Operator

At this time, I would like to welcome everyone to The Coca-Cola Company's Third Quarter 2013 Earnings Results Conference Call. Today's call is being recorded. If you have any objections you may disconnect at this time. All participants will be in a listen-only mode until the formal question-and-answer portion of the call. (Operator Instructions).

Due to the interest in this call, we request a limit of one person per person. 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 now would like to introduce Jackson Kelly, Vice President and Investor Relations Officer. Mr. Kelly, you may begin.

Jackson Kelly

Thank you. 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 by Muhtar and Gary this morning, we'll turn the call over for your questions. Ahmet Bozer, President of Coca-Cola International; Steve Cahillane, President of Coca-Cola Americas; and Irial Finan, President of our Bottling Investments Group will also be available for the Q&A session.

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 under the Financial Reports and Information tab in the Investors section of our company website at www.coca-colacompany.com. These schedules reconcile certain non-GAAP financial measures which may be referred to by our senior executives during this morning's discussion 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. We delivered sequential volume growth in the third quarter while capturing global non-alcoholic ready-to-drink beverage value share for the 25th consecutive quarter. We gained volume and value share across core sparkling, juice and juice drinks, sports drinks and ready-to-drink teas. Importantly, we were able to do this in combination with a 2% increase in price mix.

Excluding the impact of structural items, we generated comparable currency neutral net revenue growth of 4% and strong operating income growth of 8%. Our broad diversified product portfolio, the disciplined approach to extracting and reinvesting savings and our global geographic reach are enabling us to effectively navigate a still uncertain macroeconomic environment. History has taught us that when we invest through difficult times, we emerge even stronger.

This quarter our system delivered the highest number of servings ever reported in the third quarter both for brand Coca-Cola and across our portfolio. In all, we delivered 181 billion servings thanks to global volume growth of 2% driven by 2% global growth in brand Coca-Cola. This record number of servings speaks not only to our systems worldwide strength, but also to the opportunities ahead of us as we engaged with the next-generation of global consumers. Our global still brands also delivered solid results, growing 3% and gaining global value share. These third quarter results bring our year-to-date volume growth to 2% cycling 5%.

In line with our expectations for the third quarter, we delivered sequential volume growth in many key markets including North America, China, India and regions across Europe. That said, clearly the global economy remains challenged as noted by the International Monetary Fund last week, which trimmed this forecast for global output for the sixth time since early last year.

And as we have all noted, emerging markets have become increasingly more volatile further exacerbating a challenging global landscape. Hence, disposable income and consumer spending have become challenged and consequently have impacted the overall growth of the non-alcoholic ready-to-drink industry.

Yet, despite these ongoing headwinds, our business remains healthy and we continue to invest in the strength of our brands. We are fully implementing our productivity and reinvestment plans and together with our global bottling partners we continue to advance our system. All of this leads us to remain confident in our ability to drive our volume growth trajectory back in line with our long-term growth model over time.

Looking first to our operations in North America, brand Coca-Cola grew an impressive 2% in the quarter, leading our total beverage portfolio to 2% growth on top of 2% growth in the prior quarter -- in the prior year quarter. Year-to-date volume growth in North America is even as we cycled 2%.

Sparkling beverages were even in the quarter with sparkling price mix increasing 1%. Year-to-date, sparkling price mix is up 2% as we remained committed to a rational pricing environment.

We also remained focused on consistent investments in packaging innovation, in immediate consumption growth and increased teen recruitment, all of which are yielding positive results.

Specifically, packages like the 1.25 liter and mini packs -- mini can packs have increased our household base by more than 1.8 million in the last year. In addition, Coca-Cola has generated over $19 million incremental immediate consumption transactions year-to-date and importantly, Coca-Cola remains the most preferred beverage brand amongst teens by 2 to 1 margin.

Still beverage volume grew a solid 5%, with volume and value share gains across the energy, juice and juice drinks, water and tea categories. In sports drinks we gained volume share while maintaining value share.

As these results indicate, our revenue growth management strategies are working and enabling our system to provide consumers the brand they love, the convenience that they crave and the value that they need, while also expanding our topline. We continue to outperform the industry, gaining volume and value share across both sparkling and still categories.

I’m also pleased to share that we are making progress on the evolution of our North America system as our North America team continues to advance discussions with existing and prospective partners who are eager to be part of this dynamic franchise system.

Turning now to Latin America, our volume growth was even in the third quarter, cycling 5% growth and coupled with a double-digit increase in price mix, due primarily to continued and disciplined focus on price and pack architecture enhancements, as well as inflationary environments in some markets. Across the region we gained non-alcoholic ready-to-drink volume share, making this the 25th consecutive quarter that we maintained or gained volume share.

Similar to what we have experienced in other markets, we are seeing a slowdown in economic growth in Mexico and Brazil. Falling GDP growth rates have led to slower growth rates in personal consumption and consequently in non-alcoholic ready-to-drink beverages.

As in other instances where we have witnessed economic slowdowns in recent years, we are expanding our marketing efforts, while actively working with our bottling partners to invest in these markets and to offer consumers attractive price pack combination. Examples include the expansion of returnable glass bottle distribution and initiatives to ensure affordability tied to magic price points. Outside of Mexico and Brazil, we experienced solid performance with volume growth of 4% in the quarter.

Moving on now to Europe, we again witnessed diverging results with 3% volume growth in Northern European countries, offset by a 5% volume decline in countries that make up Central and South Europe for a net decline of 1% in our European business in the third quarter. In spite of this challenging environment, we gained volume share in core sparkling across the entire continent while continuing to strengthen our competitive positions across the non alcoholic ready-to-drink beverage industry in our Central and Southern European business unit.

Price mix increased 8% in the quarter, including the impact of the consolidation of Innocent. Our Share a Coke campaign was extremely well received. We placed over 2.5 billion customized packages into the market to drive team recruitment and further bolster immediate consumption.

Lastly, our operations in Germany continued to perform well delivering 3% growth in the quarter cycling 3%. This performance was fuelled by high single digit growth in brand Coca-Cola and double-digit Coke Zero growth. Sprite and Fanta also contributed to growth in the quarter in Europe.

The Eurasia and Africa group grew 4%, cycling 11% as we maintained focus on broadening distribution, honing our marketing efforts and strengthening brand loyalty in the more than 80 countries that make up our business in this dynamic region. Volume growth grew 4% led by brand Coca-Cola which grew 3% and Sprite which grew 4%. Still beverage volume grew 3% in the quarter. The Eurasia and Africa group maintained volume share in nonalcoholic ready-to-drink beverages while growing volume share in sparkling beverages and juice and juice drinks.

Both the Middle East and North Africa business unit and the Central East and West Africa business unit maintained their strong first half volume performance in the third quarter. On a year-to-date basis, the Eurasia and Africa group is up high single digits, cycling 10% growth and has been an important contributor to our year-to-date performance. Our Pacific group delivered 5% growth in the quarter improving sequentially from the second quarter and cycling 4% from the prior year quarter. Sparkling beverages led with 5% growth as Brand Coca-Cola delivered 7% growth and Sprite grew 5%. Still beverage volume also grew 5% in the quarter, while cycling 7% growth.

As noted, our second -- as noted during our second quarter call, we anticipated a better second half of the year in China and I'm pleased to report that we were able to deliver 9% volume growth in the quarter, led by 8% growth in sparkling beverages. Earlier this year, we began to evolve our strategies in China to reflect the current economic and competitive environment and also to position ourselves for continued sustainable profit growth.

Our business in India delivered 6% growth in the quarter, cycling double digits. We achieved this growth while increasing prices across our juice brands to offset higher cost of goods. In addition, volume grew by strong double digits through September once the impact of the extended monsoon abated. Brand Coca-Cola again led the way with 22% growth in the quarter.

We are pleased with these results and with our solid volume and value share gains across sparkling and still beverages in India. Looking ahead, we have strong marketing programs planned for the fourth quarter of this year and into next year. I'm particularly excited about two iconic marketing programs that will ignite consumer passions across key markets. Specifically, the Olympic Torch relay recently started [ph] from Asian Olympia as it begins its relay journey across Russia. And the FIFA World Cup Trophy Tour is also underway with stops planned in 89 countries where passions for football run high.

Further, throughout our company's history we've always been at the forefront of cultural change in forming the conversation, inspiring our youth to act and bringing resources to our local communities all across the world. This legacy has sprained our thinking about forging effective and lasting partnerships, creating shared value, making a positive societal difference in areas that are of critical importance to our business specifically water, woman and wellbeing.

Returning to our global performance, we benefited from marked sequential improvement in several key markets. We achieved robust and widespread growth of our flagship brand and we delivered solid financial results.

Our efforts to enhance the health of our system are working as evidenced by our broad based growth improving execution and strong cash generation. At the same time, we also acknowledged that we have more work to do as we will no doubt face headwinds as we work towards our 2020 vision.

Nevertheless the non-alcoholic ready-to-drink beverage industry is a vibrant and rewarding business to compete in and our business has consistently grown. And I can assure you that underlying forces that shaped our 2020 vision just a few years ago remains very much intact today.

Together with our global system partners, our roadmap is enabling us to strategically invest both through good times and challenging times to deliver long-term sustainable performance.

I'll now turn the call over to Gary.

Gary P. Fayard

Thanks Muhtar and good morning everyone. Our third quarter results underscore several key points. First, the global economy is still struggling to recover with increasing volatility across emerging markets.

Second, slowing economic growth clearly impacted consumer spending and overall non-alcoholic ready-to-drink industry growth in the quarter. And third, in spite of these macro trends, our strategies and solid execution enabled us to once again capture global value share and to deliver solid financial performance.

As Muhtar said we grew our global volume 2% in the quarter while at the same time delivering solid financial results. While we're pleased with this sequential volume improvement, we remained focused on further advancing our volume growth trajectory over time.

Concentrate sales were slightly below unit case volume growth in the quarter but we're in line with unit case sales year-to-date.

Moving onto our financial results, each of our geographic operating units contributed to comparable currency neutral operating income growth in the quarter. Comparable currency neutral net revenues were even both in the quarter and year-to-date, excluding the impact of structural items, this would primarily be the Philippines and Brazil bottler, net revenues increased 4% for the quarter and 3% year-to-date. We realized a healthy 2% global price mix for the quarter and 1% price mix year-to-date. Importantly, year-to-date price mix was positive across each of our geographies with the exception of the Pacific due to geographic mix.

Also as you know, we consolidated the Innocent brands in Europe which helped our price mix in the quarter but just to be clear our global price mix was 2% without the Innocent brands benefit.

As expected, our gross margins moderated somewhat this quarter due to geographic mix. We expect our full-year gross margins to be relatively in line with our year-to-date comparable gross margins. Excluding the impact of structural items, we achieved five points of favorable operating expense leverage for the quarter while we continued to support our brands through increased marketing investments.

Our operating expense leverage now stands at three points year-to-date and we expect low single digit leverage for the full year. As a reminder, we are cycling the reversal of expenses related to one of our long-term incentive plans in the fourth quarter of last year.

Our comparable currency neutral operating income was up 7% this quarter and 5% year-to-date, excluding the impact of the structural items, operating income grew 8% in the quarter and 6% year-to-date. Therefore we now expect our full-year operating income to be generally in line with our year-to-date performance.

On a comparable basis, the impact of currency was a 5% headwind on this quarter's operating income results, a full point more than we expected due to the -- and this is due to the weakening of many of the emerging market currencies. We now anticipate continued currency headwinds will have an unfavourable impact on the operating income in the 5% to 6% range in the fourth quarter.

Comparable earnings per share grew 4% in the third quarter, despite currency headwinds of about 5%. Year-to-date comparable earnings per share also grew 4%, despite headwinds from currency of about 4%. We generated $7.7 billion in cash from operations year-to-date and have repurchased $2.7 billion of our shares in line with our plans to repurchase $3 billion to $3.5 billion this year. Equity income came in lower than in the prior year quarter due to the ongoing challenging macroeconomic conditions around the world. We expect equity income will continue to be impacted by these factors.

Let me now provide you just with a couple of reminders as we look through the balance of the year. Looking forward as mentioned in our second quarter earning call, we anticipate that bottling transactions, including the impact of the deconsolidation of our Brazilian bottling operations early in the third quarter, will have a 3% structural impact on our full year 2013 net revenues. Likewise, our full year operating income results should see a 1% negative structural impact.

In closing, we are strategically navigating through these challenging macroeconomic times, investing in our business to steadily strengthen our competitive position and to drive balanced growth and long term sustainable performance. Operator, we’re now ready for questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions). Our first question comes from Dara Mohsenian from Morgan Stanley. Your line is open.

Dara Mohsenian - Morgan Stanley

Good morning. Muhtar, I was hoping for more granularity on emerging markets given the Q3 slowdown, particularly in Latin America, which was in contrast to some improvement we saw in China and India. So can you give us an update on macro environment as you look around the world and also some of the strategies you mentioned you were implementing, are you gaining traction at this point from a market share standpoint and should we expect to see volume performance in emerging markets improve as we look out going forward from here?

Muhtar Kent

Yes, Dara good morning. Now I think first, it’s important to realize that there are different timings across the world to some of the volatility in macroeconomics and particularly what's interesting for us which is disposable incomes. So I think China has already had a slowdown and is beginning to recover. We see that and there’s always also a lag between GDP, per capita and disposable income. So also important to realize that they don’t all happen at the same time. The numbers don’t correspond to each other one to one. And so we do see an improvement in Southeast Asia, and parts of certainly China where things have stabilized and things – people are beginning to normalize their sort of habits.

And in the last sort of three, four months we’re seeing a flight of currency from emerging markets, market stock exchanges in countries back into North America, that’s had an impact on disposable incomes in Latin America, in Eurasia, in countries like Turkey and other countries – and certain other countries in North Africa. So yes, those are – and you can track stock exchange indexes and you can track disposable income growth or slowdown. They are all very related and we do see that the world is not just one city or one sort of element of volatility.

There are different pockets of volatility happening at the same time. And what we are fortunate with is a great portfolio, a wonderful portfolio where

India slows down, maybe seven, eight, nine months ago, it's coming – we see some comeback in terms of disposable incomes I'm talking about and China is the same, Southeast Asia, ASEAN similar, Philippines also pretty much in that camp and then, we certainly also see that we still got some headwinds maybe in other parts of the world. So there are some tailwinds coming and some headwinds coming, and we continue to invest in our brands.

And when you look at our performance, we have sequential improvement in many parts of the world, particularly when you look at places like India, places like China, ASEAN, even also developed markets such as Australia and also South Africa.

And our African continent, I haven't mentioned that countries that are in Sub-Saharan Africa that are usually sort of south of 80 per capita, again grew in a very healthy manner this past quarter about 5% up and we expect Africa to continue to generate a good results and economies in Africa seem to be pretty buoyant and seem not to be too impacted. But of course, they are at a very slow level of their per capita development as well. I hope that helps.

Dara Mohsenian - Morgan Stanley

Yes. That's helpful. And then some of the strategies you are implementing, do you think, it is helping to drive an improvement in market growth at all or drive market share gains and do you feel comfortable that emerging market trends have bottomed in general at this point and we should see some improvement going forward or is it still too volatile to call right now?

Ahmet Bozer

I think, it's pretty, as I said, different pockets showing different results, but we have a very, very sharp focus on, I was down in Latin America recently, a month ago. I have visited many countries in Africa recently, as well as in Asia. That we have an incredibly sharp focus on brand price pack channel architecture, new price points, lower price points, more focus on affordability, more focus on returnable packs and smaller packs, individual packs, that helped continue to keep the drinkers base growing, which is key and essential to when economies also start turning up and when disposable income start heading north.

Dara Mohsenian - Morgan Stanley

Great. Thanks.

Operator

Thank you. Our next question is from Bill Pecoriello from Consumer Edge Research. Your line is open.

Bill Pecoriello - Consumer Edge Research

Good morning, everybody.

Muhtar Kent

Good morning.

Bill Pecoriello - Consumer Edge Research

Muhtar, critics have said that Coke's growth story is over and reflected in the stock price pointing to the slowing emerging market growth you were just talking about, declines in Diet soft drinks, some say the pricing in U.S. is irrational and inability to grow in big markets like U.S. and Mexico? Could you explain why you still see solid growth ahead for the company and what the company is doing in terms of innovation, productivity, you mentioned price pack earlier to drive that growth and why the critics who declared the growth story is over are wrong? Thanks.

Muhtar Kent

Yeah. Thanks, Bill. First, philosophically, from a strategic point -- vantage point, the whole story of balanced growth we believe is still very intact, balance being growth in western markets, growth in emerging markets, balance being growth in sparkling and growth in still beverages and you see that happening in this past quarters as well. So we have grown in markets like United States, which we believe is a long-term growth market and when you think about it 14 of the last -- of the last 14 consecutive quarters, we have grown in all but one of them and now we have generated again 2% growth with 2% growth of brand Coca-Cola.

So we, Australia grew, many important markets in Western Europe grew, Germany grew again 3%, countries in Northwest Europe generated good healthy growth for us. So, and then emerging markets. Yes, there are some headwinds that are happening in emerging markets but we believe they are very temporary.

The whole demographic, the whole investment, the whole story of 1 billion new middle class still holds very strong in our opinion by 2020 over this last -- this past decade that we are in, this decade that we are in, a 1 billion new middle class, that bodes very well for our - the industry we are in and we believe we can continue to generate very healthy good growth. We believe we can continue to generate very healthy price earnings -- I mean, I'm sorry, price mix and we believe that therefore like in this past quarter, which was where we did see a lot of headwinds, we generated 4% revenue growth and 8% currency neutral operating income growth. And we believe that there is -- we had a lot of headwinds. So as economies begin to move, I think, we will see a lot of improvement. I'll now ask Ahmet as well to make some comments on this and if need be also ask Steve to add his commentary.

Ahmet Bozer

Bill, you mentioned a few items, I will just focus on a couple of them. Emerging markets as you would know if you look at the history that it goes through cycles. So it has a cycle of years and years of growth and every now and then you have economic headwinds and you managed through that. But the emerging growth – emerging market growth economically certainly isn't over and we have a formula which pretty much closely shows that as personal consumption grows, we actually grow with it.

Now having said that in some of the emerging markets where there might be personal consumption and macro headwinds, we can still grow, like India because we have very low per caps and we have significant investments in feet on the street, infrastructure, brands. We are just really building our business and India showed that again this year. So that's what I would say about your comment of the emerging market. The growth story there is far from over for a long time to come. And I guess, the rest were about U.S. pricing and decline in soft drinks. So maybe I should just pass that on to Steve.

Steve Cahillane

Yes. Thanks, Ahmet. First, I'd just underscore on the broader question what Muhtar said in his prepared remarks that in this quarter, we delivered the highest number of servings ever reported in the third quarter. So I think that bodes well for our growth story going forward. But with regards to North American pricing, which I heard you asked, Bill, and in particular sparkling price, we feel good about delivering positive price mix in the quarter of plus 1%, in line with our strategy to consistently earn at least one to two points of sparkling with consumers.

And the U.S. Coke system remains committed to taking rational pricing and we've done this very well over the past several years. In fact, we achieved two to three points of price mix in sparkling beverages and across our total portfolio in both 2011 and 2012. Year-to-date we are 2% sparkling price mix, which we feel good about. But I think it's important to remember we've always said that we're going to focus on consumer-centric pricing. And if I can give you an example of that -- the average price today of an eight-ounce serving of Coca-Cola is $0.25, exactly $0.25. This is up over 5% versus two years ago and it's up nearly 10% versus three years ago, which compares very favorably to the U.S. inflation market.

And this tells me really three things: First, at $0.25 we do not have an affordability issue. Coca-Cola remains a very affordable indulgence. Two, we've been able to earn price above inflation in the United States. And three, we still have plenty of room to continue to take price. But now addressing the third quarter in particular, we acknowledge we did strategically invest in select promotional activity in the back half of the summer through the Labor Day holiday. Given that we essentially didn't have much of a 4th of July holiday, a Memorial Day holiday, this Labor Day acted much more like a 4th of July holiday. But these investments were tied to specific occasion-based brands and packages to help drive incremental household penetration which they did, attract more consumers into the category, which happened and is very much in line with our longstanding North American strategy.

And all of these activities that we did, all of them to take price in the marketplace, I think, set us up very well to take more price in this quarter and going into 2014. So we are very confident that the pricing environment in North America remains very rational and we will able to continue to earn price in the marketplace in this quarter and going forward into next year.

Muhtar Kent

Yes, just let me round up that question with one final remark, Bill. And that is that once again, if you take our world average per capita of around 90, just under 90, you take the most populous nations of the world that are less than half of that per capita. India, China, Indonesia, way below that number, way below half of that number. We believe this and many other parts of the world as well in Africa, the youngest billion, we believe that -- we believe the critics whoever they are, are wrong. I don't understand that sentiment. We are growing while others are not at the moment and our business and balance portfolio is built for times like these. So we see this as a time of opportunity.

Operator

Thank you. Our next question or comment comes from Bryan Spillane from Bank of America. Your line is open.

Bryan Spillane - Bank of America

Hi. Good morning.

Muhtar Kent

Good morning Bryan.

Bryan Spillane - Bank of America

Question about Mexico in excise taxes, I guess it's been in the press over the last -- especially more so over last couple of week and then speaking the some of your bottling partners. In Mexico, specifically teams like they are sort of more resigned to the potential that's it's going to be a reality.

So I guess if you can talk a little bit about just how you see the situation unfolding in Mexico? The extent that we get or you'll get an excise tax increase. How you plan to or do you plan to do anything differently in Mexico with response to it, may be some thoughts about elasticity and then finally just any concern that there is spillover into other market would also be helpful?

Muhtar Kent

Yes. Look Bryan, firstly let me just address that by saying regressive taxes do not work. And wherever we have seen them being implemented, in some cases they have been taken away by the government after two, three years. Basically like in Denmark they are not working wherever else they've been implemented and so the consumer suffers and then its proven time and time after again.

We've made our case to the government. We have tremendous respect for the government of -- President Pena Nieto. And we need to understand that -- and we have made our case that's really does not have anything to do with health policy. In order to address the health policy properly, we have to come and work together with government and with civil society to raise their awareness and to create program that will really work, that really drive physical activity.

And therefore just a regressive discriminatory tax on one part of the food industry, just is not going to work and would currently that's all I would really like to say because its discussions are in progress. And I don't want to comment any further.

Bryan Spillane - Bank of America

Are there any preparations for, I guess, just trying to understand, if it does become a reality, is there -- do you have plans in place to deal with it if it does occur?

Muhtar Kent

Well I just don't want to comment on it at this moment. As I said it's -- there is lot of discussions going on and that would be wrong for me to publicly comment on any of those discussions. And therefore we'll deal with whatever the result is in the most effective way.

I can assure you that we will continue to prosper the business. We have -- we are one of the largest -- we are the largest consumer goods business in the country. We are largest contributors to the GDP in that country by a big margin. And we support millions of retailers in the country effectively for their livelihood and therefore I think that we will certainly find the right way forward whatever happens.

Bryan Spillane - Bank of America

Okay. Thank you.

Operator

Thank you. Our next question or comment comes from John Faucher from JPMC. Your line is open.

John Faucher - JPMC

Thank you very much. Muhtar and Gary, you guys talked about the price mix number improving sequentially which was good to see. So Gary I guess -- you talk a little bit about how you see this playing out over the next sort of 12 to 24 months where you have the negative geographic mix offset by the sort of the positive mix on a per case basis is the bottler territories where you own the bottler gets better like North America versus the absolute level of pricing?

How should we look at those factors sort of competing against each other to try and map something out? And then one other housekeeping question, which was your comments on operating profits for the year, could you just revise those and restate those just because there is some confusion about whether it was currency neutral or non-currency neutral, what have you? Thanks.

Gary P. Fayard

Okay, John. Let me see how well I can do on this and then you can come back and ask. But first, going to price mix and just as a reprice in general on price mix, generally what we see and I am going to take this in steps. Generally what we see is you see pricing. So you see rate and mix --

positive rate and mix would be positive across almost all of the groups. You would then see negative -- generally you would see negative geographic mix and it's basically a function of higher growth in emerging market countries than developed market countries, which would give you a negative geographic mix. Then on top of that and you are absolutely right, then where we own bottlers and they are growing and that gives you then a positive price mix, because they are finished products versus concentrate.

So a couple of things. So if you go back to the second quarter, I talked about margins and I thought margins would moderate and because of geographic mix, in the follow-up to a question, I remember, I said because we expect North America to actually perform better and that will actually hurt margins because it’s a finished product business where margins are lower. But it helps price mix and what you are seeing today is what price mix in North America was even for the quarter. We are getting positive price mix from our finished product businesses going forward and not talking about specifically about 2014, because we're still in the midst of planning 2014, we'll give you full review on our views on next year in the February call.

We are planning to take appropriate pricing that would -- and Steve referred to taking pricing in North America as well. So we are expecting to take pricing. So going forward what I would expect to see is that we should have a positive in rate going forward. We should have a positive in mix going forward. We should have a positive from finished products going forward. And we should have a negative from geographic mix. So, that's the kind of – and if you add all that up, it should be a positive price mix and that’s what we would expect and it’s what we would expect is within our long-term earnings growth model is positive price mix long term.

Now let me see if I can turn to operating income. When I was talking about operating income, it was definitely currency-neutral; it was an ex-structural. So let's be very clear on both of those. Currency-neutral and ex-structural. So operating income was 8% currency-neutral, ex-structural for the quarter and 6% year-to-date currency-neutral, ex-structural. And what I said was we now expect the full year to be generally in line with the first half of the year. So somewhere in that ballpark and that is net of currency neutral and net of the structural impact, because I can tell you with the structural impact it would -- it's a point of negative structural impact and so that would take our year-to-date from six to five, for example. So, just to be clear ex-structural, currency-neutral.

John Faucher - JPMC

So, and I am not trying to trick you into guidance or anything here. But it basically sounds like you are saying sort of currency neutral ex-structural mid-single-digit year-to-date. So therefore that implies to Q4 but then you talked about the currency impact. So as we are looking at those should basically offset to sort of get you to like slight operating profit growth for the quarter?

Muhtar Kent

Well, without giving guidance what we are basically saying is that the full year we think ex-structural and ex-currency at all to be in line pretty much where we are year-to-date.

Operator

Our next question is from Judy Hong from Goldman Sachs. Your line is open.

Judy Hong - Goldman Sachs

I had one follow-up question on North America and then a question about Europe. So in North America, there has been a lot written about the declines that we've seen in diet sodas and see if I am not sure if you went through that and whether you shared some of the similar concerns that people have written about the decline in diets and sort of your perspective on whether the artificial sweetener issue is impacting the category at all and kind of from your strategy and dealing with that situation?

Muhtar Kent

Yeah. Steve, do you want to address that?

Steve Cahillane

Yeah. Thanks, Judy. First, I didn’t talk specifically about Diet. I would underscore that we have a very wide portfolio in North America led by brand Coca-Cola, which is twice the size of Diet Coke of brand Coca-Cola as you know grew 2% in the quarter which we are pleased with.

Diet Coke is like a lot of Diet products in the United States and not just beverages, but across the whole array of food are under a bit of pressure as people are questioning ingredients, ingredient safety and so forth.

But we believe very strongly in the future of Diet Coke, the number two sparkling brand in the United States. We’ve got terrific programs against it. We are actually seeing increased incidence in the past quarter between 19 and 24 year olds. We think a lot of that has to do with the exciting new promotions with Taylor Swift, some of the new packaging we are bringing in the marketplace and increased focus on Diet Coke.

But there are headwinds. There are headwinds that we are facing and we face headwinds in a lot of different areas, in a lot of different places and this is just one of them. But last year it became the second best selling sparkling in the United States and we are continue to focus on it.

Coke Zero also a part of our zero-calorie portfolio grew mid-single digits in the quarter. So we are very happy about that. We've got a great program around Coke Zero. College GameDay just kicked off. It's really becoming ever more relevant with young males.

So we are confident that throughout our whole portfolio we are offering consumers exactly what they want, when they want it, how they want it, at the right prices that they want it and we'll continue to focus on any of the headwinds around Diet Coke and we are confident that it has a bright future in this country.

Judy Hong - Goldman Sachs

Okay. And then just on Europe, the improvements that we saw in Northwest Europe and Germany as well, I guess, to what do you attribute that to, perhaps weather getting much better in the quarter as opposed to the macros and consumers, and kind of what you guys are doing to really rejuvenate growth in those markets?

Muhtar Kent

Well, Judy this is Muhtar. First, I think it's important to understand that and I've said this in the past that the economies are performing at a different pace in the continents of Europe, not -- it's not everywhere is really bad, not everywhere it's really good. And so you still have very challenging consumer sentiments in Spain, in Italy, in Greece, in Portugal in the South, in Southeast Europe and what used to be termed as the Balkans, Romania, Bulgaria, former Yugoslavia. It's a very challenging environment.

And then you've got a better environment in Northwest Europe and then certainly the best environment still in Germany. And so based on those, our business also reflects some of those conditions and so it's a pretty good mirror actually.

And I will ask Irial to comment on Germany and why we've been consistently performing in Germany and growing our business. And again, the tremendous sequential improvement versus the first half in many countries of Northwest Europe, in Scandinavia and also Northwest European countries, Irial?

Irial Finan

Thanks, Muhtar. And this actually goes back to one of the earlier questions. I think in Germany we've got an economy that's doing okay. We have got actually really good marketing, married up with continued excellent execution and you bring all that together and you get great results.

And for me in Germany it gives me great confidence about the future of our business, quite frankly, because we are seeing, where we've put in the hard work, where we do the right things in the business. We do get good results and Germany is just an example of what can happen, quite frankly, in many markets around the world as the economies turn and improve.

Muhtar Kent

Ahmet, do you want to comment on that?

Ahmet Bozer

Yeah. I just wanted to -- hi, Judy. I just wanted to say to the others, so we had a very, very strong Share a Coke campaign across Europe this summer that worked extremely well. We are ever more closely aligned with our bottling partners, really driving growth.

And just on the macro, I'd like to add that there is a clear divergence between north and south. So north continues to do better and south continues to do worse. So our business in the north certainly is reflective of that.

Judy Hong - Goldman Sachs

Okay. Great. Thank you.

Operator

Our next question is from Bill Schmitz from Deutsche Bank. Your line is open.

Bill Schmitz - Deutsche Bank

Hey. Can you just talk about the timing of some of the re-franchise in the U.S., because I think we talked a lot about it earlier in the year and it's kind of hit a low recently and then I've a follow-up?

Muhtar Kent

Yes, I think it’s all target as we have said -- reported previously, or we’ve made very sound and significant and good progress and discussions with some of our existing partners, as well as discussions ongoing with some other prospective partners. So we are on target, if not, a little bit ahead and I think you'll hear more about it in the coming sort of period ahead of this and I will ask Steve just to maybe shed some more light on it.

Steve Cahillane

Bill, I mean the one thing I would really underscore is we absolutely have not hit a low. Don't take the absence of public commentary to mean that we are not making very good, very constructive progress. All of our bottling partners, both current and prospective, are extremely excited about this business in the United States about the opportunities to continue to be franchise partners in the United States, to grow the business in the United States. And we are making a very exciting progress and we will have more to report in the coming months.

Bill Schmitz - Deutsche Bank

And then just on the SG&A costs, can you just give us a little bit more color on what drove some pretty significant efficiencies, that's obviously great? But was the advertising ratio flat or up and then maybe what drove some of the other improvements on that line item?

Muhtar Kent

Are you talking about productivity, Bill?

Bill Schmitz - Deutsche Bank

Yes, productivity and SG&A broadly, yes.

Gary P. Fayard

Sure, Bill. Within the quarter, we continued to invest in marketing. So marketing is actually up in the quarter and up year-to-date. We had significant productivity savings in the quarter. We have some previously announced productivity programs that we announced back in 2012. Those 2012 programs will go through 2015 and really focus around productivity and then reinvesting those back into the business that we are focused on information systems, marketing, supply chain, innovation, operational excellence, that sort of thing.

I can tell you -- we will give you a full update on it at the year-end call. So I can give you the full year but we are making very good progress against the goals. And you will see that on the February call when we go through a full update. And we've got hard savings and soft savings. So let me give you some examples of what's happening and it's adding into the productivity and some of the leverage that you are seeing. So -- and things like supply chain, if the pricing [ph] is cheaper, hard savings. So we are doing a lot around supply chain and actually getting a lot of hard savings and those you are seeing are being reflected.

In marketing, if you can buy media cheaper, then we just buy more media. Basically it's what we are doing. So we are reinvesting back into marketing and be enable to buy more media for the same price, if you will. So we -- as I say we will give you a full update on all of the productivity programs in February at our year-end call. But we're making excellent progress and you're seeing a lot of that, it's what's coming through the G&A line, as I say within that marketing, SG&A marketing being up for the quarter and year-to-date.

Bill Schmitz - Deutsche Bank

Was there any benefit from the incentive compensation accruals, either this quarter or maybe end of the fourth quarter as well?

Gary P. Fayard

Very, very little. There is a huge cycling of last year in the first quarter as I've mentioned earlier. But there is very little -- I mean there is a little bit but nothing of significance in the quarter of this year.

Operator

Thank you. Our next question is from Ali Dibadj from Bernstein. Your line is open.

Ali Dibadj - Sanford Bernstein

Just one quick thing and then a real question. So, I just want to underscore something again, because it's a key conspiracy and I think what Steve said a moment ago is music to a lot of investors' ears and I want to replay to make sure I understand. So did you say that the past couple of months in North America from a price, from an investment perspective were little bit more of a blip in that we should expect something like higher pricing that we saw in 2011 and 2012 going forward in North America?

Steve Cahillane

Yes, thanks Ali. I think that's a fair interpretation of what I said. This was a very different summer. It's been a difficult year starting with the fiscal cliff and sequestration and payroll taxes and so forth and then the summer was very sluggish. And it's very important in our business to keep consumers engaged with our brands to make sure that we are in the households, to make sure that teens are being recruited. And so Labor Day acted very much like 4th July or a Memorial Day, whereas typically it would not. It would be the end of summer. And Labor Day acted more like the only summer. So it was more promotional than you would have seen. It would be more promotional than what we would expect going forward.

But those things happened from time to time. And we think that the pricing environment will continue to be very strong, very rational and because of all the investments we're making in our brands, we feel that we have the opportunity to earn even more price going forward in the marketplace. And that would be absolutely our intention to do that.

Ali Dibadj - Sanford Bernstein

Okay. That makes perfect sense.

Ahmet Bozer

I just want to add one thing. In terms of the Nielsen's data, yes that's exactly the reflection but don't underestimate. We took very healthy pricing in [ice tea], also in the quarter. And so overall, that's how you get to the one price mix positive on sparkling. And so don't let that point go unnoticed at the moment.

Ali Dibadj - Sanford Bernstein

I appreciate that. That makes a lot of sense. And then a broader question, I don't know how often you revisit this but what do you think the company has to grow volumes between now and 2020 to deliver on the 2020 vision, given some of the recent slowdown in volumes. And I guess in that context, do you think as a company you have to acquire more to reach that vision?

Muhtar Kent

I would say that first we believe that our long-term growth model with appropriate mix which we believe we can take and we can generate. It would definitely get us to our 2020 vision of -- from our system revenue point of view of doubling our business with the base of 2010. So that is sort of trajectory if you like and we're on track in terms of moving ahead to doing -- achieving our goal.

The second piece is -- we always -- we'll always be looking for any kind of bolt-on acquisitions as may make sense but that's the expense of what I would say that right now we would be looking at. Bolt-on acquisitions and that's sort of if there is an opportunity, we will look at it seriously.

Ali Dibadj - Sanford Bernstein

And in some the difference of volume versus price mix to reach the system doubling goal, has that shift -- has it shifted at all between the two?

Muhtar Kent

Sorry. Sorry. Say that again.

Ali Dibadj - Sanford Bernstein

Well, so to double the system sales by 2020, there is perhaps an ingoing assumption of what would be from volume and what would be from price mix. Has the recent global slowdown shifted that mix at all between volume growth and price mix growth to reach the doubling of sales?

Gary P. Fayard

I don't think materially. If you look at our long-term growth that sort of corridor of volume plus what we've been achieving, I think the balance is still there.

Ali Dibadj - Sanford Bernstein

Okay.

Gary P. Fayard

Same as it used to be.

Operator

Thank you. Our next question is from Wendy Nicholson from Citi Research. Your line is open.

Wendy Nicholson - Citi Research

Hi. Thanks. Good morning. First question on China, can you talk about the acceleration, the pick-up in volumes there whether that was driven by any change in pricing or promotional levels and what your outlook kind of a normalized run rate because that region has been so lumpy in terms of volume growth kind of as we go into '14 whereas the base case of volume growth?

And then my second question is looking at the buyback program, the stock is on track for two years of relative underperformance. And we haven't seen that for a while and yet your targets for buyback hasn't changed since the beginning of the year. So I'm kind of surprised the balance sheet you have with the weakness in the stock, and certainly Muhtar with your resounding confidence about the launch of outlook. You're not getting more aggressive on the buyback here? Thanks.

Muhtar Kent

Yeah. I'll have Ahmet just comment on China then maybe Gary can finish off the second part of the question. Sure.

Ahmet Bozer

Thanks Wendy. You might remember that in our last call, we talked about the fact that we were evolving both our organization and our strategy in China. And what we see in the third quarter really encourages us that we had not only 9% growth in total but also 8% growth in sparkling.

And that's pretty much delivers on the expectation that we've said that we would expect sequential improvement from the first half results in the second half of this year and we expect that sequential improvement from the first half results to continue into 2014.

To your question on pricing promotion, we did not have any significant marked pricing promotions in the marketplace. It was basically a combination of a), beginning to implement parts of our new strategy in the marketplace; b) the same share of co-promotion that we are scaling up these wonderful global assets in all parts of the world. And then our new team beginning to gel together connecting with our bottling system and really improving execution. So we are encouraged by those results and we expect to continue to, as I said, improve sequentially from the first half results.

Gary P. Fayard

Yes, Wendy, relative to share repurchase let me just first – let me just start with the preface that don't particularly agree with you on saying our share repurchase has relatively underperformed for the last two years. But after that, couple of thoughts on share repurchase. Our view on share repurchase is that share repurchase is value neutral. It is not something that grows value. It does for the short-term holder, so maybe you can get a buck in the share price but for the long-term holder it is not something that's value enhancing. It is much more like a cash sufficient dividend, which is the way we treat it. And that our priorities for cash are number one to reinvest in the business, to grow the business that will include bolt-on acquisitions et cetera. Number two would be dividends, which we have increased for the last 51 years, 10% this year and third, excess cash would be put into share repurchase. And just because we don't need the cash in the business, so it's a return of cash to shareholders. But leveraging the balance sheet to do something that we would view as value neutral, we don't think, is the right thing to do. So we continue to just perform exactly in line with the target that we set at the beginning of the year.

Muhtar Kent

Thank you, Gary, Ahmet, Steve, Irial and Jackson. We delivered sound third quarter results within an ongoing challenged macroeconomic environment. While we saw sequentially improvement in the business, we remain constructively discontent and resolutely focused on further advancing our growth trajectory. Our 2020 vision and long-term strategies remain firmly intact. And together with our global bottling partners we are investing in our brands and our capabilities to further strengthen our system and to drive sustainable growth and value.

As always, we thank you for your interest, your investment in our company and for joining us this morning.