

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

Sure. Thank you, Bryan. So for foreign exchange for next year, remember, we had said that for our hard currencies, we are hedged and so our real exposure is around our emerging currencies. Now, that being said, we do have to cycle that euro debt bond offering, which impacted the first quarter and second quarter of this year and for the full year, it was about three points benefit to us. So we do have to cycle that next year on top of just a change in the rates and probably a more difficult currency environment going forward. So, we will give more color on currency in February when we give our full year results for 2016 (sic) [2015] (36:52), but our issue is really going to be around the emerging markets where we've – it's not cost effective to hedge more than about a quarter at a time.

And then in terms of the structural impact, yes, Germany will be a structural impact next year. Obviously, we continue with the North America refranchising, so that will still have a significant impact in North America, and there may be some slight impacts from whenever the Africa transaction closes, but the majority of it will be the Germany transaction and the North America refranchising.

Bryan D. Spillane - Bank of America Merrill Lynch

Okay. Thank you. And just with the Africa JV, do we still expect that that will close before the end of the year, or is there any update on timing there?

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Yeah. Bryan, this is Muhtar. What I would say is that it's in the regulatory approval process, and that's all I would say right now, and then we expect it to close some time over the next three months to four months. That's what I would say.

Bryan D. Spillane - Bank of America Merrill Lynch

Okay. Thank you.

Operator

Our next question is from Ali Dibadj of Bernstein. Your line is open. You may proceed.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Hey, guys. Just a few things. One is I was hoping you could set people just more at ease around the closure of the gap in unit case volume to concentrate sales. I'm getting a lot of questions there. And if that – look, if you're real comfortable with that and if that's the case that that closes for all the regions in the world, it certainly does look like there's an inflection point on top line. But are we now comfortable enough to also start talking a little bit about, perhaps, a crossover point or an inflection point in the productivity savings being higher than reinvestment rate as well so margins can also look like they're expanding? It looks like you had flat operating margins here, including the FX effects there. But that's better than it's been in a little while as well. So can we clarify, and give us a sense on the margin inflection potential as well?

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

Sure. So the unit cases to concentrate shipment, they're really impacted by Asia-Pacific and Latin America. And if you look at Latin America on a year-to-date basis, they're absolutely in line, and with Asia-Pacific on a year-to-date basis we expect them to be generally in line. So there's really no story there in terms of that gap.

When you – and moving on to productivity, so productivity initiatives, yeah, obviously, we are seeing some benefit from productivity. In our margins, there is an impact in our margins from basically the structural changes. So, if you were to exclude structural changes, gross margins and operating margins would be higher and you would see margin expansion. And when you look at the third quarter, when you look at the leverage – so we are getting some productivity, but we also have an impact from timing of the DME from – basically from prior year that's impacting that timing from this year. That, by the way, turns around in the fourth quarter. So I think there are a lot of puts and takes going on around productivity. You are seeing some productivity coming through. We are continuing to reinvest behind our brands, though, but our margin expansion is masked right now by currency and structural, so if you pull those two things out, you'd see very good margin expansion.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

And I would just add one point, Ali. I think what we saw in this past quarter in terms of operating margin expansion on a currency neutral comparable basis of about 100 basis points, we were pleased with that expansion. Now, the key is to do everything we can to continue and ensure that we execute fully on the five strategic points going forward so that we can continue to improve our trajectory.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Okay, okay. That's helpful. Just from a structural perspective, as you mentioned it, one of the big changes obviously in the marketplace is the ABI-SAB deal, which is agreed upon, I guess. Can you talk a little bit about any of the deal implications to you structurally in that context? For instance, would you let them produce both for you and the blue system? Is that something you can shed a little bit of light on as now it's an agreed upon deal, it sounds like?

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Yeah, Ali, we will not comment on any specific matters related to our customers, bottlers or any M&A matters, so I'll just leave it at that.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Okay. Thanks anyway.

Operator

Our next question is from John Faucher of JPMorgan. Sir, your line is open. Please proceed.

John A. Faucher - JPMorgan Securities LLC

Yes, thanks. Want to go back as sort of a little bit of a follow-up to Steve's question. If I look at slide 10 in the handouts, if I look at North America, you guys are fragmenting that sort of last piece to market, that last piece of the route-to-market, and then also to some extent the manufacturing piece. Yet you're telling us, on the flip side, as we look at Europe, as you create this sort of wall that goes across Europe of all one big bottler, the consolidation is something that seems to be the right thing for Europe. So, can you talk a little bit about why fragmenting North America yet consolidating Europe at the same time, those are both the right strategies when they – I don't want to say they're diametrically opposed, but at least they appear to be somewhat in conflict with each other. Thank you.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

John, this is Muhtar. Actually, they're not in conflict at all. They're basically very complementary to our strategy, which is to ensure that we have the local touch, and we have also the scale, and we have the processes to meet customer demands and customer partnerships. And in the United States, we've actually not – you mentioned the word fragmented. We have a national customer management system. We have a national production system. We have a national information system that is basically all with their own governance models, and they're very fluid and very flexible to suit the needs of the business today.

And then at the same time, every piece of the United States that has those elements really have enough size for scale. And then we have the much smaller, the smaller distributor bottling system that also the smaller guys are doing a great job in growing the business for us. And then in Europe, basically what we have is, the customer landscape in Europe is much, much more concentrated in Western Europe where just a handful of customers account for a very large portion of the total future consumption, the retail business in Europe. And therefore, when you look at what we have created in Western Europe, it basically suits our future needs in terms of working proactively with our customer partners, and also it gives the scale and also it give the local touch in each of the markets. So, from that perspective, just like what we have done in Japan, just like what we have done in South Africa, and large markets I'm talking about, it basically very much aligns to our strategy in how you think about what we're doing in the marketplace.

John A. Faucher - JPMorgan Securities LLC

Okay. And if I can just ask a follow-up. I guess you talked about local touch with the smaller local bottlers in the U.S., and then you also talked about local touch in Europe. And I guess, again, just to play devil's advocate here, aren't you moving away from the local – I realize you're going to try and keep some of the local pieces through the new bottling entity, but it seems to me that's moving less local.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Where? In Europe? (45:20)

John A. Faucher - JPMorgan Securities LLC

So I guess it sounds like you're trying to have it both ways, and I guess I'm just not following why one is so dramatically better than the other. Is it just simply sort of the smaller account piece on the U.S. side that creates the difference here?

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Well, the customer base in the United States and Western Europe is very, very different in terms of how it's structured. And so, we follow the customer, the needs of the customer, what matters. We follow the scale. We follow the necessity for speed. And we feel that the model that is being created in Western Europe will serve us very well for the next decade and beyond, and the same thing goes for the United States. It is proving that it is serving us very well in terms of getting us the scale, in terms of getting us the costs in production and cost of goods sold. But at the same time, retaining the local touch and retaining the local element that is really important in our business. Both of those are valid for Europe, and for Western Europe and for Japan and for South Africa, and for the United States, or wherever else you're seeing us create a better bottling system.

John A. Faucher - JPMorgan Securities LLC

Okay. Thank you.

Operator

Our next question is from Vivien Azer of Cowen & Company. Your line is open. You may proceed.

Vivien Azer - Cowen & Co. LLC

Hi. Good morning.

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

Good morning.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Good morning.

Vivien Azer - Cowen & Co. LLC

Muhtar, I wanted to circle back on the comment that you made about the health of the U.S. LRB category. I mean, clearly, that's apparent on the still side of the business. But as I look at the syndicated data for carbonated beverages in the United States, it does look like the category is softening a bit, and I think your revenues were down three out of the last four months. So, I was hoping you could comment on the evolution of the U.S. CSD side, and the demand elasticities and how they're evolving, please. Thank you.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Well, I think, based on what we are seeing is, we're able to generate revenue growth, both in the sparkling category, very much so, as well as in the still side. And therefore, that's what my comment referred to. This is not just one quarter. This is multiple quarters. And at the same time, inside that LRB category that is showing very good resilience in terms of both price elasticity, price discipline, approach with customers, generating value for our customers, both on the sparkling side as well as in large and small customers in the still side, we are also seeing that we gain – and this is the 22nd consecutive quarter of us gaining value share in the marketplace in North America. And then the mix is really working for us, in terms of generating the marketing, where the North American market is the first market where we've started employing incremental marketing, better marketing, is generating also positive results for us in terms of the revenue growth, purely from sparkling as well as from the still side of the business. And, James, do you want to add any color to that?

James Quincey - President & Chief Operating Officer

Yeah. I mean, if you take a look at how we're driving the sparkling business, you can look at the transaction packages, which represent about 15% of the volume, and they're growing still again this quarter into double digits. So, we're very pleased with the marketing and the OBPC approach is driving positive revenue growth for sparkling on a consistent basis.

Vivien Azer - Cowen & Co. LLC

Thank you.

Operator

Thank you. The next question is from Bill Marshall of Barclays. Sir, your line is open. You may proceed.

William Marshall - Barclays Capital, Inc.

Good morning. Thank you very much. I was wondering if I could ask you about the recent vote in Mexico. It looks like there's a proposal to reduce the tax on soda by about half on products with five grams of sugar or less per 100 milliliters. So, first, I was just wondering what you thought about the prospects of that, if you could give us any clarity on what percentage of your portfolio that would cover?

And then, if we just think about it from a high level, and maybe, James, you could give us some color in a number of these markets. If we look at the Mexican soda tax as a template for the rest of the world, does this suggest any tempering of how some of the regulatory authorities are looking at the category, broadly speaking? Thank you.

James Quincey - President & Chief Operating Officer

So, of course, we need to wait and see whether the recent vote produces the act of (50:01) law by the end of the process. It's only gone through one of the stages. So, we'll see where that ends up. Obviously, we are in favor of reductions in discriminatory taxes. I think, as we look out on how that has impacted the world and how that's being viewed, and it will be used as a case study around the world, the data we have so far is the impact of the tax was to bring down about six calories from the Mexican diet by the end of the process. So, we're conscious that obesity is a crisis. We know we need to play a role. We don't think that this is the silver bullet that anyone was looking for, and we think that much more work needs to be done if indeed a solution is to be brought to bear on the whole obesity crisis, of which over-consumption of anything, including soft drinks, would be a contributor and a part of the problem. So, we'll see where this tax ends up. Clearly, taxing diets and lights doesn't seem to be the right way forward, and therefore, if this measure goes through, I think it would be positive.

William Marshall - Barclays Capital, Inc.

Great. Thank you very much. Appreciate it.

Operator

Thank you. And the last question is from Nik Modi of RBC. Sir, your line is open. You may proceed.

Nik H. Modi - RBC Capital Markets LLC

Thanks. Just a quick question on Asia. Perhaps you can provide a little bit of context. It looks like that business may not be performing as well as you would like, broadly speaking. Is this a portfolio issue? I mean, can you just talk a little bit about what's going on across that region, so we can just think about that as we go into 2016?

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Yeah, Nik, I'll just say very, very broadly, at a high level. We're pleased with our performance in China. Obviously, a lot of noise around China these days, but we have – as mentioned earlier in the script, we have an all-time high share for brand Coke in China. And we're growing in China, and we're gaining share in China, and we're investing in China and the same goes for India, two of the very large markets in Asia, certainly pleased with the results there. We had some weather-related issues in the quarter before, but we're coming back, and the business is really coming back and performing much better in India. And so, overall, I think – and then in Japan, we're seeing some green shoots in terms of disposable incomes. We're very early still in terms – to call it any color, but overall, I'd say – and then, obviously back in south – Australasia, the economy was very much related to commodities and it has suffered, and we're seeing the macro spillover from that. But I would say overall, up from this past quarter. We're happy with the results in the big economies, and then realizing – recognizing that we have got more work to do. And that's how I would leave it.

Nik H. Modi - RBC Capital Markets LLC

Great. Thanks.

Operator

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

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Thank you James, Kathy and Tim. So in summary, our company has undergone a substantial amount of change over the past 10 months to 12 months, and our third quarter results demonstrate continued progress against our five strategic initiatives. The long-term dynamics of our industry remain promising, and we absolutely believe that The Coca-Cola Company and the Coca-Cola system is best positioned to capture that growth in non-alcoholic beverages, and to deliver long-term value to our shareowners. As always, we thank you for your interest, your investment in our company and for joining us this morning.