Operator

At this time, I would like to welcome everyone to The Coca-Cola Company Second Quarter 2011 Earnings Results Conference Call. Today's call is being recorded. If you have any objection, you may disconnect at this time. [Operator Instructions] I would like to remind everyone that the purpose of this conference is to talk with investors, and therefore, questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations department if they have questions. I would now like to introduce Mr. Jackson Kelly, Vice President and Director, Relations Officer. Mr. Kelly, you may begin.

Jackson Kelly

Thank you and 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 objective, 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 on our website for this information.

Now I'll turn the call over to Muhtar.

Muhtar Kent

Thank you, Jackson, and good morning, everyone. Let me begin by saying that we're pleased with our strong second quarter results, a quarter in which we delivered performance results ahead of our long-term growth targets, making this the fifth consecutive quarter we've either met or exceeded our long-term growth targets. We're winning in the marketplace, leveraging our strong brands, coupled with strong solid execution to gain volume and value share globally in the nonalcoholic ready-to-drink beverages. We're winning with our Global Sparkling Beverage portfolio, led by brand Coca-Cola, which grew a solid 4% in the quarter.

We're winning with our Global Still Beverage portfolio, which was up 7% for the quarter and up 9% year-to-date, and we are achieving these results during a time of mixed economic recovery, which is a testament to our strong brands and solid business fundamentals.

Before I review our quarterly operating results in more detail, let me take a moment to share some further thoughts on today's mixed global economic landscape. The economic recovery is weak here in the United States as well as in Europe, Japan and across most of the developed western world. Many middle-class consumers, especially those in developed economies, are still feeling somewhat confused and fragile. At the same time, however, many emerging markets are doing quite well, especially those in Latin America, Eurasia, key countries like India, China and other fast-growing regions like Sub-Saharan Africa.

With this as a backdrop, our focus is on maintaining a long-term vision of where the world is headed and, in turn, where The Coca-Cola Company wants to go. For us, that road map for winning is represented by our 2020 Vision, a vision shaped together with our global bottling partners and a vision we are confident is ushering in a new era of winning, as we continue along the path to 2020. We estimate that by decade's end, there will be 1 billion new consumers entering into the middle class.

Additionally, massive urbanization will take place over the next 10 years, with another 800 million or so consumers moving to cities. These consumers are going to generate an increased demand for ready-to-drink nonalcoholic beverages, which is our business.

Yet with a vision, you also need a conviction and belief, followed by investment. To that end, we're investing for growth all around the world in alignment with our global bottling partners. We're investing in highly developed markets, such as North America, where we are both investing to support our brands via marketing as well as building new facilities, renewing existing facilities and upgrading our selling and execution capabilities.

In total, our system has made commitments to invest more than $25 billion over the next 5 years in markets all across the world. Our management's focus and our system-wide investments are paying off today, as we execute our 2020 Vision from a position of real strength.

Turning now to our total company performance. We realized strong worldwide volume growth of 6% for both the quarter and year-to-date, including the benefit of our new cross-licensed brands, primarily Dr. Pepper brands in North America. Excluding these brands, our volume grew 5% for the quarter and year-to-date, ahead of our long-term growth target, with over 30% of this quarter's incremental growth generated in our BRIC markets.

As for our profit results, we grew comparable earnings per share by 10% this quarter, bringing our year-to-date comparable earnings per share growth to 9% at the high end of our long-term growth target.

Now let's briefly review performance results across our operating groups, beginning first with North America, our flagship market. North America volume was up 4% this quarter, with organic volume even versus prior years, cycling 2% organic growth from prior year. Importantly, North America gained both volume and value share in nonalcoholic ready-to-drink beverages this quarter, reaffirming our commitment to driving balanced growth.

Our investments in sparkling beverages in North America continued paying dividends, as we gained volume and value share in the Sparkling category this quarter. Coke Zero delivered double-digit volume growth in North America for the 21st consecutive quarter, while Fanta was up high-single digits in the quarter, building on its year-long positive momentum. We're also expanding the footprint of our innovative Coca-Cola Freestyle fountain dispenser. We're in 50 U.S. markets today, putting us well on track to meet our target to be in 80 markets by year end.

As far as still beverages in North America, we delivered positive growth and gained share for the fifth consecutive quarter. A leading driver of this growth was POWERADE, which delivered 9% growth and gained both volume and value share in the Sports Drink category this quarter. Our Energy portfolio saw double-digit volume growth in the quarter with our NOS Energy brand up a strong 13%. Our key portfolio delivered mid-single digit growth led by yet another quarter of double-digit volume increase for our Gold Peak brand, and our Simply brand delivered its 26th consecutive quarter of positive growth while also taking industry-leading pricing of 6% to 9%, offsetting commodity pressure.

And we're making excellent progress with our ongoing integration at Coca-Cola Refreshments, which is proceeding as planned and has enabled strong execution of integrated marketing and commercial programs. So as a result, we remain confident that we have the right strategies and the right plans in place for North America, as we continue to be excited about the outlook for our business in this key market.

Now let me turn to our Pacific Group, where we are investing for growth across our markets. Overall, the Pacific Group volume was up 7% in the quarter, led by double-digit volume growth in China, up 21%, and South Korea, up 16%. Importantly, we gained both volume and value share in the Sparkling category with trademark Coca-Cola, up 4% in the Pacific Group for the quarter. In China, trademark Coca-Cola grew 23% this past quarter, its strongest growth since the second quarter of 2004. And in total, our year-to-date sales in China are now over 1 billion unit cases. Just to put this in context, our China business first delivered 1 billion unit cases for a full year in 2006, which means we doubled the size of our China business in just 5 years.

Looking ahead and as we have noted in previous earnings calls, we're introducing a wider variety of single-serve packages to our Sparkling Beverage portfolio in China. This is in line with our efforts to focus more on enhancing the consumer experience with our brand and promoting, at the same time, affordability. While this greater emphasis on single-serve packages may lead to some quarter-to-quarter volume fluctuation in the near term, it's also going to drive increased transactions and build brand equity. As such, we're confident we have the right strategies, execution plans as well as capabilities in place in China today to deliver sustainable double-digit growth.

Japan also delivered positive volume growth, up 1%, for the quarter despite the ongoing aftereffects of the tragic national disaster in March. This is a better result than we expected when we spoke to you about our Japan business in our last earnings call and is a testament to the strength as well as resilience of our Japanese bottling system. Having said that, we do expect to experience continued challenges in our Japan business during the balance of this year, as we cycle last year's record hot summer conditions and keep working through what is still a difficult environment. Gary is going to provide a more detailed update on our business in Japan later in our call.

But looking beyond 2011, we have strong confidence in our business in Japan. This year alone, our great Japanese bottling system have announced investments totaling over $250 million for production capacity improvements, logistics facilities and equipment innovations.

Moving now to Latin America. We continue to generate volume and profit growth across the region, with volume up 6% for the quarter, including 4% growth for brand Coca-Cola. We were able to capture this growth through a relentless focus on occasion-based consumer segmentation, combined with best-in-class customer service capabilities. These strategies which have served us so well in Latin America and many other markets around the world are the same ones, actually, we're now actively implementing in North America.

Latin America's broad-based growth was once again led by Mexico, up double digits for the quarter for both the quarter and year-to-date. Importantly, brand Coca-Cola keeps playing a significant role in driving growth for us in Mexico, up 7% for the quarter and 9% year-to-date. An interesting data point regarding Mexico this quarter is that our bottling partner, Coca-Cola FEMSA, sold 125 million unit cases in the month of May alone, the largest monthly sales volume in their history. That this historic milestone occurred in the same month that we were celebrating Coca-Cola's 125th anniversary is more than just a coincidence. It's a great testament to the remarkable system partnership we have in place in Mexico today.

Brazil volume was up 1% for the quarter, cycling double-digit growth and reflecting the macroeconomic slowdown, driven by the government's recent efforts to curb inflation. It's important to note that our business in Brazil continues to outperform the marketplace, gaining both volume and best value share in both sparkling, as well as still beverages. This provides us confidence that our strategies are working in Brazil and that we're well positioned to expand our share of industry growth in the years ahead. And our Argentina business delivered high-single digit quarterly and year-to-date growth, capturing volume and value share in both sparkling and still beverages.

Turning now to Eurasia and Africa, where we are executing with excellence across a diverse geography. Volume grew 7% in the quarter, led by strong results in Turkey, Russia and India. Turkey was up 12% this quarter with brand Coca-Cola up 5% for the quarter and 10% year-to-date. Russia was up 9% this quarter and 16% year-to-date, led by brand Coca-Cola up 17% this past quarter, posting a sixth consecutive quarter of double-digit growth.

India delivered quality results, growing 8% in both the quarter and year-to-date, making this the 20th consecutive quarter of positive growth for this key emerging market. Growth in India was balanced across our portfolio, with both sparkling and still beverages up 8% each.

Despite geopolitical challenges, our Middle East and North Africa business delivered 8% growth as we invest to strengthen our position in this region. We are also investing to enhance our competitive advantage across fast-growing countries in Sub-Sahara Africa. Our business in this region was up 6% this quarter, and we believe the opportunity for growth there is significant. GDP forecasts for the next 5 years indicate that of the 10 fastest-growing economies in the world, 7 will be located in Sub-Sahara Africa, making this region, in our view, the exciting S in BRICS.

As we move to Europe, the headline here is one of accelerated growth despite a challenging environment, economic environment. Volume was up 5%, marking Europe's fourth consecutive quarter of growth. Importantly, every region of our European business delivered positive growth this past quarter, benefiting from warmer weather, as well as excellent in-market activation of our 125th anniversary programs. Our sparkling beverages in Europe were up 5% for the quarter, with trademark Coca-Cola up 6%. And Coca-Cola Zero was up double digits for the third consecutive quarter.

Our still beverages were also up 5% in the quarter, driven by double-digit growth in energy beverages and high-single digit growth in teas. Additionally, the further expansion of the Innocent brand fueled our juice and juice drink growth.

While every region of our European business delivered volume growth this quarter, Germany led the way with 7%. Our German business benefited from the further evolution of our occasion-based package and price architecture and the successful execution of robust marketing programs centered on our 125th anniversary campaign. Our new marketing programs are also helping us recruit both lapsed consumers as well as a new generation of teens in this key European market.

As many of you know, our 2020 Vision outlines this strategic set of priorities across multiple dimensions. From time-to-time, we will take an opportunity in our earnings calls to highlight these priorities and share how we are advancing them. One of our priorities is to win at the point of sale by expanding our investments in immediate consumption. Year-to-date, we're seeing strong momentum against this priority with our immediate consumption beverages up 5% globally. And while many still beverage categories contributed to this growth, our Immediate Consumption Sparkling Beverages are up 4% year-to-date. Importantly, each geographic operating group is growing our Immediate Consumption Beverage business on a year-to-date basis. As the world becomes more urbanized and as more consumers begin to lead on-the-go mobile lifestyles, we see great runway ahead for us in profitable Immediate Consumption growth.

In closing, we're working closely together with our global bottling partners. And the strength of our alignment not only enables us to navigate the current economic and consumer landscape, it also puts us in a position of real strength to deliver our 2020 Vision. Despite the mixed economic recovery all around the globe, consumers are increasingly choosing our brands to refresh themselves at a rate of over 1.7 billion servings every day and growing. Our strong revenue and profit results, combined with our worldwide volume and value share gains and positive price mix, attest to the strength of our global system.

During this past quarter, we officially celebrated Coca-Cola's 125th anniversary. And while it is wonderfully rewarding to celebrate our past, we remain constructively discontent and resolutely focused on our exciting future. With our 2020 Vision as our road map, we will continue to execute our strategies with more focus and passion than ever before. That is why, as we look ahead to 2020 and beyond, we remain confident in our ability to achieve our long-term target and to deliver sustainable, profitable growth and value for our shareholders. With that, I'd now like to turn the call over to Gary.

Gary Fayard

Thanks, Muhtar, and good morning, everyone. We are pleased with our performance this quarter, as we delivered results ahead of our long-term growth targets. And we're achieving these results during a time of mixed economic recovery, which is a real testament to our global system's ability to execute our strategic plans in alignment with our 2020 Vision.

So let's review our earnings results in more detail. As Muhtar said, we reported comparable earnings per share of $1.17 this quarter, up 10% versus the prior year. This brings our year-to-date comparable earnings per share growth to 9%, at the high end of our long-term growth target.

For the quarter, comparable operating income was up 18%. This includes a 6% benefit from currencies and higher commodity cost. This brings our year-to-date comparable operating income growth to 14%, including a 4% currency benefit and the commodity headwinds.

Our business delivered comparable net revenue growth of 47% this quarter, including a 6% increase in concentrate sales, a 6% currency benefit, positive price mix and the impact of a CCE transaction. On a year-to-date basis, our comparable net revenue growth was 44%, including a 5% increase in concentrate sales, a 4% currency benefit, positive price mix and the impact of the CCE transaction.

Our combined International and Bottling Investments Group price mix was a positive 2% this quarter, and our second quarter pricing to retailers in North America was up between 1% and 2%. To be clear, this is our best estimate of the increased pricing our retail customers pay for our brands.

In our meetings with you this past quarter, some of you asked for additional detail regarding our 2011 North America retail pricing strategy. We believe in executing pricing within a disciplined commercial framework that considers rate increases, together with occasion-based package mix levers, balancing overall category health with volume, value and retail pricing growth. So let me update you on the rest-of-year outlook with respect to our North America retail pricing strategy.

As we said in our last earnings call, we expect to capture between 3% and 4% incremental retail pricing in the back half of 2011, leading to a net full year benefit of between 2% and 3%. We can confirm that we have put into effect incremental pricing programs with many of our customers for the rest of this year that will enable us to deliver against this full year retail pricing target. As such, our 2011 North America retail pricing strategy is laser-focused on driving profitable growth, leveraging both rate and mix levers and to not just take price, but to earn retail price ahead of inflation and at a premium to our industry.

Our system has done this successfully and consistently in North America, not just this quarter and not just this year, but on a sustainable year-over-year basis. And I can assure you that we will continue to execute our retail pricing strategies to deliver maximum long-term value, not only to our consumers and our customers, but especially our shareowners.

Turning now to our P&L. Our comparable currency-neutral SG&A expenses were up 47% in the quarter and 48% year-to-date. As we did last quarter, I'll take a moment to review our consolidated SG&A results by operating segment to provide you with a little more context and insight on our results.

First and as expected, North America's SG&A reflects an increase due to our acquisition of CCE's North American business, including the application of The Coca-Cola Company's sales curve accounting policy to the related CCE North America marketing expenses, as I detailed in our last earnings call. We expect this increase and its corresponding impact on operating expense leverage to remain in place until we fully cycle acquisition of CCE's North American business.

Second, our Bottling Investment Group's SG&A was up 5% on a comparable currency-neutral basis, excluding the impact of structural items for both the quarter and year-to-date. This is also to be expected as we continue to make strategic investments in key markets where we see strong long-term growth potential.

Third, our international operating segment's SG&A reflects increased direct marketing expenses, as we further invest in the health and strength of our brands. And finally, as expected, our currency-neutral corporate expenses are up double digits for the quarter and year-to-date due to the inclusion of corporate expenses related to CCE's North American operations and other investments, primarily in IT. While we consider these collective SG&A increases and the higher commodity costs observed this year, we expect full year operating expense leverage to be negative for North America and our Bottling Investment Group as anticipated, since both are finished goods businesses. As for our international operations, we expect our operating expense leverage to be even for the full year, as we strategically sustain our brand-building investments around the world.

And for our year-to-date cash flow from operations, this came in at $3.6 billion or $668 million less than in the comparable period last year. Part of this is attributable to the inclusion of CCE's North America business in our results, a business which is historically a net user of cash in the first half of the year. In addition, this cash flow results includes a $769 million contribution made to our pension plans in the first quarter of this year, as discussed in our last earnings call. Net of the pension plan contributions, cash flow from operations were actually up 2% year-to-date.

Now let me take a moment to update our 2011 outlook, starting with how we are successfully managing the current currency and commodity environment, as both of these items have tended to move in opposite directions this year, serving to partially offset each other's impact. Since our last earnings call in April of this year, currencies have continued to fluctuate. In response, we have increased our coverage of most key currencies for the remainder of the year and now expect currencies to have a mid-single digit positive impact on operating income for the full year.

As for commodities, we still expect these to have an unfavorable impact of approximately $700 million on our full year results, in line with the same full year forecast we shared last quarter. As communicated earlier, we are implementing retail price increases with our customers who are also pulling forward cost-saving initiatives to help offset some of these commodity cost.

We continue to actively hedge our commodity and currency exposures. We also continue to reflect the impact of gains or losses resulting from mark-to-market of derivatives, which do not qualify for hedge accounting in the period that the underlying transaction takes place. As a result, in this quarter, we recognized a net $26 million of previously deferred gains primarily related to commodity hedging and have called these out in the schedules and notes to our GAAP/non-GAAP schedule.

Now let me share our latest views on how we see our recent events in Japan influencing our full year results. As Muhtar mentioned, our second quarter results in Japan came in stronger than anticipated after the earthquake and tsunami. Having said that and consistent with what we shared in our last earnings call, we still expect events in Japan to dilute our full year comparable earnings per share by between $0.03 and $0.05, with this impact primarily in the third and fourth quarters.

Finally, let me update you on our efforts across several of our ongoing programs starting with our company-wide productivity initiatives launched at the start of 2008. Our original plan, you may remember, target to capture $400 million to $500 million in annualized savings by the end of 2011. Today, I can confirm that we are on track to slightly exceed the upper end of this target by year end, the final year of this 4-year program. With regard to synergies related to our CCE transaction, we can also reaffirm our commitment to capture between $140 million and $150 million of net cost synergies in 2011.

As for our share repurchase program, we limited the number of shares purchased this past quarter, as we considered strategic alternatives. For those of you who model our business, this will represent approximately $0.01 difference between our earnings per share results and your own model's estimates. On a year-to-date basis, our share repurchase now stands at $1.1 billion, although some of these repurchases have been offset by the exercise of employee stock options. At this time, we are planning to purchase at least 2.5 billion in shares this year and plan to accelerate our share repurchase efforts, as needed, to achieve this target by year end.

Now let me add a few notes regarding several other line items. First for the full year, we expect net interest income, up $30 million to $40 million. This full year forecast implies a lower level of net interest income for the remaining 2 quarters of this year, driven by our expectation for slightly higher interest rates on our debt in the downhill and the effect of other debt activities we're evaluating, including the conversion of some of our commercial paper balances to long-term debt. Lastly, our underlying effective tax rate now stands at 24%.

In closing, we are greatly encouraged to see our business deliver yet another quarter of solid volume, revenue, profit and earnings results. Our seasoned management team and our highly capable global bottling partners are clearly taking the right actions and executing the right strategies to drive our 2020 Vision and advance our global momentum.

Operator, we're now ready for questions, please.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question today comes from Carlos LaBoy from Crédit Suisse.

Carlos LaBoy - Crédit Suisse AG

Two quick questions, one on Japan. To what do you attribute this Q2 strength? And why is Q3 and Q4 still worrisome, if the dislocation's been in evidence since Q2? And to Muhtar, I was hoping you could speak to some of the bottling issues. So many of your key bottlers around the world right now are cash-rich. They're looking to deploy cash for growth. Can you speak to how you gauge and maximize this opportunity? What do you tell these bottlers, if you really don't seem to be ready to shed the bottler investment group operations, if they're still hungry to invest more? Do you worry that you need more growth opportunities for these bottlers?

Muhtar Kent

I'll take your second question first. Let me just say that you heard me say that we're looking at investing $25 billion with our bottling partners in the next 5 years. As I said on CNBC this morning, too, the fact that we are generating a good quarter now is not only a result of the good execution and the focus on -- the laser focus on the priorities and executing against those priorities and the strategies. It's about the investments that we made 6, 7, 8 quarters ago and that we continue to make both in our brands, in innovation capabilities, in distribution capabilities, in route-to-market, in equipment and in enlarging the production base. When you look at the base that we have in a country like China today and generating the kind of growth we are generating on that base, you need significant infrastructure investments in a market just to deliver that kind of volume incrementally on top of the huge base. And that holds true for Africa, that holds true for Latin America, all of the higher growth markets. So we are in Turkey. We're investing very heavily with our bottling partners in Asia, in Latin America, in Africa, in Eurasia. And I think the testament, the best litmus test again for the health of our business is our bottlers' appetite for additional investments with us as well as, of course, appetite for additional territory. And we have both, and that's a very good sign in our business. But primarily, our bottling partners are seeing with us tremendous opportunities for continued growth. That growth cannot come without conviction, belief, followed by investment that generates -- and then well-executed that generates the growth that we're getting. So I think today, the investments that we're making in this -- that we made in this past quarter, while we delivered a good quarter, are going to pay off in the coming quarters. So that's the way you need to think about it. And then secondly, on Japan, look, I think our Japanese bottling partners have been very quick to come together and investing and ensuring that we have -- we’re supplying the market ahead of the trends, ahead of the consumer demand, ahead of the customers' expectations. And that's what we have been doing very successfully in Japan, rationalizing SKUs, which we have done in order to ensure that we can navigate through the current restrictions in energy and other areas that the country is going through. And we're playing our part just like also some innovative mechanisms to save more energy on our cooler base, cold drink base in Japan that we've done and implemented successfully and have received also great words of support from the government, local and federal in Japan. But look, we're cycling a quarter, like, coming quarter of 11%, due to the very, very unusually hot climatic conditions that existed there in Q3 next year -- last year. And so, as we look forward into H2, the second half of the year, we see a very challenging cycle, but also ongoing issues around energy, around opening hours for retailers and the like. But look, over time, we see all of this being normalized, and the good news is that we are ahead of where we thought we would be today when we talked to you 3 or 4 months ago. And that’s, I think, the key message about our Japanese business that you need to take away. And I think, as we did with the global macroeconomic crisis, we haven't wasted the current crisis in Japan. We've used it to become stronger, to become -- to invest further and to ensure that our brands also are very healthy and successful. And again, the $250 million investment, system investment by our bottling partners in Japan, is another great testament to that. So that's what I’d like to leave you with.

Operator

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

William Pecoriello - Consumer Edge Research, LLC

Muhtar, I wanted to focus a little bit more on China. You mentioned a wider variety of single-serve packages rolling out. Can you talk specifically about what you're rolling out there that might cause some lumpiness in the quarterly growth? Also, if you could put some numbers around the accelerated cooler penetration that you referred to? And on the distribution gains, are you still growing in the Tier 1 and Tier 2 cities? Or is the majority of that growth and distribution coming in the lower-tier cities?

Muhtar Kent

I think it's fair to say that in China, our business, the industry continue to evolve at a very high speed. And again, we're introducing a wider variety of packages choice to promote both affordability as well as enhancing the Chinese consumer experience with our brands, all really in a way to focus to drive increased transactions. I think that is a great -- we're looking increasingly at the health of the business through increased transactions and also profitable growth and to continue building both brand equity with our consumers. So as 1 of the only 2 multicategory beverage players in China, the measure of our success will be how we grow our total business between now and 2020 versus our growth in any particular quarter. And clearly, I think with the consumer fundamentals and our strong position in China, we're just getting started, I believe, in this region. And we're investing for the long term. And we're ahead of our investment announced of $2 billion over the 3-year period starting with 2009 through ’11. And the key strategies and initiatives are to expand our portfolio and packaging, continue to invest in our distribution system and to invest aggressively in Cold Drink. You asked about Cold Drink. This year, probably, we'll be placing more cold drink equipment than we've ever done in our history, for sure. And then, we are getting growth increasingly in Tier 3, but also continue to grow our business vertically, as well as slightly horizontal growth in Tier 1 and Tier 2. And important to note, also, brand Coca-Cola was up 24% in the past quarter in China, and we're excited with the focus paying off, as well as with the packaging strategy paying off and our strategy of improving, enhancing consumer experience paying off in China.

Operator

Our next question comes from John Faucher from JPMC.

John Faucher - JP Morgan Chase & Co

Just first, a point of clarification from Gary. Gary, if you're telling us about these discussions and you're telling us that you are going to resume share repurchase, is it fair to say then that whatever discussions you were having in the second quarter are no longer operative? And then the second piece would -- could you give us an update in terms of, it sort of falls in with some of Bill's comments about the single-serve in China, as you look at this progression to transactions over the next 12 months or so, how should we be modeling this out? Is it going to be something where the price mix will get a lot better and the volume will go down, just so we can manage expectations there? Or volume estimates will go down, but then the profitability should get a little bit better there? So can you walk us through how we should think about that longer term?

Muhtar Kent

Let me take your question on China, John, and then over to Gary.

John Faucher - JP Morgan Chase & Co

It was actually more globally, not just the China piece. Actually probably more the U.S. in terms of the transactional piece and the price packaging architecture.

Muhtar Kent

Right. And that is fundamental to the health of our business, overall, and our ability to deliver sustainable profitable growth, and think of it as a soft landing. This is not about taking, going down path and altitude, and creating indigestion and headaches for people in the plane. It's all about ensuring that we can fine-tune our business, and consumer-led pricing is the key and choice is the key. And portion packs are working very well for us across wherever we've introduced them selectively and with surgical focus, whether it's in the United States, whether it's in Europe, Latin America or China. And I think, a great, again, indicator of health of our business is growth of transactions. And where volume grows and transactions do not grow at the same rate, business needs to be fine-tuned. We have that philosophy and we implement that philosophy without -- with ensuring that we always have soft landings. And that it's a mix of happiness when you have -- when you're able to increase transactions as well as increase your volume and also your share. And that's the position we'd like to see ourselves in every market, and that's what I'd like to just leave you with. And as far as you asked about where do we see this in terms of China, I think the issue, the picture of success there again is to keep growing the volume, but also ensuring that we can generate commensurate growth in transactions, without disrupting the business, as we implement this strategy and this -- execute with focus. And over to Gary now for your other question.

Gary Fayard

John, on share repurchase, first, just for everyone's clarification, if you are engaged in anything that would be material inside information, the securities laws in this country would preclude you from buying your own shares. And we were looking at some strategic alternatives during the quarter. And therefore, we thought it prudent to not be in the market during that time. I can confirm that as of today, there is nothing that would preclude us from re-entering the market to repurchase our shares, now that the earnings release is out.

Operator

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

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

Gary, on commodities, could you give us a sense of how hedged you are looking for 2012? And if we were to assume commodities stay where they are through 2012, what kind of annual increase we might see? I assume it's a number less than the $700 million this year, but what kind of number might we see next year?

Gary Fayard

Yes, Mark, well, number one, we are putting coverage into place in 2012. It is not all in place because we would normally be entering into those contracts now and through the fall, as we're doing our business planning and all. I guess the impact, it's hard to tell you the impact today, because there's a lot of volatility and the prices aren't locked in. What I can tell you though is particularly on some of the commodities, let's say corn, we have very favorable hedge contracts in place today for 2011. And that's included in the calculation of the $700 million. So don't expect to see anything like $700 million next year. But we will be then cycling in certain of those commodities, some favorable hedge positions that we had this year. But with all that said, I'd say there's going to be some commodity pressure next year. It's not going to be anything like, based on what we know today, like it is this year. And I'm talking more U.S. now, because obviously, since all of these are dollar-based commodities on the international side, a lot of that then gets offset by currency, the way currencies have been moving recently. So I'd say there's going to be some pressure next year, but nothing like we've seen this year.

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

Great, and if I could follow up on PET, specifically, what is your view in terms of where that commodity specifically is heading?

Gary Fayard

On PET, I think, number one, you would think because it's plastic and most of it historically has been sourced out of petroleum, that it would be closely linked to the price of oil, and it's actually not. It's really -- there are 2 main ingredients that go into making the plastic itself. There is a real supply-demand relative to those 2 ingredients and there's a global shortage of one of those. By the way, that -- this is more than you probably want to know. But a lot of that relates to the price of cotton, of all things, because -- and price of cotton, as you know, this past year has been kind of historic highs. What that means is that in clothing, a lot of the clothing will start going toward polyester versus cotton. That puts the demand side on polyester comes from the same source as PET, and that's what's given a lot of the pressure this year to PET resin. I think there'll still be some pressure on it, but I don't see a lot more upward pressure into next year at this point. I guess the one thing I would say as well, I think that's where it's really important, not only from an environmental and a consumer point of view, our PlantBottle, which in our PlantBottle, 30% of the ingredient now coming from renewable sources from plants versus petroleum. And as we go forward, I think, and looking at increasing capacity in that, we can continue to increase our packaging of the PlantBottle globally. That can help us not only environmentally, but also on the commodity costs side. So this is one of those where you can do good and do better because of both consumer and costs.

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

Great. And it sounds like you're saying you don't expect PET to go up. There’s some who think it's actually going to be going down pretty nicely here as the cotton comes in. Do you have a view on it actually going down later this year? Or is it too soon to say?

Gary Fayard

It's too soon to say, I'd say, right now. I'll try to give you some more on that end of the third quarter.

Operator

Our next question comes from Christine Farkas, Bank of America Merrill Lynch.

Christine Farkas - BofA Merrill Lynch

A regional question, if I could. First thing on Europe, I'm seeing or we're seeing very strong growth there. And Muhtar, you talked about all the regions supporting that growth. Can you comment a little bit about Southern Europe and Italy, Spain, Greece, and how you might be executing there to drive potentially positive volumes in this environment? And also confirm the pace of Eastern Europe, if that is, in fact, turning. And then on the Philippines, very tough cycles there and macro conditions. I'm wondering if you can also highlight how that business performs.

Muhtar Kent

Yes, Christine. I think Europe, we're obviously pleased with the result, given the macro conditions in Europe, overall. As I said before, Europe is not as uniform as, say, Japan or the United States in terms of the economic recovery. There are regions of Europe that really are not doing badly at all. Germany is one. The exports are still booming out of Germany. The German economic growth is leading the rest of the countries in Europe. Great Britain is sort of pretty much in the middle, and then you've got the sort of Eastern Europe coming back, although not coming back very strongly. But there are signs of Eastern Europe, Central Europe, Hungary, Czech Republic, Slovakia, then also Romania and Bulgaria and former Yugoslavia, Croatia, Serbia, Montenegro and former Yugoslav Republic of Macedonia, all of those places coming back and we expect that to continue, Poland as well. But the real issue still continues to be in terms of consumer confusion and lots of missed, and consumers being extremely cautious in the southern part, in Spain, Italy also, Greece, Spain, being Spain and Portugal. But we were pleased to see that Spain grew this past quarter, and we see the programs that we're putting into place with our bottlers, the investments in our brands, paying off. And we do believe that we're going to strive to continue growing in Europe on the back of these 4 consecutive quarters. France, of course, is a great performance. We've had cycling 8%, growing 8%. Germany, again, cycling growth and growing, and Great Britain more moderate growth, and then Spain up in the mid-single digits. So we're very positive about that. And then Philippines, Christine, obviously a very, very challenging environment in the Philippines, with the aftereffects of food inflation still lingering on. There was a lot of hot money that came into the Philippines' economy back about 4 quarters ago, back during the election, and I think we're cycling that period. But the good news is that we're doing the right things in the Philippines, investing in our brands, gaining market share in the Philippines in both sparkling and still beverages, and getting stronger in the Philippines. And therefore, when the current environment stabilizes, and we do believe that we're going to come out of the tunnel stronger and better in the Philippines, where our penetration is growing in all different socioeconomic retail outlets, as well as driving volume and value share and brand health getting better for both Coca-Cola as well as our allied brands, Sprite and Fanta, but also for our still beverage brands.

Operator

Our next question comes from Caroline Levy with CLSA.

Caroline Levy - Credit Agricole Securities (USA) Inc.

Just a little bit of detail, if I might, on the situation in Russia, because I thought the acquisition of Nidan would have added about 10 points of volume growth. So is the base business healthy in Russia? Is the consumer in good shape? And then secondly, if you could look at juice in the U.S., it sounds like volumes were very soft, because you took pricing up. And I was just wondering if profits were also soft, in other words, the margin pressure offset the pricing.

Gary Fayard

Caroline, I think as we look in 2011, some underlying trends have slowed somewhat. Consumers are still cautious in Russia. But we had a very strong Q1 with volume up 27%, strong share gains. And then this quarter again, we're driving our core brands, which are much more profitable and they're a very healthy brand, Coke up 17%, Fanta up much higher than that, almost double, higher than 30% growth since the relaunch of Orange, with both natural colors as well as ingredients. And I think the juice category suffered the most in the economic crisis. So Multon was challenged, but we should see improvement in Q4, going forward, as both Multon integration continues and the Nidan operation continues to perform above our expectations. And we've continued to gain market share again in the second quarter, both in sparkling as well as still beverages. And we're again cautiously pleased with the strength of our core brands, which are really the foundation for our success to become a bigger player in NARTD in Russia, going forward, than where we are today. And I think we need to continue to drive our core brands in the way we're doing. And that's generating again much better also revenues for us in Russia, as a system with our bottling partners. Now concerning juices in the United States, I signaled in my script that we led pricing with Simply, 6% to 9%. Certainly the commodity pricing for fruit was a challenge, going forward. We put that behind us, and we still generated growth in our Simply brand. And we believe that we have the right propositions in juice going forward in the United States, and that we will continue to drive profitable growth in our juice business, both at the higher end with Simply and Odwalla, but also at the more mid-range, with all the innovations that are taking place with Minute Maid that we're in the marketplace with.

Operator

Our next question comes from Judy Hong from Goldman Sachs.

Judy Hong - Goldman Sachs Group Inc.

A couple of questions from me. First, Gary, is there any way we can bridge the North American profit? Obviously, the CCE acquisition really makes it tricky. If I just kind of look at your Q1 performance versus Q2, it seems like profit, incremental profit you got in Q2 versus the revenue growth was actually a lot better. So I'm just wondering if there's any way we can kind of think about how much acquisition added, some of the cost savings, the commodity versus pricing delta? If there's any way we can kind of walk through those in more detail, I'd really appreciate it.

Gary Fayard

Judy, if I could give you that, I would then have to admit to Muhtar that I could give it to him as well. And the issue -- what you're asking for are pro formas, basically, so that you can actually break it apart and see it. And the difficulty with pro formas that -- it's what I explained to North American leadership within the company, to Muhtar and now to you, is that because of the integration, it wasn't just an acquisition, we truly integrated the businesses where the Juice business is now inside of CCR, the Food Service business is inside of CCR and the Food Service team is now selling both fountain as well as bottle/can as well as juice products. So I can't pro forma and pull it all apart, to actually give you those pieces. So basically, all I can do is try to give you kind of the detail we've given you on the call, and then just ask for your indulgence and patience until we cycle through all of it, 2 more quarters, and then next year, it will all look normal.

Judy Hong - Goldman Sachs Group Inc.

If I just could then maybe think about from a timing perspective, would Q2 have been the most pronounced in terms of commodity versus the pricing gap?

Gary Fayard

Yes, in that in Q3, Q3 would really be probably the biggest quarter, additional pricing went in, in Q3. And commodities are going to -- the commodity increases are kind of in there already. So I think your logic is correct.

Muhtar Kent

But just a couple of points to add to that, Judy. Number one, I think if you look at the overall business where volume was up, excluding the cross-licensed brands, 5% comparable increases in concentrate and then currency added to that and then price mix, 2 points of price mix across our core business around the world. That is something that again, in this environment, we’re cautiously pleased with. So that's an important point. The second, I think, point is that in the U.S. business, we talked to you about 1% to 2% price increase in sort of the first quarter. I think it's fair to say that we have taken actions in the marketplace. And we just have to now turn, go through it and implement it effectively in the second half. But we have taken measures for another 3% to 4% price increase generating probably a rate increase of, overall, for the full year of 2% to 3%. And I think anything on price mix will come on top of that. That's where we are in the U.S. business. And I think you will see us, you'll see that being reflected in the marketplace. I certainly, as I go into the marketplace, see that reflected. I was in the marketplace in the West Coast as well as on the East Coast this past 10 days, and I see that coming into play. And that is something that’s important as we continue to execute and with focus on the second half of the year, as we move into our third quarter now.

Judy Hong - Goldman Sachs Group Inc.

Okay and if I could just follow up, Muhtar, just some comment about the premium pricing in North America versus the industry. Is the plan really using the packaging mix to kind of widen that premium pricing? Or is it really just looking at even the same packaging versus the competitors? Or do you think that your brand equity's strong enough that you can actually get premium pricing?

Muhtar Kent

Well, premium pricing is all relative. It's all based on the price packaging channel, architecture. And I think at the end of the day, if that translates into a higher number for you or an incremental number on top of the rate increase that I talked about, which is on average for the full year, 3 or 4, but for the second half, 3 to 4, and for the full year, 2 to 3; then that is certainly a benefit that we would be looking for and we will be executing against. But again, all the time, all the time, I repeat, consumer-led pricing as opposed to just costs-led, and because it's a balance that is really critically important. And also, the value share gain is something that is right on top of the radar screen for us.

Judy Hong - Goldman Sachs Group Inc.

Okay. And, Gary, just a quick clarification on share buyback comment again. So when you said, as of today, there's nothing to preclude you from buying back stock, is it the earnings release that triggers you to be in the open market? Or was the comment really that all deals, the strategic alternatives that you were looking at, you're done with that discussion and that you can move on now?

Gary Fayard

Yes, Judy, thanks for the question. There are 2 things that can keep you out of the market. One is if you're looking at strategic alternatives that are material insider information and that can be either in the U.S. or internationally, and then when we go into a quiet period where the numbers actually come in for the quarter. And what I'm saying is that we are free to reenter the market on both counts today.

Muhtar Kent

Thank you, Gary, Jackson. In closing, we had a strong second quarter and delivered solid mid-year performance. We're executing our 2020 Vision, advancing our global momentum by working closely with all of our key stakeholders. We're deploying our cash to invest in our brands, grow our global business and reward our shareholders. We're on track to deliver against our long-term growth targets and remain intently focused on working across our system to execute our key strategic priorities and generate long-term sustainable growth. Our proven track record of creating value over time is a testament to this dynamic commercial enterprise, as well as business, that has only just begun to reach its potential. Thank you for joining us this morning.