Operator

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

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

Jackson Kelly

Good morning and thank you for being with us today. I'm joined by Muhtar Kent, our Chairman and Chief Executive Officer; and Gary Fayard, our Chief Financial Officer. Following prepared remarks by Muhtar and Gary this morning, we will 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 reconciles certain non-GAAP financial measures which should be made 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. Our second quarter volume performance came in below our expectations. There was a confluence of factors that negatively lead to unusually weak second quarter volume results. We continue to see further [unrest] in Europe slowing economic conditions across markets like Asia and Latin and social unrest in South East Europe, Middle East and Brazil.

On top of this we were faced with unusually widespread wet and cold weather conditions across the multiple regions, including North America and across Northern Europe and India all of which impacted the entire industry.

Consequently we grew global volume 1% in the second quarter leading to year to date volume growth of 3%. Our comparable currency neutral operating income excluding structural grew 5% year to date. And both in the quarter and year to date we gained global volume and value share in non-alcoholic ready-to-drink beverages as well as in both sparkling and still beverages. These gains included volume and value share increases in corresponding juice, tea and water all of which underscored the real strength of our brands and the global reach of our system.

While we are not happy with our second quarter volume performance, I can ensure you that we are intensely focused on improving those areas we can control to ensure better performance in the second half of the year. Looking forward, we remain absolutely confident in our 2020 vision and in our system's ability to execute to grow and to create value all across the world.

As we've also said during these challenging global economic times there will occasionally be a bump in the road and the real strength of a business is how you deal with that bump. In that respect together with our system bottling partners we continue to invest in our brand to strengthen our system for the future and to achieve our long term growth target. The fact that we've outperformed the industry in this most recent quarter reinforces our belief that we are navigating these circumstances in a way that further strengthens our position of leadership within this extremely vibrant and resilient beverage industry.

Let me now provide you with an overview of our business performance by operating group starting with North America. In North America, volume declined 1% in the quarter as a 4% decline in sparkling beverages offset 5% volume growth in our still beverage portfolio. Year-to-date volume in North America was even. Prior to this quarter we consistently grew our business in North America for 12 consecutive quarters. Unfortunately, we experienced an extremely wet and cold second quarter with more rain in the US in June than we've seen in 50 years and 44% more precipitation than in June of last year. This weather clearly impacted our entire industry's volume growth.

Nevertheless we gained sparkling volume and value share both in the quarter and year to date reflecting the strength of our brand, and we have robust marketing plans in place for the balance of 2013.

Still beverages gained volume and value share in the quarter making this the 24th consecutive quarter that our still beverage portfolio has either maintained or gained value share. Our growth in still beverages this quarter was led by strong performance across the ready to drink tea and packaged water categories with brands such as Gold Peak, smartwater and Dasani leading the way. Further, our volume and value share gains in the juices and juice drinks category were driven by solid growth for Simply and Minute Maid.

We are confident that we are on the right track in North America and we continue to work diligently with our bottlers as we advance our refranchising plan. Indeed, we saw a sequential improvement across the quarter in both the convenience retailer and quick service restaurant channel suggesting that the category trends are beginning to improve. While we do recognize that we still have work to do in North America, we remain laser focused on the strategy that we have shared with you.

First, we are building a balanced portfolio of strong brands led by Coca-Cola and ensuring that our portfolio remains relevant to all generations of consumers and across all beverage occasions. Second, we are focused on translating this brand value into unsurpassed customer value by delivering best in class customer service each and every single day. And third, we're continuously investing to build the capabilities we will need to sustain and to repeat our success. These strategies are taking a real hold and we are building on them with the evolution of the United States franchise system announced earlier this year. We therefore believe we are well positioned to continue outperforming the non-alcoholic ready to drink beverage industry for the balance of the year.

Turning now to Latin America, we grew volume 2% in the quarter and 3% year to date. Volume growth was a little softer in the quarter due to macroeconomic challenges in the few major markets, specifically increase in consumer debt levels and higher food inflations along with concern over transportation fees contributed to some civil unrest and softer consumer spending in Brazil. In Mexico, weaker job creation and higher inflation impacted disposable income resulting in reduced retail sales.

These macro factors led to low single digit volume growth in Mexico while volume results in Brazil were even. Given slower growth rate in personal consumption across the region, we estimate that year-to-date beverage industry growth rates are currently 1.5 to 2 percentage points lower than the average of the last four years in Latin America.

In the second quarter, we again gained volume share in Latin America in nonalcoholic ready-to-drink beverages including both volume share gains in both sparkling and still beverages.

Moving to brand performance, trademark Coca-Cola grew 1% during the quarter and maintained volume share within the sparkling beverages category. These results reflect sustained marketing across the brand and the category. Our other sparkling brands grew volume and value share in the quarter as we expanded Mundet in Mexico and Fanta in Colombia while reigniting marketing behind Schweppes in both Brazil and Argentina.

High single digit growth in still beverages led to volume share gains in the quarter. These results were driven by the expansion of Fuze Tea, continued strong performance of Del Valle portfolio and strong share gains in POWERADE, thanks to superior execution of our programs. We expect that our Latin America group will return to rates of volume growth that we have been more accustomed to in the last few years given current dynamics.

Continued marketing and bottling investments along with solid execution plans for the second half of the year will also contribute to this improvement. I will bring my America's update to close by congratulating the associates of Solar, our new bottling partner in Brazil. With the close of this transaction, Solar forms the second largest operation in the Coca-Cola Brazil system serving over 70 million consumers.

Now, turning to Coca-Cola International starting with Europe. The weak economy continues to be a key factor affecting our performance in Europe especially in the southern regions where unemployment remains high while consumer confidence and expenditures remain low.

We're seeing this continue to play out across most fast moving consumer goods category with several of those slowing between the first and second quarter. Additionally, historically wet and cold conditions across Europe including the coldest spring for Germany in 40 years further dampens already weak consumer sentiment and industry trends and contributed to volume declining 3% in Germany in the quarter.

While our European volume fell 4% in the quarter and then down 2% year-to-date, we maintained the positive share momentum of the first quarter growing volume and value share across total nonalcoholic beverages and core sparkling beverages. Across the continent, our team and bottling partners are activating a number of marketing and trade execution program.

Among them is our new Share a Coke, summer campaign launched across Europe in May and early signs are very positive.

In fact, excitement surrounding the launch helps to partially offset the impact to weather on immediate consumption. Our current European outlook remains cautious for the time being given ongoing macroeconomic conditions. However, we believe with our commitment to our brands and execution, we should continue to gain share through the remainder of the year.

Moving on to our Eurasia and Africa group, we achieved 9% volume growth in the quarter, up double digits year-to-date. All business units grew in the quarter with our Middle East and North Africa business unit as well as our Central, East and West Africa business unit delivering double-digit growth.

For the quarter, we strengthened our competitive position as we gain volume and value share in nonalcoholic ready-to-drink beverages. Local execution of our global marketing campaign along with continued highest pack innovation feels as good which was led by brand Coca-Cola up 7% in the quarter and 9% year-to-date.

Fanta and Sprite further contributed to core sparkling growth while our still brands grew double digits led by Rani, Crystal and Fuze Tea. Volume in Russia grew 3% with trademark Coca-Cola up double digits. The successful sparkling promotion fueled Coca-Cola Fanta and Sprite growth as consumers collected under the cap points to obtain a limited edition set of limited Winter Olympic glassware. In Spain and Portugal we are encouraged by the early integration efforts underway at efforts underway at Coca-Cola Iberian partners of Spain and Portugal. We now have eight bottlers in those markets now operating as a single entity.

Shifting to our Pacific group, we saw a volume growth of 2% and we maintained on our alcoholic ready to drink value share. As is well publicized, China's economy has been slowed as this is now being soft consumer spending. China's first half retail sales was the slowest in 10 years while much of the growth in the non-alcoholic ready to drink beverage industry in the second quarter came from the value oriented water category. As a result, our volume performance in China remains softened with even for the quarter cycling 7% growth from prior year. We command a leadership position in China in those (inaudible) and market share in sparkling as well as in juices and juice drink.

Sparkling volume grew 2% and our juices and juice drinks volume grew 7% year to date. This is driven by a solid execution of key consumer and commercial initiatives and continue our new product innovation. Looking forward, we are keenly focused on adjusting our strategies and improving our business in China. We recently strengthened our management team in that region adding to the already strong talents that we have in China and we are evolving our strategy, reallocating resources across our brand portfolio and strengthening our consumer communication. We anticipate a return to growth in our China business in the second half of the year.

In India, volume grew low single digits in the quarter cycling 20% growth last year and importantly we again improved our volume and value share of total non-alcoholic beverages as well as sparkling and still beverages further strengthening our competitive position as trademark Coca-Cola grew by double digit.

Our business in Japan delivered 1% volume growth while approximately 4% growth last year and we are seeing sequential improvements on share trends as we are moving through the year. Japan sparkling beverage volume grew 1% in the quarter supported by music team integrated marketing campaign such as the Zero Limit Campaign for Coca-Cola Zero up 13%.

Solid growth in tea and sport drinks of 3% and 7% respectively also contributed to this momentum. Our juice and coffee performance was below our expectation and we are keenly focused on strategies as new launches to improve performance in the second half of the year. I do want to acknowledge and congratulate our Coca-Cola East Japan associates on the successful completion of their merger and the launch of their company on July 1. With this merger our system is building on a deep root and 50 year history of strong partnerships in Japan. Coca-Cola East Japan will be well positioned to meet the business growth needs of our customers while also engaging and refreshing consumers of all ages and lifestyle.

Lastly our Asia's business unit delivered results with 10% volume growth cycling double digit growth from the previous year as Thailand, Indonesia and Vietnam all delivered strong double digit growth. Going forward we expect to see an improvements in our Pacific group's performance in the second half of the year.

On a global scale, we were recently humbled by several accolades, including rising to number five on Behrens list both world's most respected companies and receiving the 2013 Creative Marketer of the Year Award at the Cannes Lions International Festival.

In my 35 years of experience in the Coca-Cola system, I've learnt that we -- how we participate in one of the fastest growing and most dynamic industries in the world. As I think about the second quarter, nothing has changed in our ability to continue winning in this industry. There is no question. There are systems commitment to superior execution with stronger than ever before and our business fundamentals remain firmly intact.

Our leadership team is firmly in place and I am confident in our ability to capitalize on the abundant opportunities that lie ahead. Given this we're confident that we have the right strategy, we have the right vision and the right initiatives to drive long-term sustainable growth and value.

And our focus on achieving our 2020 Vision is unwavering with current dynamics leading us to believe that our performance will be better in the back half of the year. Why? Quite simply a few important reasons. First, our global brands are stronger than ever and we will continue to invest in them to capture long-term volume and value share.

Second, we have an unparallel global business system focused on delivering on our 2020 Vision.

And third, we have great confidence in our plans and we will sharpen our focus to ensure our resources are directed to those strategic priorities that will drive our business and strengthen key markets will return to grow.

The nonalcoholic ready-to-drink industry is and has always -- and always will be a terrific, terrific business. We will continue to capitalize on our unprecedented global reach, a broad portfolio of preferred premium brands and superior system execution.

And we continue to invest alongside our global bottling partners. And we are well positioned to effectively manage our business for long-term profitable growth both in today's economic environments and also as we look forward to our future.

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

Gary Fayard

Thank you, Muhtar, and good morning, everyone. As Muhtar has shared, the industry clearly slowed a little due a number of factors that impacted various markets around the world. The combination of these factors resulted in weaker volume performance in the second quarter than we expected. At the same time we recognize the need for improved performance in certain markets.

Having said that, we remain absolutely focused on doing the right things for the long-term health of the business and investing for long-term sustainable growth. Increasing share during times like this further strengthens our position and can ultimately lead to accelerated growth as market conditions normalize. And we continue to win on this front gaining both global volume and value share in both total nonalcoholic ready-to-drink beverages, as well as volume and value share in global sparkling and still beverages.

So, let's review our results in more detail, starting with the review of the key drivers of our financial performance. Our second quarter and year-to-date financial performance reflects concentrate sales growth in line with unit case, volume growth, as well as a strong increase in direct marketing expenses, as we sustain our commitment to invest in the health and the strength of our brands.

From an operating segment standpoint, our operating income growth this quarter reflected strong profit growth in Latin America and Eurasia, and Africa, as well as the continued solid financial performance of the Bottling Investments Group. Operating income in North America and Pacific was even while Europe experienced a slight decline in profit.

Comparable currency neutral net revenue declined 1% this quarter and we were even year-to-date. However, excluding the impact of structural items, primarily the sale of the Philippines bottler, net revenues increased 2% both for the quarter and year-to-date.

We continue to earn pricing in the marketplace, but at a consolidated level the positive pricing was offset by the impact of geographic mix, resulting in even price mix for both the quarter and year-to-date.

Although geographic mix unfavorably impacted price mix at the consolidated level, it contributed to the improvement of our gross margin in the quarter and year-to-date. Our comparable gross margin was 61.2%. This represents a slight improvement compared to the prior year primarily due to the impact of geographic mix, structural items and our foreign currency hedging program. As we shared in our first-quarter earnings call we expect our gross margin to moderate somewhat over the remainder of this year, primarily due to a shift in geographic mix.

Excluding the impact of structural items, we achieved 2 points of favorable operating expense leverage for both the quarter and year-to-date and we now expect to achieve low single-digit operating expense leverage for the full year. On comparable currency neutral operating income, it was up 4% this quarter and year-to-date. Excluding the impact of structural items, operating income grew 5% year to date.

On a comparable basis, the impact of currency was a 3% headwind on this quarter's operating income results. And based on our hedge positions, current spot rate and the cycling of our prior year rates, we expect currencies to be a 4% headwind on our operating income for the third quarter and full year. Below the line, we benefited from an increase in net interest income and improved tax rate and fewer shares outstanding due to our continued share repurchase program.

We expect net interest income in the second half of the year to be relatively in line with comparable net interest income year-to-date. Additionally, we now expect our full year tax rate to be 23% and we expect to hold this rate through 2014.

Comparable earnings-per-share grew 4% in the second quarter despite currency headwinds of approximately 2%. Year-to-date comparable earnings-per-share also grew 4% despite currency headwinds of approximately 4% as well as the impact of two fewer selling days. We continue to generate a strong 4 billion from cash from operations year-to-date providing a significant financial flexibility. As I have shared with you over the years we redeploy our cash flows utilizing a consistent and disciplined framework.

First is to reinvest back into the business and to strengthen our global system. Secondly to continue to expand our portfolio and capabilities through bolt-on acquisitions and partnerships. Third, continue to return cash to shareholders through our dividends and we increased our dividend 10% in 2013, our 51st consecutive year of dividend increases. And lastly, repurchase shares, year-to-date our net share repurchases totaled $2 billion and we continue to expect full year share repurchase to be between 3 billion and 3.5 billion.

As you model our 2013 operating results, let me again remind you that the steps we've taken along with our bottling partners to strengthen our global system will have a structural impact on our operating results over the remainder of the year. As you are aware, we closed the transaction in the Philippines earlier this year and the merger of our bottling partners in Brazil and Japan recently closed.

As I have shared in our 2012 year-end call, we do not expect these transactions to have a material impact on our 2013 earnings results. However these transactions will impact various line items within our P&L. We anticipate that these transactions will have a 3% structural impact on our full year 2013 net revenues. Likewise our full year operating income results should see a 1% structural impact. However there should be a corresponding improvement in our equity income to account for our share of the results of these operations moving forward. Additionally, the structural impact from these transactions will be larger in the second half due to the impact of the deconsolidation of our Brazilian bottling operations beginning in the third quarter.

In closing, we delivered solid financial performance for the first two quarters of 2013, and we expect to continue our solid financial performance during the second half of this year. Our company and our system are well-positioned to capitalize on the real opportunities for growth. We remain very confident as we continue to win in the marketplace with volume and value share. We continue to deliver solid financial results. We continue to innovate and invest in our brands. Our global system continues to get stronger. And we are best positioned to continue factoring growth in the dynamic nonalcoholic ready-to-drink industry.

Operator, we are now ready for any questions.

Question-and-Answer Session

Operator

(Operator Instructions) And our first question today is from Bill Pecoriello from Consumer Edge Research.

Bill Pecoriello - Consumer Edge Research

Good morning, everybody. Muhtar, I was hoping if you could step around the world and dive a little bit deeper in the certain markets and regions to help us separate out the impact of non-recurring factors that hit your second quarter versus any macro-related factors that can continue to pressure the business in the second half.

You had mentioned macro factors in Brazil, Mexico, Europe and China. Will those continue to be as big an impact in the second half of the second quarter and if not, why and then maybe you can help quantify maybe what you think the weather-related impact was in the second quarter?

Muhtar Kent

Hi Bill. Thanks. I think overall both from in Europe, United States, India and some other parts we did have a pretty significant impact from weather, unusual weather, monsoons coming very early in India, as you probably all read, many thousands missing in flooding, worst flooding since the Tsunami back 10 years ago. And in Europe also, Central Europe, Germany, all the issues around the river beds rising and flooding and very heavy wet conditions.

So we did, yeah, have impact both from a consumer sentiment, both from a mobility sentiment in the United States also, and both also from just pure in some cases distribution issues that hindered our performance. And as you know, when we lose a sale that does not recur any more we lost it that day.

And so and also in some cases, we were cycling very unusually warm and favorable weather conditions from prior years in some cases. Like India last year, the monsoons actually started later that gave us a 20% growth in India unusual for the second quarter in India, usually the first half in India is always less than the second half in India because of the anomalies of the weather.

So, yeah and then macro conditions, we all have felt it in social issues in Southeast Europe, the demonstrations across the Middle East and then more recently in Brazil. But we feel confident both in terms of looking at our plans in place, looking at current dynamics at both Brazil will have a better second half. China will have a better second half, Russia will have a better second half and certainly better quarters than this last quarter where we grew volume 3% overall, Mexico as well as India.

So while we continue to invest in our brands, our brands are stronger than ever before. We have taken market share, our system is stronger. Hence all these key markets we believe will perform better in the second half. In fact, as I said, we have seen this -- we always know that the second half in a country like India is significantly better than the first half. In any case, if you look back at our performance over last few years.

So, and then in the United States, I think we've got very robust plans to return back to growth. So I -- we feel pretty confident that this was a confluence of events that happened all at the same time, the portfolio effect of our global business did not work in our favor in this particular case in the second quarter. And I feel -- and my colleagues feel and our bottlers feel very confident.

I have been across many markets recently. I have traveled to China, Japan, Thailand, Myanmar, many other parts of Asia. I have been in the Southeast Europe. I have been in France and all in the last sort of four-five weeks. And I feel that we will look towards definitely a better quarter volumetrically. And again, we can talk to you about how we feel about the financial numbers too later in the call. And I can ask Gary to reflect on that too in terms of the second half. You want to -- Gary?

Gary Fayard

Sure. Well, let me continue on then, versus the volume. On the second half, on the P&L, I think we had a very solid first half. We would expect to have a solid second half of the year as well. We have said there'd bumps along the road, the industry had one and obviously it slowed but we continue to take share and we feel very confident about the second half. As we look at the second half financial results I think we will be very close to our long-term growth targets, particularly in volume and earnings per share should be coming back in line with what we would all have been expecting at the first of this year.

Muhtar Kent

I'd just add, Bill, that I think this is more an anomaly. We should not see this as a trend or a systemic issue and that is simply how I believe one should think about it. And again, I can ask Steve and Ahmet to reflect upon how they see the second half from their vantage point in both Americas and international maybe Steve, you can start.

Steve Cahillane

Sure, thanks Muhtar. Starting with Latin America, Muhtar said it well, we saw things in Brazil that we hadn't seen before, the economy slowed, there were social unrest. It didn't last very long, things are slowly getting back to normal and we expect a better performance sequentially as we progress through the year in Brazil and in Mexico. In Latin center and south Latin we've seen very good results, high single digit result continues. So there is a lot still going very well that continue to go well in Latin America and Brazil and Mexico getting back to what we would expect to see on a normal basis.

In North America, Muhtar said it, we don't like to talk about the weather but the first half of last year saw unusually good weather conditions. We had a warm weather, we had dry weather coming out of winter and going into spring. This year in North America we had some of the worst weather and you've all seen it, it's been very wet, it's been very cold, it's been historically wet and cold which obviously impacts our business. On top of that, we had the payroll tax effects which started at the beginning of the year which affects lower income households obviously much more, affects their disposable income, their ability to spend, we saw late payroll tax -- late payroll or tax refund coming into the marketplace. But as we look forward we expect the weather patterns to obviously normalize. The weather will not continue to be a factor in a country as big as the United States like it's been and from an economic standpoint, people are used to the payroll tax now. They've had four to five months to moderate their household budget to get used to it. The refunds, obviously is back in the marketplace and we're already starting to see better trends in QSR, better trends in convenience retail, better trends across our business.

So we look forward to the second half of the year across the Americas much more favorably than the first half, Muhtar used the word anomaly, I think especially an anomaly in North America and we see ourselves coming out of that.

Ahmet Bozer

Thanks, Steve, thanks Muhtar. Yeah just to build further on Muhtar's comments, I will start with India, that's definitely completely weather-related. All our investments in the route to market, coolers and capabilities will continue to deliver the kind of levels that we're used to having from India in the rest of the year. So we're quite comfortable on that.

On China, there were probably impacts of -- as you hear the continuing slowdown in macro levels as well as there were some weather impacts. But we do expect volume to return for a number of reasons. First of all, China is a country with very, very low per capitas. I have been there a number of times in the last three, four months and we have been working on evolving our strategy with better OBPPC, more price points and more packs as well as improving our capability. As Muhtar mentioned, we have recently strengthened our management team there and I am very confident that in the second half of the year we're going to start returning to growth in China, maybe not at the levels of double-digit that you might have been seeing but we'll certainly be looking to returning to growth in China.

Now the other anomaly in the international results was Europe. I can comfortably say that a very, very big part of that 4% decline was driven by unseasonable weather as it has already been mentioned. It shows the strength of our system that we were able to gain volume and value share in both sparkling and NARTD and as we see whether normalizing, we again look forward to coming back to our normal range of growth in Europe. The rest of international territories such as EAG continue to deliver the historical growth rate.

Gary Fayard

And Bill, this is Gary. Just add one or two other quick data points as well. When we talk about 1% volume, I think you have to wonder, is that a weak one or a strong one. Let me just assure you it's as strong as it can be and still be 1%. So that's number one.

The other thing is we talk about some of these anomalies in some of these markets. One other things that give me some confidence as well, because there has been a lot of discussion about what's happening with the emerging markets and all around the world with the slowdown from China, et cetera.

But we've always talked about the markets where the per capita consumption is less than $150 has always been a real strength of ours.

Well, again, even in the second quarter, if you look at those markets under $150 and exclude China and India, which we've just discussed separately, if you excluded those, our volume in those markets was plus 7% in the second quarter, so it still shows underlying strength of the market in those emerging markets.

Bill Pecoriello - Consumer Edge Research

Great. Thanks for the comprehensive answers.

Gary Fayard

Yeah.

Operator

Thank you. Our next question is from John Faucher from JPMorgan.

John Faucher - JPMorgan

Thanks. Good morning, everyone. Gary, I just want to ask a clarification about the back half of the year. Your commentary on the financials, it sounds like you are saying, you are going to get to that level in the back half of the year not the back half of the year will get you to the long-term algorithm for the full year. At least that's how I interpreted it, can you just sort of clarify that?

Gary Fayard

Yeah, John. Thanks for the question. Here is how we'd say, we are actually very close in the first half of the year. Year-to-date, if you look at operating income, I think, year-to-date, ex-structural currency neutral is plus 5% and our volume is plus 3%. So we are not that far away. So our view would be that we should be and that in fact, year-to-date earnings per share ex-currency is 8%, rounds up to 8%. So we're not that far away in the first half.

That's why I was saying solid results and when I say solid, I think you followed us long enough. We like to be at the top end of ranges and not at the bottom end of ranges. Unfortunately, we are at bottom end right now, but that's the world we are dealing with. But we feel very good about the second half.

John Faucher - JPMorgan

Okay.

Muhtar Kent

John, this is Muhtar. Just one point that I can add to that is the following. It's customary sometimes that when in the kind of businesses that we are in, when you have a blip in your volume because of a confluence of events some of which are -- was not in your control. The first thing you do is go out and cut marketing, and I think if you look at our numbers, we have continued to invest aggressively in our brand through the second quarter, through the first -- in the first half and as you know every investment and marketing does not pay back in that quarter, it pays back in future quarters.

And therefore we are confident there was a share gain. We are confident with the strength of our brands, we are confident about the metrics on our brands, both sparkling and stills across the world.

We are confident in our bottling partners' investment plan that are taking place in the second quarter that we can continue our momentum going into the second half of the year and also improve on it volumetrically, but also continue with our mission to achieve our 2020 Vision through the next years ahead.

John Faucher - JPMorgan

Got it. Okay. Thanks. Then my actual question here was, Gary, you've got positive price mix in the vast, I think in every region this quarter, with the exception of specific I think in, yet it's not sort of going up to full positive price mix here. How do we view the regional price mix versus the geographic offset and how does this fit into your long-term algorithm, because it's seems like this is something that's most likely going to continue to be a notable overhang? Thanks.

Gary Fayard

Okay. John, first, I want to compliment on your creativity with that first question and here is a real question, anyway. It's great question actually. And the first thing I would say around pricing is, we believe strongly that we have premium brands and our brand should commend a premium in the market and they do commend a premium across the world. Number one, we're seeing pricing is rational and within the industry we think pricing is rational particularly in the United States.

But if you look at price mix and I am going to go year to date, but the second quarter is essentially the same thing. If you look at price mix, price mix year-to-date is even but within that, you've got positive pricing and you've got negative geographic mix. So year to date consolidated we actually have positive 1% pricing. If you look at it by region, year-to-date North America has positive pricing up 1%. Eurasia and Africa have positive piping up 8%, Europe has -- looks like positive pricing up 2% although I will tell you a lot of that is because of Innocent and our acquisition of the Innocent, so absent Innocent, Europe is closer to flat. Latin America is positive 8 points of pricing year to date. Pacific is even and Bottling Investments group is plus 2 as well.

So we're actually getting very nice positive pricing as well as category mix, brand mix, channel mix. All of those things are working. What's happening to us and where the dent comes in, if you will, is that we got negative geographic mix. So we've got significant negative geographic mix across many of those regions which brings us back to even when you put price and geography together overall at the consolidated level. As I have often said, geographic mix would -- is always going to be probably negative because you're going to expect those emerging market countries to be growing faster than the developed market countries and you got better pricing in the developed market countries. What amplified a little bit this quarter particularly perfectly was the result in Europe that we talked about and North America being coming at even where they were. So you put all that together, we're actually getting the kind of pricing, we would expect to be getting in the market.

Operator

Thank you. Our next question is from Judy Hong from Goldman Sachs.

Judy Hong - Goldman Sachs

I just wanted to go back to the second half expectations and clearly you can't control the macros and the weather. But I just like to hear a little bit more specifically on some of the actions that you're doing to improve the volume performance, particularly markets like China where there is the macro issue but there is also competitive issue, there's also portfolio issues just in terms of not participating in some of the fast growth segments. So can you just talk about how you're thinking about marketing investments, how you're thinking about your portfolio? Can you accelerate price pack architecture strategy more aggressively to really get the volume performance even if the macros don't come back and the weather continues to be challenging?

Muhtar Kent

Judy, let me just take on that and I will ask Ahmet Bozer to comment. But I think what we have said again is that it was a coming together of many events that usually don’t come together all the time. I mean -- we have performed overall globally at rates that are much more commensurate to what you have been used to in the last three, four years. Despite the fact that we’ve had issues, some of these issues happening to us from quarter to quarter. But you haven’t felt them because -- because of the fact that the portfolio works. In this time, you have the issues in Latin America, in the two key markets Brazil and Mexico on slowing down and also consumer spending being impacted because of the Brazilian crunch in consumer credit that was taken away from the consumers. And generally the consumer spending went away and then you also had China -- the issues in China that was -- consumer spending is actually much below GDP levels and that’s documented across the macro numbers in China as well as the weather issues related to India and also other issues coming together in North America where it went for the first time in 12 quarters from a plus to a negative, which we don't expect. All of these things we don't expect to continue at the same time. Some of these things may still continue to impact them. Therefore the portfolio will work.

Now related -- specific to the China. We are participating in two great categories in China and where the leaders which is sparkling and juices, those categories we’ve grown in. And they are adding tremendous value to our portfolio and to our business in China.

We have also as we said retargeting all our efforts in China, refocusing all our efforts. Yeah, there is a different competitive landscape. We feel that actually that has not been the issue for us.

The main issue for us is to ensure that we can continue to distribute in outlying areas in China that we have had some issues and we’re correcting those and also that our marketing and working which we feel definitely our brands are stronger. Our innovation pipeline is working in terms of what we are providing to the consumer, also in terms of packaging. And we feel that our confidence that those two categories -- playing in those two categories and then also innovating across some other categories like dairy is going to create the growth and the value for us starting in the second quarter but also continuing.

And we also feel confident that the Chinese leadership, the new Chinese leadership are going to ensure that they take the right actions and we’re seeing that to reposition and transform the economy without creating a major bump as they transform the economy from a purely export economy to a more balanced economy with also consumer spending. And both deputy prime -- Vice Premier Yang in charge of the economy as well as the new team, we feel confident have the plans in place to ensure that that takes place. So again, Ahmet, you can reflect more on that as well as any other markets you want to.

Ahmet Bozer

Yeah. Thanks Muhtar. Thanks Judy for the question. A couple of messages here Judy, message number one is that economy may be down but the globe prospects in China even in the short term is there simply because of the very low level of capitals and strength of our system. Plan number two, if you look at all the competitors in China, nobody really participate in all the categories. All the players have one or two categories that they are strong in. And then they drive their businesses through those categories and maybe expand into others.

Our position is the same. So our strategy basically, first of all, we definitely can do better in the categories that we already exist such as sparkling. So to give you some specific actions, we're taking to do that. I have highlighted the [LBTC] and that's actually accelerated. We have pilots running on various multi-serve and single serve packages for different price points in different parts of China. And as those things roll out of the pilot, we'll be rolling some of them nationally. So those are already in a way in the market and they will be accelerated into the second quarter.

We've also re-looked at our communication strategies and we're going to be communicating more intensely on the intrinsics of our products as well as extrinsics. You might have heard about our nickname promotions that the similar promotion to the Share a Coke promotion around the world outset which is getting incredibly positive reaction from the consumer. And all the other things of improving our route to markets et cetera, those are all under way and we're very confident that that's going to give us our strength in sparkling.

Now, we also play in juices as you know and as Muhtar mentioned, we're the number one player there. We are refocusing our efforts back around Pulpy. And we're just looking at an extension of that into mango which is getting very strong consumer reaction. So as we consolidate our efforts behind that, you would see a continued increase.

Now, obviously, we're not only focused on just our existing categories, we have a pretty successful brand in Super Milky Pulpy which is a value-added dairy. And we're beginning to increase our focus on that. And we're getting high single digits growth of that brand. And we are building our innovation pipeline for the future.

So it's a fairly robust strategy and yeah, under lower economic environment, we might have lower growth rates than what you're used to. But we are ever strengthening our position in China to capitalize on this market for not just immediate future but to very long term.

Muhtar Kent

We have Irial also, which oversees bottling investment group. And as you know, we are one of the three system players in China in terms of bottling maybe Irial you can comment on what you are seeing down very close to the ground.

Irial Finan

Yeah. Judy, good morning. And just to build on something Muhtar said earlier which is around investment and I will tell you from a bottling perspective that we continue to invest heavily in the market, and particularly in our execution capability and route to market capability and critically in developing the talent to be successful in the next years ahead. So when you [ask all] today, we vitalize marketing strategies, OBPPC, I actually feel very confident about the future. Yes, Yes, we may have bumps along the way but our business is growing -- our challenge is to grow healthy long term business and I think from a bottling perspective, we're really putting in place the infrastructure and capability to really drive a success for the future and -- that's basically where I leave at.

Muhtar Kent

Yeah, what I would just say finally is I wouldn't read anything more in this than what it is. As Gary said earlier, we were fractionally away from rounding up to 2 and we could -- it would not have been hard for us to do something which would not be right for this business and take the volume up to 3 and selling low cheap product. That is not what we are about. We are about investing, we are about doing the right things for this business and we are about -- and I have always said, there may be bump along the road, and at one bump along that we have grown this business consistently in line every year on an annual basis since 2008 on our way to our 2020 vision in the range and the upper range of our long-term growth plan despite very, very challenging macroeconomic conditions and that is going to happen in 2013 also.

Operator

Thank you. Our next question is from Bill Schmitz from Deutsche Bank.

Bill Schmitz - Deutsche Bank

Just two quick questions, what are the trends like recently? It seems like you're pretty bullish in the back half. So as you exited June and got into July, it looks like some of the weather normalized. So what are you seeing more recently? And then kind of minutia but the big margin decline percentage year over year in Europe, what's the primary driver of that?

Muhtar Kent

Yeah let me just comment on what you just said. We are not -- this is not about managing on a day -- yet we manage this business on an hourly basis, so it's not I think healthy to comment on what has happened in the last two weeks. Yes, of course, we expect the weather to normalize. As you -- or whoever is in the Northeast now, and whoever was in the West Coast of the United States in the last 10 days, you know that weather -- it has -- it does normalize. Matter of fact, that's the probability and statistics. So it just happened all in a very short period of time where everything was negative in many major markets. And it will normalize and that's what we are saying, part of what we are saying. So I have every confidence that -- the normalized conditions as I said we will again -- 2013 will be another year when volume will grow at the range of the long term growth model.

As far as the margins are concerned, I will turn it over to Gary in terms of the margin is concerned, what you mentioned in terms of the margin numbers in Europe.

Gary Fayard

Yeah, in Europe its structural anomaly, it's actually Innocent. So when the juice business, juice having lower margin when it came in, that's what changed the margin. Just nothing more than that.

Bill Schmitz - Deutsche Bank

I got you. But so they should be down going forward though because of that -- because of Innocent is now fully consolidated?

Gary Fayard

Yes. And that's actually the flip side, if you will, of what I said when I was answering John's question that if you look at the price inside of price mix in Europe it's actually plus two but it's really Innocent giving us a lift on price but it gives us opposite effect on the margin.

Bill Schmitz - Deutsche Bank

So it’s something like a dollar margin perspective, it’s almost neutral but the percentage has changed because of the price?

Gary Fayard

Yes, exactly right.

Operator

Thank you. Our next question is from Bryan Spillane from Bank of America.

Bryan Spillane - Bank of America

Gary, just a question for you related to share repurchases. With the stock the way it's performed in the second quarter, did you accelerate or do anything different in terms of timing of maybe pulling forward share repurchases? And then I mean the business right now is kind of bouncing around the low end of your algorithm and the stock is kind of bouncing around in a pretty tight range here recently. So is there any consideration to maybe even buying back more stock than you originally planned just because you’ve got an opportunity to buy it here at around the $40 level?

Gary Fayard

Yeah. Great question, Bryan. Well, first you’ll see that we did accelerate purchases in the first half of the year. As I said, if our annual target was in the $3 billion to $3.5 billion range and we actually have repurchased $2 billion in the first half, we did exactly what you said and we accelerated in the first half of the year. Where we are right now is we’re sticking with the annual target which we originally set at $3 billion to $3.5 billion. And I just tell you we’ll give you an update on that at the end of the third quarter.

Bryan Spillane - Bank of America

Okay. But not out of the realm of possibility that you could go higher if you chose to…

Gary Fayard

I have learnt to never say never to anything.

Bryan Spillane - Bank of America

All right. Thank you.

Gary Fayard

Thank you.

Operator

Thank you. Our next question is from Mark Swartzberg from Stifel Nicolaus.

Mark Swartzberg - Stifel Nicolaus

Yeah. Good morning everyone. Muhtar or Gary, question on the gross margin evolution. I think I don't want to put words in your mouth, but it seems like one of the silver linings here is that the price pack architecture work you've been doing over several years has allowed you to put up a pretty decent gross margin number and offset some of the corresponding earnings discipline that comes from the revenues being what they were in the quarter.

If that is a fair assessment, can you give us a bit of an update on what's going on in terms of innovation, not in terms of the price, the pack but in terms of what's really in the bottle, because that seems to be one of the problems you are facing kind of from a larger share performance absolute NARTD performance perspective?

Gary Fayard

Okay. Perhaps Mark, let me take the margin question and then we can come back to the innovation question. But this is actually -- let me get back into actually what I talked about price mix and margins when I was talking about (inaudible). The same thing applies actually at a higher level for the total company. So what we've got is very positive pricing and you're seeing that and that being offset by geographic mix.

But what you're seeing is when an operation like North America is minus one in the quarter that actually -- this is counter intuitive but it actually improves margins, okay, because North America having the finished product business has lower margins. So our expectation is, number one, to continue to get positive pricing and we're going to be rational in pricing and we intend to say premium, as I said earlier.

But in addition to that, we expect North America's performance to improve in the second half of the year which will actually put pressure on margins which is why we said earlier that we would expect gross margins to moderate over the second half of the year. And it's really the geographic mix of where the income is coming from. Does that …

Mark Swartzberg - Stifel Nicolaus

It does, yeah, but absolutely the geographic headwind is where at it is.

Gary Fayard

Yeah.

Muhtar Kent

Yeah. I mean also on innovation I think, as we've said before, we don't look at innovation only as ingredients. We look at it as packaging ingredients, equipment, even in terms of marketing social media, the brand price pack channel, architecture, occasion architecture. All of that is working for us and also in terms of our new campaign to be part of the solution around the world working closely with local governments, national governments, working with Government of Mexico, working with Mayors in Chicago and San Antonio, other parts of the United States in different states in Atlanta.

You can look at the patents that we've been filing off recent. So we are working and freestyle and the next generation of what is behind -- what's coming next after that. We are working on a host of new innovation. So also ingredients, continue to work with our partnerships across the world in different incubators around the world. The best we always believe here in the Coca-Cola Company, the best ideas are outside.

So, the plant bottle came from the outside from one of the incubators in India. Many new ideas are coming from different incubators in Israel or in China or in Japan or in Latin America. We have many -- we have substantial partnerships from here with the University of Georgia to across many institutions around the world in Techno Parks. So, yeah, we are very active and we are content that we have the right pipeline and maybe I can ask Steve to reflect on from just a sort of North America and Americas perspective.

Steve Cahillane

Yeah. Thanks, Muhtar. From a -- starting with the Latin America perspective, we have got Coca-Cola Light which we are picking up in Argentina, which we're excited about watching the prospects of that. We are doing some terrific innovation around our I Lohas platform in juices in Latin American, as well as in North America, we have launched Fruitwater, brand new product off to a very good start. Powerade Zero drops have joined Dasani drops is a very exciting innovation. (Inaudible) active which is a fusion between sports drink and energy kicked off in April, again off to a very good start.

From a packaging perspective, we continue to innovate around our price-package architecture. We've just launched 16 ounce sparkling IT cans in our major packages. We have got Taylor Swift slim cans coming into the marketplace. We have got 19.2 ounce sparkling cans coming into the marketplace, again lots of excitement around the packaging innovation.

In terms of some marketing innovation, we have got Coke Zero which is going to be launched in college game day this fall which we are very excited about. We have got Cappy Free, Coke Zero coming into the marketplace. We feel very good about that, really building out the Coke Zero platform as an all-day brand.

So we have got lots in the marketplace and lots more coming into the marketplace, and it builds on one of Muhtar's earlier points that throughout this rough period of time, we have continued our marketing pressure. We continued our marketing investment. We have not cut it, we have increased it and it allows us to continue to innovate and bring new innovation into the marketplace.

Mark Swartzberg - Stifel Nicolaus

That's helpful. If I could simply follow up on the subject of a stevia-based sweetener in the brand on the door so to speak, Coca-Cola we have seen what you have said recently about globally ticking down, the portion of your volume that is in the full cal portion of your business. Should we infer here that there is an increased resolve to use organic sweeteners against the main brand here and there is some optimism globally for that potential?

Muhtar Kent

Yeah. I'll just comment on that that I think, it is all about ensuring that you provide the right portions at the right time for the right consumers in the right environment. And we -- I think that you should read that we have an increased resolve to use any specific ingredient. It is all about ensuring that we do have viable light and low-calorie versions for everyone of our major brands available to the consumer, ensure that we pack label transparently, ensure that we have active lifestyle programs as per all our global commitments and ensure that we have a responsible marketing. That's our -- those are full commitment.

And our business, we have said many times, is about brand. Today, we have $16 billion brands, they are growing. We have in the pipeline another 19 brands that are bigger than $750 million in revenue and less than a $1 billion. Those all are going to become billion dollar brands in the next increment of time because they are growing and we are confident that we will have multiple billion -- more billion dollar brands than we have today. And I think that is what this business is all about, adding value through brands to our system and I'm confident that you will see us add many more billion dollar brands to our roster in the near future.

Mark Swartzberg - Stifel Nicolaus

Great. Thank you, gentlemen.

Operator

Thank you. Our next question is from Ali Dibadj from Bernstein.

Ali Dibadj - Bernstein

Hi, guys. So I think the general theme of my couple of question is really we are all trying to figure out, which is what's going to get better from here and why, and not only in terms of volume but also in terms of some of the other key drivers of profitability.

So, if I may, my first question is around North America, and although you say in the press release you remain committed to rationale pricing, price mix is only at 1% and I guess, you think volumes would have been down more than negative 4%, if you have taken more than 1% pricing.

So taking 2% to 3% pricing or can we hope for that part of the business, the pricing in North America improving going forward? And as a follow up to that and a completely different per cap market like China, moving up to Ahmet point second ago. I just want to get a better sense of if evolving a strategy has anything to do with increased price promotion as well as it sometimes does with some companies?

Muhtar Kent

Steve do you want…

Steve Cahillane

Yeah. Thanks, Ali. I'll start. In terms of pricing, we've always said that our pricing strategy in North America is consumer based and it continues to be consumer based. We captured, if you look at Nielsen, we captured very good pricing across our portfolio in North America. We think it was an appropriate amount of pricing by channel.

The unfortunate 4% volume decline was, as we said, had a lot more to do with weather and the economy, at least 60% to 70% having to do with a one-time really poor weather events. So, we didn't put more price in the marketplace to try and chase volume that wasn't there. We put appropriate price increases in the marketplace and we maintained our margins and we maintained our price strategy going forward.

And we continue to bring new products and new packages into the marketplace to help our whole architecture achieve the type of pricing that we deserve. And we have given some examples of this in the past and a good one is our 1.25 liter which continues to be very successful, a third of the 1.25 liter volume is in fact incremental volumes.

So it's good in of itself, but it has also allowed us, if you look at our 2 liter pricing over the course of the past 12, 15 months, we are out of the $0.99 price promotion for 2 liter and has been for quite some time.

So, we are not going to, we are not going to put too much price in the marketplace. We take appropriate price based on what the consumer and what is right for the consumer and what is right for the customer, and we fully expect that based on the price plans we have in place for the back half of the year, based on the innovations we have on the back half of the year that's sparkling volume will in fact improve from what happened in the second quarter.

Ali Dibadj - Bernstein

Okay.

Gary Fayard

Yeah. Ali, I'd move on to your question on China. The answer is, there is absolutely no plans for increased price promotion. In fact, the reason for having an evolving OBPPC is to have more sustained volumes at the right price point and the right tax for all the consumers.

Now, to give you an example, you might be familiar that there has been a lot of upsizing going on in China and we have launched our 300 ml package last year. Now, we will tactically respond to such upsizing to be able to balance our volume and share performance. But that's a -- those are limited practical moves rather than a strategy to have increased price promotions. So, that's not really in the cards.

Now, to maybe build on this a little bit and also to address some of innovation questions, I didn't have a chance to share, is that, we have small can, either slim can or sleek can and small PET lounges all across the international territory, all across Europe, all across Eurasia-Africa Group and some of the Pacific markets. That, I believe, is an important innovation in a way and also allows us to drive revenue and gross margin.

In addition to that, let also keep in mind that we have some very successful products such as Pulpy that hasn't been fully launched in all of our international territory. Eurasia-Africa Group, for example have taken that and they have launched it in Morocco in a very short period of time, we were able to achieve 20 plus percent market share with that launch.

We've just had a recent launch of extensions of coffee into PET in Japan in the CVS channel recruiting female consumers. We are quite happy and pleased with the results of that. We have been innovating energy drinks in Russia and Turkey by expanding them into PET packages, re-sealable PET packages that the consumers want. So, we continue to innovate in different packages, different categories across our international territory, as well as using successful innovation from the previous years.

Muhtar Kent

Thank you, Jackson, Irial, Steve, Ahmet and Gary. Our business continues to grow and to capture global volume and value share even in the midst of ongoing global economic challenges. And importantly, we do not manage our business for the short-term but rather for the medium and long-term. And as I mentioned earlier, our focus on achieving our 2020 Vision is unwavering with current dynamics leading us to believe that our performance will be better in the back half of this year and beyond. As always, we thank you for your interest, your investment in our company and for joining us this morning.