Operator

At this time, I would like to welcome everyone to the Coca-Cola Company's First Quarter 2011 Earnings Results Conference Call. Today's call is being recorded. [Operator Instructions] Media participants should contact Coca-Cola Media Relations department if they have questions. I would now like to introduce Mr. Jackson Kelly, Vice President and Director of Investor Relations. Mr. Kelly, you may begin.

Jackson Kelly

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

Before we begin, I would like to remind you that this conference call may contain forward-looking statements, including statements concerning long-term earnings objectives and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic SEC report. In addition, I would also like to note that we have posted schedules on our company website at www.thecoca-colacompany.com under the Reports and Financial Information tab in the Investors section, which reconcile certain non-GAAP financial measures that may be referred to by our senior executives in our discussion this morning and from time to time in discussing our financial performance to our results as reported under Generally Accepted Accounting Principles. Please look at our website for this information.

Now I will turn the call over to Muhtar.

Muhtar Kent

Thank you, Jackson, and good morning, everyone. Let me begin by saying that I'm pleased with our first quarter results. Despite ongoing global geopolitical challenges, we once again delivered consistent quality growth across all 5 of our geographic operating groups. We are winning share in the marketplace. We gained volume and value share globally in our nonalcoholic beverages as well as in both the sparkling and still ready-to-drink beverage categories. We are winning with our global sparkling beverage portfolio. Brand Coca-Cola grew 3% in the quarter. In addition, Fanta is our fourth global brand to surpass the $10 billion retail sales value threshold.

And we are winning with our global still beverage portfolio, as Del Valle, the brand we acquired in 2007 recently, achieved $1 billion dollar brand status. Del Valle is now our company's 15th $1 billion brand and our first with roots in Latin America. Importantly, we are decisively executing our 2020 Vision, together with our global bottling partners and delivering consistent, long-term sustainable growth.

Before we review this quarter's operating results, I'd like to take a moment to address recent events in Japan in light of last month's tragic earthquake and tsunami. First, I'd like to acknowledge and sincerely thank our leadership team in Japan for their tireless efforts in helping to ensure the health and safety of our associates and the people of Japan during this time of crisis. I'd also like to express our heartfelt appreciation to all of our Japan bottling partners who've been at the very forefront of our system's efforts to assist with immediate disaster relief. Our bottling partners have been diligently producing, distributing beverages to affected areas and restoring our business operations.

Last month, days following the earthquake and tsunami, I visited Tokyo to meet with our associates, customers and our bottling partners to gain first-hand insight into the initial rebuilding efforts. Given our nearly 60-year presence in Japan and our deep connection with its people, we are committed to doing everything we can to help the recovery, relief and rebuilding of this great country. To date, we have pledged $31 million to the ongoing relief efforts including donations of over $7 million bottles of product. Through our Coca-Cola Japan Reconstruction Fund, we're going to help rebuild schools and community facilities all across the country.

As for our business in Japan, we can confirm that outside of the hardest-hit regions in North and East Japan, our system's bottling operations have been only minimally impacted, and all eight bottling plants in the region most affected by the earthquake are now back up and running. We have also announced plans to reduce our power usage this summer in East Japan mostly in vending machines to ensure we are responsive to the needs of the community, while ensuring our machines stay on and in support of small businesses which rely on the vending channel.

With regard to this quarter's results in Japan, our volume was up 1%, gaining volume and value share in nonalcoholic ready-to-drink beverages, reflecting the strong momentum our Japan business built across our portfolio in the time prior to the earthquake and tsunami. In light of recent events, we are actively reevaluating our Japan business plan to ensure we will restore and sustain our momentum and meet evolving customer and consumer needs.

As this topic is top-of-mind for many of our shareowners, Gary will review later in our call a very early estimate of the full year impact these recent events may have on our business in Japan. And be assured that in the coming months, we will keep providing routine and ongoing updates regarding Japan. We appreciate your patience and understanding as we navigate through this evolving operating environment.

Turning now to our total company performance results. Our volume grew 6% for the quarter including the benefit of our new cross-licensed brands, primarily Dr. Pepper brands in North America. Excluding these brands, our quarterly volume grew a strong 5% ahead of our long-term growth target and fueled by organic volume growth in all 5 geographic operating groups. We are happy about these results and confident about our future as we achieve these performance results despite natural disasters, political uncertainties and a global macroeconomic environment still in recovery and pressured by rising inflation and commodity prices.

As the global recovery and greater volatility continue, we may see some bumps along the way as we've seen in the past. However, our strong brands and solid business fundamentals provide us with confidence that we will continue to meet and exceed our long-term growth targets.

Now let's review our performance results across our global markets in more detail beginning with North America, our flagship market. North America volume was up 6% this quarter with organic volume growth of 2%, excluding the benefit of our new cross-licensed brands. This marks a fourth consecutive quarter of positive organic growth for North America. And importantly, North America once more gained volume and value share in nonalcoholic ready-to-drink beverages this quarter.

In the United States, trademark Coca-Cola gained share, while Diet Coke was named the #2 sparkling beverage right behind our #1 brand, Coca-Cola. Coca-Cola Zero once again delivered double-digit volume growth in North America for the 20th consecutive quarter. Both Sprite and Fanta continued to grow in North America, up 3% and 5%, respectively, this past quarter. These successes reaffirm that our system is executing the right strategies and taking the right actions to sustainably drive long-term growth across our entire North America sparkling beverage portfolio.

Turning to North America still beverages. I'm pleased to report 8% growth for the quarter. We have now grown volume share for our still beverages for 13 of the past 15 quarters and value share for 14 of the last 15. Our North America juices and juice drink business delivered positive growth this quarter, fueled once again by our Simply brand which grew 20%. This marks the 17th consecutive quarter that Simply has gained both volume and value share in the U.S.

Our glacéau brands gained volume and value share this quarter growing 12%, with our vitaminwater trademark up high single digits and smartwater up double digits. POWERADE delivered impressive results, growing 21% this past quarter and, once again, outperforming the North America sports drink category.

Our North America tea business extended its momentum, delivering 12% growth for the quarter.

We also completed a transaction that began 3 years ago by acquiring the remaining interest in Honest Tea, the nation's top-selling organic bottled tea company. We are excited to fully welcome this great and innovative brand to our family.

In total, our results in North America are a testament to how well our new leadership team and operating structure are working. We remain clearly focused on our integration efforts, which are proceeding as planned. At the same time, we're leveraging our strong marketing and sales capabilities to accelerate our leadership position within North America and to deliver profitable and sustainable growth.

Now let me turn to our Pacific Group, which was up 5% in the quarter, led by double-digit growth in both China and Korea and gaining share in both sparkling and still beverages. Our return to double-digit growth in China was driven by the effective execution of our Chinese New Year programs and sustained investment in our brands across multiple categories. As a result, our sparkling beverages gained share and grew double digits in China this quarter. This growth was led by trademark Coca-Cola and trademark Sprite, with both also growing double digits. In fact, our sparkling beverage share in China is now at the highest level we've seen in over 2 years.

Our still beverages in China also gained share and grew double digits this quarter, led by Minute Maid Pulpy, which was up 27%. As discussed in our last earnings call, we are introducing a wider variety of packages in China to promote affordability and enhance the consumer experience with our brands, all with the focus to drive increased transactions and to build brand equity. In support of this strategy, we launched the new single-serve 300 ml package for our sparkling beverages across parts of the country and have plans to introduce a 500 ml offering nationwide this summer.

Moving now to Latin America. Volume grew a strong 7% for the quarter including 5% growth for brand Coca-Cola. Latin America's broad-based growth was led by Mexico, our highest global per capita market and a market sometimes overlooked because of its consistently solid performance. This quarter, Mexico grew 14% including an 11% increase for brand Coca-

Cola. And we captured total nonalcoholic ready-to-drink beverage volume and value share in Mexico this past quarter, continuing a trend we have consistently seen in nearly every quarter over the last 4 years.

Brazil was up 2% for the quarter despite unseasonably cold and wet weather. Importantly, our business in Brazil continues to outperform the marketplace, marking the fifth consecutive quarter that Brazil has gained volume and value share in nonalcoholic beverages. And our South Latin business, which includes Argentina and Chile, delivered high single-digit growth, capturing market share again in both sparkling and still beverages.

Our Eurasia and Africa business grew 8% in the quarter, led by strong results in Russia, Turkey and India. Russia grew 27% this past quarter led by strong sparkling beverage growth. Brand Coca-Cola grew 24% in Russia, posting its fifth consecutive quarter of double-digit growth.

Additionally, Fanta and Sprite also delivered strong double-digit growth in Russia this past quarter. And our business in Russia gained volume and value share in total nonalcoholic ready-to-drink beverages, contributing more than 50% of nonalcoholic ready-to-drink beverage growth in Russia this past quarter. Turkey delivered 17% growth this quarter and gained sparkling beverage share led by trademark Coca-Cola, up a strong 19%.

India, meanwhile, once again delivered solid results growing 9%. This now marks the 19th consecutive quarter of positive growth for this tea market. India, also, once again delivered balanced growth across our entire portfolio, with sparkling beverages up 10% and still beverages up 9% this quarter.

Moving now to Europe. Volume was up 1%, this region's third consecutive quarter of positive growth despite ongoing macroeconomic challenges. We also gained share in global nonalcoholic beverages as well as in both the sparkling and still beverage categories in Europe this quarter. Our sparkling beverages in Europe were up 1% for the quarter including trademark Coca-Cola also up 1%, and Coca-Cola Zero kept its strong momentum in Europe increasing double digits once again.

Our still beverages in Europe continued to grow and gain share across multiple categories including sports drinks, energy drinks and ready-to-drink tea. Germany delivered balanced 4% volume growth. This growth was balanced across our portfolio with sparkling beverages up 4% and still beverages up double digits, leading to total nonalcoholic ready-to-drink beverage volume and value share gains.

Finally our business in Northwest Europe keeps delivering solid results with positive growth in Great Britain, Sweden, Belgium and France. In fact, this marks France's 11th consecutive quarter of positive growth.

Now let's return to a few of the global brands' success stories referenced at the start of today's call. Last quarter I shared how Fanta had become our third global brand to surpass $2 billion in annual unit case sales. Fanta is also our fourth global brand to surpass the $10 billion retail sales value threshold, joining Coca-Cola, Sprite and Diet Coca-Cola. Building on this momentum, we have extended Fanta's existing marketing efforts into a unified and global integrated campaign to reach consumers worldwide in regions representing 90% of Fanta's global sales volume. This highlights both our commitment to marketing productivity as well as our belief in investing behind our global brands.

I mentioned earlier that Del Valle recently became our 15th $1 billion brand. When we partnered with Coca-Cola Fanta to jointly acquire the Jugos del Valle business in 2007, the Del Valle brand was available in only 3 countries across Latin America with annual retail sales of under $500 million. Today, working in partnership with our entire Mexican bottling system, we have expanded Del Valle to 34 flavors and varieties in 15 countries making Del Valle the first of our $1 billion brands with its roots in our Latin America region.

If we take a step back to reflect on this achievement, we can see that it is the latest example of how our global system can be so nimble and flexible as well as fast in achieving success. It is important to remember that our last 3 brands to achieve $1 billion status, Simply, Minute Maid Pulpy and Del Valle have all followed unique paths to success. Simply represents a classic case study, in fact, of how we organically built a new brand to complement our existing juice portfolio in order to take juices and juice drink category leadership in the United States.

Minute Maid Pulpy is a great example of how we've developed a unique brand experience, tailored to meet local taste in China and then leveraged our scale despite the success across multiple regions. And now, Del Valle stands as a prime illustration of how we can partner with our system to quickly achieve scale and address an area of opportunity in our beverage portfolio all across Latin America. The growth of these brands played a significant role in our company becoming the global leader in juices and juice drinks. Yet, we believe we have really just begun to tap our global potential in this key beverage category.

As we advance our momentum around the world, we're also committed to building a better tomorrow. I've mentioned the work we're doing to support the rebuilding efforts in Japan, as it always has been part of our company's DNA to support communities in need. For example, this year is the 10th anniversary of the Coca-Cola Africa Foundation. This foundation focuses on transforming lives and empowering communities across the African continent. We are involved in programs focused on improving access to clean water, preventative health, education and entrepreneurship training among others. Over the past decade, the Coca-Cola Africa Foundation has implemented more than 160 community projects in nearly 40 countries investing more than $100 million across Africa. Looking ahead to the next decade, the foundation is committed to expanding its footprint and to implementing a project in every country on the continent.

Another way we are building for a better tomorrow is by further advancing our sustainability efforts. In the past, we've talked about the advancement of our PlantBottle, a package that functions like a regular, fully recyclable plastic bottle but is made with plant-based materials resulting in a lighter footprint on the planet. Last month, we announced that all DASANI and Odwalla single-serve bottles in the United States would now be available in our PlantBottle. In fact, Odwalla's new packaging is entirely composed of materials derived from sugarcane, making our company the first to develop and enter the market with 100% plant-based, fully recyclable package.

And this past February at the CAGNY conference, we announced a special partnership with Heinz to expand the use of our PlantBottle in the United States. We are pleased to see this technology adapted by other companies, as we believe that innovative collaboration and an open exchange between companies is more important today than ever, especially as it relates to the environment.

As we build for a better tomorrow, our efforts and performance are being recognized. This past quarter, we've been honored to receive several acknowledgments. Fortune Magazine ranked as #6 in their 2011 list of the World's Most Admired Companies, up from #10 in 2010. DiversityBusiness magazine placed us at #4 in their list of the top 50 organizations for multicultural business opportunities. And we received two Edison Awards, including a Silver Award in the Packaging category for our PlantBottle and a Gold Award in the New Retail Frontiers category for our Freestyle fountain drink dispenser.

While all of us at the Coca-Cola Company are proud of these achievements, we understand that they only represent a snapshot of where we are today rather than where we aspire to be tomorrow. It is our good fortune to steward an incredibly dynamic global commercial enterprise and a very special brand that will celebrate its 125th anniversary in just a couple of weeks on May 8. As we look towards the future, we do so against the backdrop of a global economy that is still rebalancing. So there is no question that we are all experiencing a complex global geopolitical climate. Yet, this complexity and the challenges they raise also bring real opportunities and exciting growth prospects.

In fact, since day one of our 2020 Vision's guiding principles has been that our system has only just begun to achieve its potential. As we look forward, the opportunities before us are clearly abundant, a billion people entering the middle class in the next decade, the corresponding political economic and social rise of the emergent world and an unparalleled expansion of cities, personal mobility, technology and education.

Today, we live in a paradoxical world of remarkable promise and great challenges. Yet, together with our bottling partners, we've been preparing for this world, aligning our system behind the strategies and priorities called in our 2020 Vision. This strong alignment has not only helped us navigate recent storms, it has put us in a position of real strength. The growing strength of our brands and our consistent operating and financial performance are proof positive of how we are steadily and strategically advancing our global momentum. That is why, as we look ahead to 2020 and beyond, we are confident that our system is well positioned to meet and exceed our long-term targets and to usher in a new era of winning for all of our shareholders. With that, I'd now like to turn the call over to Gary.

Gary Fayard

Thanks, Muhtar. Good morning, everyone.

As Muhtar shared, we're off to a good start this year, advancing our momentum with 6% worldwide volume growth and the delivery of another quarter of consistent quality growth in line with our expectations. We feel particularly good about these results since we delivered them while productively integrating our North America business and while navigating several unforeseen global events including the tragedy in Japan, the unrest in the Middle East and a volatile global commodity costs environment.

While, as expected, there are many puts and takes to consider in reviewing our quarterly results, and I'll go through all of those, I want to affirm that except for Japan, we do not see any of these puts and takes changing our full year bottom line expectations. In fact, this quarter's good results are a testament to our global system's ability to execute our strategic plans in keeping with our 2020 Vision and long-term growth targets.

So let me start by reviewing our earnings results for the quarter. As outlined in our release, we reported comparable earnings per share of $0.86, up 7% versus the prior year and in line with our long-term growth targets. While this result came in $0.01 below consensus in many analyst models, it includes a $0.01 dilutive effect from the timing of marketing expenses as we are required to conform our newly acquired North American bottling business to the Coca-Cola Company's accounting policies.

Let me take a moment to explain what this accounting treatment means in plain English. As many of you know, we apply something we call a sales curve accounting policy to our marketing expenses, which means we recognize marketing on a pennies-per-case basis. So, basically, the same pennies-per-case of marketing for the full year as we spread the marketing across the year. For example, when we sponsor and activate an event like the recent NCAA March Madness basketball tournament, rather than recognizing the entire costs of the sponsorship in the quarter, we recognize the costs over the full year in line with our estimated volume along with all the other marketing.

Once our 2011 quarterly business plans were finalized in the first quarter of this year, we began to apply the same accounting policy to marketing expenses associated with our newly acquired North American business. The application of this sales curve accounting policy pulled incremental marketing expenses into the first quarter results, diluting our comparable first quarter 2011 earnings per share by $0.01. As we couldn't tell you about this accounting adjustment until we finalized our quarterly business plan spreads, we realize out that many of you do not have this accounting reflected in your model. As you consider how to model this adjustment going forward, please note that this sales curve dilution will reverse itself in the fourth quarter of this year.

Our first quarter results also reflect the effect of the recent tragic events in Japan on our business. As Muhtar mentioned earlier, we finished the quarter in Japan up 1%. But prior to the March 11 earthquake and tsunami, our business was actually on track to deliver quarterly volume growth of 3% to 4%. Although it is impossible to precisely calculate what might have happened, our best estimate is that recent events in Japan had a $0.01 dilutive effect on our first quarter's comparable earnings per share due to lost revenues primarily related to shifts in product packaging and channel mix.

Separately, we have identified a set of onetime items in Japan this quarter primarily related to bottler assistance and our $31 million Reconstruction Fund that totaled approximately $80 million dollars. These are duly reflected in our GAAP, non-GAAP tables and have no impact on our comparable results.

Finally, our very early estimate of how events in Japan may further influence our full year results is that it could dilute the rest of our full year comparable earnings per share between $0.02 and $0.04. We expect the majority of this impact to fall in the third and fourth quarter. As Muhtar mentioned earlier, our Japan team is doing everything they can to restore our business in

Japan. And going forward, I can assure you that we'll keep providing routine and all new on updates regarding our business in Japan.

We also expect that many of you have questions regarding our updated currency and commodity outlook especially as both continue to move in today's volatile marketplace. Let me start with currencies.

Since our last earnings call in February, we've seen a higher benefit than expected from currency. Considering both our hedged positions and current spot rates, we now believe that currencies will have a low to mid-single-digit positive benefit on our operating income on a full year basis. But before you flow this currency benefit through to our bottom line, please note that since our last earnings call, we've also seen our total company commodity costs exposure for this year increase by approximately $250 million to $300 million, primarily driven by continued rise in the price of PET. While PET is not a commodity that can be hedged, we are actively pursuing and executing plans to mitigate and offset some of this increase, including the acceleration of several supply chain initiatives that would reduce our overall commodity exposure.

In addition, we are strategically leveraging our brand pack channel and pricing strategies where and when appropriate to further balance this exposure. For example, we recently announced our plans to raise prices on our refrigerated orange juice products in North America by 6% to 9% starting in April. As a result and based on our current and best estimates, we expect our ongoing pricing and supply chain efforts as well as our improved currency benefits to have offset almost all of the $250 million to $300 million increase in 2011 commodity costs exposure over the course of this year.

And please note that we are continuing to actively hedge our commodity and currency exposures. This past quarter, we had net unrealized gains of $36 million related to our hedging activities on commodities. Consistent with how we treated these gains in the fourth quarter of 2010, we elected to exclude the gains, which would have been a benefit of $0.01 per share to our comparable earnings results. For your reference, we have called out our net unrealized hedge gains in the notes to our GAAP and non-GAAP schedule and will continue to do so in our future earnings reports.

Let me share one final note before we go in the details of our operating results. Now that we are integrating our North America business, it is operating as a single consolidated entity for financial reporting purposes. For example, pieces of our North America business, that used to operate in a concentrate model, are now operating as a finished goods model. In addition, we now have single sales teams that sell of our products across customer accounts in a way that is no longer comparable to how our brands were sold prior to the Coca-Cola Enterprises North America transaction.

Integrating and changing the way we run our North America business is a necessary step in order for us to release the synergies associated with this transaction. As a result, we are simply unable to separate out the results proportions of Coca-Cola Refreshments that used to be a part of CCE North America. This means that when reviewing our North America and total company results, there will be several financial statement line items and calculations that will look different to you this quarter than they have in the past and will continue to look different through the balance of this year until we fully cycle the effects of the CCE transaction. To best help you understand our business and performance this year, we'll keep providing you with comparable currency neutral results consistent with how we've always communicated our results. Having said that, we recognize that some line items are significantly altered due to the CCE transaction. In those cases, we'll supplement our financial results with additional commentary in order to always provide you with as complete a picture of our underlying business performance as possible.

For the quarter, comparable operating income was up 10% including a 3% benefit from currency. Further, our business delivered comparable net revenue growth of 40% benefiting from a 4% increase in concentrate sales, a 2% currency benefit, positive price mix and a significant increase due to our recent CCE transaction.

This quarter's price mix calculation is an example of a calculation that looks different this quarter as a direct result of the CCE transaction. We understand that price mix is a key metric for understanding our results. We, therefore, estimated that our first quarter retail pricing in North America was positive between 1% and 2%. We can also confirm that our combined international and Bottling Investment Group price mix was up 2% this quarter. So based on this, our total company price mix was positive this quarter in line with our full year guidance and consistent with our long-term growth targets.

Looking at a few other line items, where those calculations where influenced this quarter by the CCE transaction, comparable currency neutral gross profit growth of 30%, comparable currency neutral cost of goods sold rise by 53% and comparable currency neutral SG&A expenses increased by 49%. To better understand this quarter's SG&A, it's helpful to look at our consolidated results in pieces.

First as you would expect, North America's SG&A is clearly higher due to our acquisition of CCE's North America business and the application of the sales curve accounting policy to our marketing expenses resulting in unfavorable operating expense leverage. This increase in SG&A will remain through the year until we fully cycle that acquisition.

Second, our Bottling Investment Group's SG&A was up 5% on a comparable currency neutral basis, excluding structural change such as Norway and Sweden. This is to be expected as we make strategic investments to further expand our production and sales capabilities in key growth markets in line with the guidance provided in our last call.

Third, our international operating segment's SG&A was slightly up this quarter due to an increase in our direct marketing expenses as we remain committed to investing in our brands for long-term growth.

Taking these increases in SG&A in consideration and considering the dilutive effect recent events in Japan may have had on our full year gross profit, we now anticipate our company's operating expense leverage to be even for the full year. Similarly and not surprising, our gross margins for this quarter were also influenced by the inclusion of the CCE transaction that results as North America becomes a larger portion of our consolidated gross margins. It's important to note, however, that both our international operations and our Bottling Investments Group saw positive comparable currency neutral gross margin growth in the quarter after excluding structural items.

Finally this quarter, our cash flow from operations was $458 million. Part of this is attributable to the inclusion of CCE's North America business in our results, as these operations have traditionally required increased levels of working capital in the first quarter. In addition, please note that this cash flow result is net of $769 million in contributions made to our pension plans as part of our previously announced 2011 contribution schedule. For the full year 2011, we plan to contribute about $800 million. So pretty much all of it already contributed in the quarter.

Now let me take a moment to update our view on a few other items related to our 2011 outlook. Our productivity initiatives are well on track and will deliver $500 million in annual savings by the end of this year as per our original plan. As for synergies related to the CCE transaction, we can reaffirm our commitment to capture between $140 million and $150 million of net cost synergies in 2011. With regard to our share repurchase program, we've been active in the marketplace and are well on track to achieve at least $2 billion and $2.5 billion in share repurchases over the course of the full year.

As for equity income, we recently sold our ownership stake in Embonor and, thus, will no longer recognize equity income from Embonor results. Looking forward, equity income will also be affected by the proposed merger between the Embotelladoras Arca and Grupo Continental in Mexico. If and when this deal is approved and completed, our ownership in the new company would be reduced so that we would no longer apply the equity method of accounting to the resulting entity. So our best estimate there, when you consider the sale of our ownership stake of Embonor as well as the expected change in accounting resulting from the proposed Arca-Continental merger, our company's equity income would decrease by approximately $0.01 on a full year basis. Finally with respect to our tax rate, our underlying effective rate stands at 24%, in line with the full year estimate range of between 23.5% and 24.5% provided in our last call.

In closing, we are greatly encouraged to see our business deliver another quarter of solid volume revenue and profit results. Our seasoned management team and our highly capable global bottling partners are clearly taking the right actions and executing the right strategies to advance our global momentum and drive our 2020 Vision. We remain confident that we'll keep winning in the marketplace, enhancing the health of our brands and driving long-term sustainable growth and value for our shareholders. Operator, we are now ready for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And, sir, our first question comes from Carlos LaBoy from Crédit Suisse.

Carlos LaBoy - Crédit Suisse AG

Can you shed some light on the drivers that sustain this momentum going into the second half? But I think if you could please direct a portion of your answer to the Bottler Investment Group [Bottling Investment Group] performance I think specifically, we'd like to hear if you can expand on China? How important is Pulpy to the relative mix there now as it continues to grow? In India, what drivers sustain the growth in the second half? And in the Philippines, you always seem to use these macro downturns or these economic periods of difficulty to reset the business in your favor. How do you modify the Philippine plan to win in this inflationary environment?

Muhtar Kent

This is Muhtar. Let me just start. I think what you saw in the first quarter global -- huge global geopolitical challenges, natural disasters. And I'm very pleased, I can say, that we have delivered consistent quality growth across all 5 of the geographic operating groups. That gives me confidence about going into the year. We're winning with our global sparkling beverage portfolio. Brand Coke, again, grew an impressive 3% in the quarter, in addition, Fanta, which is our fourth global brand, passing the $10 billion retail value. So with growth in all 5 geographic operating groups, excluding our cross-licensed brands of 6% internationally, and if you look at -- it's important to look at what we're cycling each quarter. We are consistently delivering volume growth in line with our long-term targets or above. And what you see from an international perspective is Q1 of 2010, we're cycling 5%. So we're actually increasing the momentum. Last quarter of 2010, Q4 was 5% international. We're, again, accelerating that growth in the midst of huge economic, political and natural challenges. So I think that gives us confidence as we go into the year. And, again, when you look at our U.S. business delivering again the fourth consecutive quarter, we're investing. As we do this, our brands are now getting healthier. Our share results, market share and value share, volume and value share results in this past quarter are the best we've seen in a long time. And in fact, we have a chart that shows by category, by region, share. Except for 1 metric on that chart, everything is green this past quarter, which we haven't seen it like that for a very long time. So again, India and China, you've referenced, I think, China as we -- Q1 sparkling gained volume share. Q1 still gained volume and value share, and sparkling beverage share, as I mentioned in the call in my remarks, is now at the highest level we've seen in over 2 years. And we're making some proactive changes to our packaging architecture in China. Our bottlers are investing. When you look at the investment plan that we announced back in 2009, we are ahead of that with $2 billion from '09, '10 'and '11. The 3 plants that we opened last year have all come -- are all contributing to being a part of the communities that they serve. And that India, again, we took a sizable price increase in Q1 and held with it in Q1 in 2011 and chose to maintain it in the face of aggressive discounting from various factions. And again, we delivered very impressive results with brand Coke growing, Sprite growing, thumbs up we're growing in a very healthy manner as well as our still portfolio led by Maaza growing. So, overall, that gives me confidence when I see our brands. And just last point in China, Pulpy was up, again, almost 30%, and then you asked about the Philippines. I think Philippines post-elections have been a very challenging environment after the heat -- the economy was heated artificially pre-elections, and what we're doing is making sure that our business stays healthy. We invest in our brands in the Philippines. Our brand metrics are getting stronger in the Philippines. And Philippines in this quarter was down in volume, but we believe that we are doing the right things in the Philippines to win in the long term. And as far as the Bottling Investment Group is concerned, if you actually take out the structural elements related to Sweden, Norway and so forth, actually it was up 3%, just similar to the same period prior year. So we're happy with the healthy performance also of BIG. Germany, as you can see, is beginning to look like really a turnaround story, again, another quarter of healthy growth and gaining share in Germany against all the challenges that we have with the marketplace there in Germany as it relates to discounts or so. We are winning, again, in all channels in Germany now, and it's beginning to look like a very positive story. So that's what I would like to sort of frame up. I don't know if I missed anything, but that's how I frame your question, Carlos.

Carlos LaBoy - Crédit Suisse AG

Thank you very much.

Operator

Our next question comes from Mark Swartzberg from Stifel, Nicolaus.

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

I wanted to probe a little bit more. If we could ask for more visibility on what is going on with Germany. That 4% number is a good number. Can you talk about 2 things, Muhtar? #1, what you think is driving that, the role of spending in that? And then #2 as we think about your gross margin outlook for Germany, you've got, potentially, the benefit of some volume leverage, potentially, the benefit of mix. Potentially, some positives there in the GM side. But, of course, commodities are a challenge. So how are you thinking about the gross margin outlook for Germany as well at the bottling level.

Muhtar Kent

I think first as you see, all restructuring that we've been involved in for the past 36 months in Germany is beginning to pay out as volume grows in that restructured and more productive infrastructure that we have both in terms of production, as well as distribution, as well as warehousing in Germany. And then with strong brands, when you look at brand Coke, again, in Germany, which was actually up 4% supported by very strong marketing, and then some other brands, Sprite, a very healthy growth, up almost 7%, very good brand portfolio metrics in Germany. And, also, still beverages doing very well like Nestea in Germany. So, overall, I would say that gross margins, we don't give forward-looking outlook. But I'd to say that we're pleased with the improvements we're seeing across our margins in Germany, particularly as the benefits of the restructuring are beginning to come alive, as the volume is beginning to pick up in multiple channels in Germany. And then also, I'd like to stress all the work that is being done by our Bottling Investments Group under the leadership of Damian in Germany is also beginning to show in the immediate consumption transactions in Germany.

Gary Fayard

Mark, it's Gary. One other thing to recognize as well is that when you referenced commodity costs versus Germany, remember that all of those -- most of all of those commodities are priced in dollars. And I was talking about in the prepared remarks, there is an inter-relationship to a large extent between commodities and currency. And so in Germany, with the strength of the euro, is offsetting some of the costs of commodities as well. So you get different views on commodity costs if you look at different countries.

Muhtar Kent

And one last thing, Mark, please note that this is the highest absolute unit case volume sales in Germany we've seen in a decade. And the way the bottling business works if you look at this restructured, more productive, leaner system that we have in place after the hard work of the last 36 months and as you sort of model increase in volume, that translates into better margins.

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

Helpful stuff. If I could make one follow-up there. Muhtar, the role of package mix in the bottling operations, you mentioned immediate consumption. But how impactful, how beneficial is package mix affecting the bottling ops there.

Muhtar Kent

Are you talking about Germany or...

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

Germany specifically, yes.

Muhtar Kent

I think the only way that we have begun to win with discounters is through a very decisive and very novel and innovative packaging strategy. So you've seen us employ a very innovative packaging strategy in order to be able to be represented with all our brands and also the discounted channels.

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

Great, thank you, guys.

Operator

Our next question comes from Bill Pecoriello, Consumer Edge Research.

William Pecoriello - Consumer Edge Research, LLC

Gary, thanks on the detailed explanation from the puts and takes on the quarter. A couple of other points I just wanted to clarify. With the 7% operating profit growth in the quarter, currency neutral, you mentioned the commodity hedged timing, the market spend timing, we also have the Easter shift and 1 less shipping day. So trying to best understand your underlying operating profit growth, do you view it as high single digits when you account for those other puts and takes?

Gary Fayard

Yes, Bill. In fact, this is one of the difficulties as you know, it's -- let's say -- 1 less shipping day, the Easter shift, et cetera. You're now into estimates of what might it have been and those kinds of things, which is why I did not try to actually quantify those. But there are couple of things we know we can quantify. If you put the impact -- if our best estimate is that the impact of Japan is $0.01. The impact of the sales curve on CCR in North America is $0.01 and that wouldn't just reverse this Q1 in Q4. But if you just put those things together, right there, that's 2 to 3 points on OI growth, just those 2 things. And then the hedges that we took, the commodity hedge gains, that's another $36 million, another $0.01. We took those out. Those will go back in kind of primarily third quarter-ish timing. But that's another 1.5 points of growth on OI. So that's why we feel comfortable. I mean, it's a dynamic world out there. But we feel comfortable with all the puts and takes. There's some real bad things like the tragedy in Japan. There's some good things where we've made some decisions to change accounting policies, and it's a Q1, Q4 quarterly thing. It doesn't impact the year at all, but we just think it's the right way to go.

Muhtar Kent

And one other thing to add, Bill, also, you have to see that we are continuing to aggressively invest in our brands. And that is something, so in the quarter you will see -- you will have seen continued growth in direct marketing and marketing expenses. And again, that is something that we are very adamant to continue despite all the different challenges of commodities and other things that are happening around the world.

William Pecoriello - Consumer Edge Research, LLC

Great. And, Gary, on the Easter shift, the reason it's also more complicated now into the timing shift but now with the accounting of CCE, the concentrate was booked in the Q1 last year and now shifted into Q2 this year. It's booked along with the bottler case sales. So that was also a complication, how to model the timing on that, correct?

Gary Fayard

You're exactly right. And, in fact, Bill, I was sitting with some of my finance people yesterday and we were going through exactly that and going through what do we think the impact of the Easter shift was because we're actually starting to focus, as you might imagine, on quarter 2. And then we got into, Okay, so what does this shift in July 4 do? And what days do they fall in the week? If it turns out July 4 is a Monday, if you look. And so that's part of as we're kind of looking. But you do have -- you're actually right. You' have both impacts. You got the calendar impact. And then because of the acquisition, you've got the impact of when the revenue is actually recognized in the financial statements.

William Pecoriello - Consumer Edge Research, LLC

Thank you very much.

Operator

Our next question comes from John Faucher from JP Morgan.

John Faucher - JP Morgan Chase & Co

So I wanted to follow up a little bit on the North America price mix commentary, which you guys said, I guess in the call, you said 1% to 2%. Can you talk a little bit about mix and how we should view mix now that the gap between full revenue cases and concentrate cases is different? I assume we're just going to see significantly less full revenue case mix, et cetera. And then as we look at the scanner data that we get, the pricing doesn't sort of flow with that. So can you talk a little bit about the price pack architecture and sort of how we should look at changes sort of package versus package versus different packages coming through and also some of the channel differentials right now?

Muhtar Kent

John, I think, first what I would like to state is that in North America, particularly in the U.S., sparkling IC transactions, again, grew this past quarter. That's the second quarter in a row. And prior to this, you'd need to note that transactions had declined every quarter dating back all the way to 2007. So that's something that, again, we're focusing on very heavily to continue to drive transaction. So, I think, in regards to transactions overall, we grew IC package volume a good 2%, which would translate to overall transaction growth for the portfolio. So that is very positive and that somewhat compensates also for the price of the increases that had been referenced as 1% to 2% in the last call. What I'd like to, also, frame for the remainder of the year, though, is that we will be looking at every opportunity, every opportunity in North America to see if we can generate a higher price than the overall 1% to 2% and more like, maybe, 3% to 4%, as we look into the balance of the year. And we believe that our brand strength will allow us to generate a higher price increase than the 1% to 2%. And, at the same time, we will be diligently, again, putting all our efforts to grow IC transactions in the United States. And recognizing that higher price increase may have some volume impact, but driving transactions will be the key in North America. And I don't know if Gary would like to add to your other question that is related to the revenue realization given that the business is now operating as one integrated business. One other thing I'd like to add is that, again, the 16-ounce package was up double digits again in the quarter, which is giving us, again, goods metrics for the future.

Gary Fayard

John, Gary. Just a couple of things on North America that I want to focus on and reemphasize one thing that Muhtar just said as well. When we look at it, we took different pricing percentages on different packages and different channels, obviously, as you would expect in North America. But the weighted average of all of that is in the 1% to 2% range. That's announced. That's in the market, and we're getting that. So we have to kind of look at the scanner data that you're referring to because a lot of -- remember that Nielsen and ROI only covers about, I think, about 40% of the U.S., our U.S. market, that there's so much that, that's not in Nielsen and ROI. So that's the large part out of it. But then, as Muhtar says, we're going to look at additional pricing this year in the U.S. as well. Now with that said, I want to emphasize something else he was talking about, which is on driving, on transactions. And we've all talked volume for years and years, but transactions is really about creating health for the brand, wealth and really drives sustainable long-term value, we think, for the brand. And you saw us downsize packages in North America going to the 14- and 16-ounce and the reason to do that was to drive transactions and recruit and rerecruit users of our brands. You will see us doing the same kinds of things of downsizing in other countries as well. So that is going to have an impact on volume results, But, if you will, help drive transactions and could be an implicit kind of price increase as well, where you downsize a package but hold the price and can get pricing as well. And you'll see us doing that in different markets around the world as we talked about it. So, all in all, I think you're seeing some actions that we're taking that we think will prove good long term for the health of brands as well as build value for the company as well.

John Faucher - JP Morgan Chase & Co

Great, thanks.

Operator

Our next question comes from Caroline Levy with CLSA.

Caroline Levy - Credit Agricole Securities (USA) Inc.

I wonder if you could address 2 things. I mean in order to cover the commodity costs pressures, I'm assuming there, you mainly feel them in North America and in the Bottling Group. How much pricing would be required to fully offset that, if you did not have anything else to work with in terms of cost cuts? And then I'm just wondering if you could tell us a little bit more about how things are operating in Japan and where the earnings drag might be? Is it a mix shift? Is it that you need to give away product? Is it the cost of doing business? Just a little more insight into Japan.

Muhtar Kent

As far as commodity, Gary signaled some levels of commodities, the updates in terms of the additional commodity pressures that are coming into our business. Yes, you were right in saying and looking at the fact that, as far as commodities impact for our business is concerned, it's mainly North America and BIG. But we look at this holistically across the world from a system point of view, and there's some hedges in place. There puts and takes. So it's not just a simple equation, here's the number and how much price increase would you need. All we can signal is that as, obviously, you mentioned -- you heard me talk about -- I mean it's consumption, this is growing. That is a big benefit, when you have -- because those packages have a higher margin. They have a higher price. And as the mix shifts in favor of immediate consumption, then, obviously, we get the benefit and a windfall, and we don't have to go out and take pricing across all categories, all channel. That's the way we kind of think about our business. You heard me, again, in my comments talk about the new packages coming on stream in China. You see us doing the same thing in the Philippines, across the whole world, Germany many new packages. So I think we're employing a much more flexible, fast, nimble brand-priced pack channel architecture that is designed to ensure that we don't have to take across-the-board pricing. And that's why this business of ours actually performs so well across the world in such troubling macroeconomic -- in such a troubling microeconomic environment. And also by the way, if there isn't going to be an inflationary period coming, that will benefit us overall as a business, as a system, as a structure, as a category. So I think all of that bodes well for how we look at the future. I think the other part of the question was related to Japan. And

I'd like to just stay in Japan, that I said that all the plants that are in the impacted area, 8 plants are back up and running. Really if you're talking about somewhat of a shift in channels, I think the vending channel, obviously, because a lot of factories were not able to operate fully in Japan. So there is a shift in channel, there is a shift in the business. That's going to have some impact. And then, overall, I think supply chain is still stressed in Japan in terms of being able to supply the market, in terms of being able to empty out the warehouses, in terms of being able to distribute effectively. All of that will be part of the numbers that Gary mentioned as far as the full year impact in Japan is concerned. However, let me just stress this. Just prior to the earthquake, our business was up 4% in the quarter in Japan until the earthquake hit. So we were having very good positive momentum on top of a good year last year with our brands, with our portfolio, all 4 cylinders of our Japan business firing well. And therefore, one fundamental of the business is really the brand health. And given -- and our bottlers are investing again and are very eager and have done fantastic work in normalizing the business in Japan. So, overall, I think Gary mentioned the sort of scope of what may be the impact, and we'll try to mitigate everything we can. And I think Gary just wants to add something to that.

Gary Fayard

Caroline, I would just add a couple of things and just a little more detail to what Muhtar has told you. All the plants are back up and running. But we've got -- the bottlers have a lot of large automated warehouses, and those are not all back up and running. And so we still have supply chain issues in the country. Additionally, not only do you have channel mix issues as Muhtar referenced, you've got in shifts in product mix as well. But probably and most importantly, and this is where you will see a lot of the impact come through as well, what would normally be happening today is that the bottlers would be just running plants full bore, kind of building finished stock inventory for the summer selling season. We're not able to do that. And so what's going to happen is beginning about third quarter, and this is why I was referencing the impact of really the third and fourth quarter, is that we're not going to be able to supply all the demands, as we believe, because we're not going to be able to manage and build up inventory stocks ahead of time as you normally would in a normal year. So that's -- well, we think we saw an impact in the first quarter that will probably rebound a little bit in the second quarter just around concentrate shipments, and then it's going to reverse back in the third and fourth quarter is kind of what we think is going to happen.

Caroline Levy - Credit Agricole Securities (USA) Inc.

Thank you so much.

Muhtar Kent

And we'll keep updating you as we go along, Caroline.

Caroline Levy - Credit Agricole Securities (USA) Inc.

That's really helpful. Thank you.

Operator

Our next question comes from Dara Mohsenian from Morgan Stanley.

Dara Mohsenian - Morgan Stanley

So I have just 1 point of clarification, Gary. The pricing environment potentially improving in North America in the balance of the year, is that more in the sparkling side of the portfolio or more in the still side? And I assume the more robust expectation is due more to less price increases as opposed to mix, is that correct?

Gary Fayard

Well, couple of things I would say it's going to be -- it would be balanced and if we took you through our pricing architecture in North America. It's actually not -- it's actually pretty complicated. I was going to say not as simple as you would think it would be because you, basically, got different pricing on different packages, on different brands by channel, and so you're going -- you've got different elasticities of demand by package. So you're going to implement different pricing for those different SKUs at about by channel. But we are expecting to see, we have talked about 1% to 2% pricing in North America. We're now saying that we're going to probably be going for more pricing than that this year, and a lot of that is just strictly the environment that we're in. So that's the way we would see it right now.

Dara Mohsenian - Morgan Stanley

That's helpful. Just taking a step back and looking in North American margins longer-term, obviously, this year they'll be hurt by the bottler consolidation and some of the commodity inflation.

Gary Fayard

Yes.

Dara Mohsenian - Morgan Stanley

But I was hoping you could highlight for us conceptually the longer-term opportunity you have beyond 2011 in terms of expanding your North American margins given they're still below some of your other regions and what are the key drivers of that would be.

Muhtar Kent

The key of the drivers are going to be IC pushing really making sure that we win every transaction, growing transactions, growing the immediate consumption channel. There's so much work to be done, still opportunities to be had in the immediate consumption channel in the independent stores, in merchandising, in making our products much more desired and making and creating inspiration at the point of sale in those IC channel, just like what, in a way, you saw us do in Philadelphia, and I think CCR and their state of leadership has got the right organization. We've got the right investments in place. And then we have our brands are healthy. That all that translate, if we execute well, which we intend to do, then you will see us expanding margins as IC business grows and as our smaller packs take more attraction inside the 4 walls of our every single customer which we serve.

Dara Mohsenian - Morgan Stanley

Thanks so much. And, Gary, just 1 last clarification. Did North American profit come in line with your own internal expectations in the quarter?

Gary Fayard

Yes. In fact, they came in slightly ahead of our internal expectations.

Dara Mohsenian - Morgan Stanley

Thanks.

Muhtar Kent

Good. Thank you. In closing, I'd like to thank many of you who attended our recent presentation at both CAGNY and CAGE conferences this past few months. Our results, as well as our management team's performance and track record provide us confidence in our company today as well as our path forward to 2020. We will keep generating strong cash flows and redeploy that cash to invest in our brands, grow our business and reward you, our shareowners. We will continue to invest alongside our system and execute flawlessly on our 2020 Vision by working closely with our global bottling partners, our employees, our customers and all our key stakeholders. We see tremendous opportunity ahead for our company in all of our markets and remain intently focused on implementing our strategic priorities to generate long-term sustainable growth. Most of all, we thank you for interest and investment in our company. There's no greater responsibility than earning and maintaining your trust and confidence. So rest assured we are working tirelessly to protect and grow the value of your investment in our company. Thank you for joining us this morning.