CCH – 2015 full-year results
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CORPORATE PARTICIPANTS

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Operator

Thank you for standing by ladies and gentlemen, and welcome to the Coca-Cola HBC's conference call for the 2015 full-year results. We have with us Mr. Dimitris Lois, Chief Executive Officer, Mr. Michalis Imellos, Chief Financial Officer, and Ms Basak Kotler, Investor Relations Director. At this time all participants are in listen only mode. After a brief update on 2015 full-year results, we will open the call to questions. If you wish to ask a question, please press star one on your telephone keypad at any time and wait until your name is announced. I must also advise that this conference is being recorded today Friday, February 19 2016. I now pass the floor to one of your speakers, Ms Basak Kotler. Please go ahead.

Basak Kotler - Coca-Cola HBC AG - IR Director

Forward-looking statements

Good morning. Thank you for joining our call today to discuss Coca-Cola Hellenic Bottling Company's results for 2015.

Today, I am joined by our Chief Executive Officer, Dimitris Lois and our Chief Financial Officer, Michalis Imellos.

Following the presentation by Dimitris and Michalis, we will open the floor to questions.

Before we get started, I would like to remind everyone that this conference call contains various forward looking statements. These should be considered in conjunction with the cautionary statements on the screen. This information can also be viewed in our press release issued today.

Now let me turn the call over to Dimitris.

Dimitris Lois - Coca-Cola HBC AG – CEO

Full-year highlights

Thank you Basak. Good morning everyone and thank you for joining our call.

I will start by giving an overview of 2015 before Michalis takes you through our financial performance. I will then discuss our operational performance, and the outlook for the year.

I am pleased with our progress in 2015. Our results demonstrate that our commercial initiatives are delivering strong top line growth. This, coupled with our ongoing efficiency efforts, has also significantly improved our profitability.

Starting with the top line, we achieved 2.6% volume growth in the year, with contributions from all three segments. This marks the first year of volume growth for the Group after four consecutive years of decline.

Our revenue growth management initiatives enabled us to grow our currency-neutral net sales revenue per case for the fifth consecutive year.

Favourable input cost environment, volume leverage as well as our revenue growth and cost management initiatives helped us significantly improve our operational profitability, leading to a 100 basis point expansion of EBIT margin.

Comparable earnings per share was 86 Euro cents, a 14% increase on the prior year.

Furthermore, our consistent focus on disciplined working capital management led to further improvements in working capital balance sheet position and days.

Looking at our overall performance in the face of challenging macroeconomic and trading conditions in many of our markets, we are pleased to have taken an important step in returning our business to sustainable growth and higher margins.

With this confidence, our Board proposes a 40 Euro cent dividend per share, which represents an 11% increase on the prior year.

With that, I will turn the call over to Michalis.

Michalis Imellos - Coca-Cola HBC AG – CFO

Financial review

Thank you Dimitri and hello everyone.

In line with our practice, as I take you through our financial results for the full year, I will refer to comparable figures which exclude the impact of restructuring costs, the mark-to-market valuation impact of commodity hedges and specific non-recurring items.

Financial performance overview

As Dimitris mentioned, our volume increased by 2.6% in the full year.

Underlying volume growth trends remained strong in the fourth quarter – that is, after adjusting for the four fewer selling days in the quarter.

Net sales revenue declined by 2.5% in the full year, negatively affected by the significant currency headwinds, particularly in our Emerging markets segment.

Currency-neutral net sales revenue per unit case improved marginally. While our pricing actions to offset the currency headwinds in certain markets were a positive factor, affordability measures and deflationary pressures in other markets worked against us.

Favourable input cost environment and volume leverage helped expand our gross profit margin, while the foreign currency impact was a negative factor. The net result was a 100 basis point expansion in the gross profit margin.

Our optimisation initiatives supported by restructuring, led to a stable performance in operating expenses as a percentage of revenue, despite the substantial negative impact of currency on revenues. I will come back to this later in my presentation.

Comparable operating profit increased in the full year by 11% versus the prior year and comparable operating profit margin expanded by 100 basis points. Favourable input costs and operating leverage more than offset the adverse currency impact that reached €174 million in the year.

Comparable EPS reached 86 Euro cents, 14% higher than prior year.

Our consistent actions to optimise working capital continued to drive improvements in both the working capital balance and the working capital days compared to the prior year. We achieved a triple-digit negative working capital balance for the first time ever.

We generated strong free cash flow of €412 million in the full year, up 79 million compared to the prior year.

Fifth consecutive year of FX-neutral net sales revenue per case growth

Turning to the revenue performance in more detail:

FX-neutral net sales revenue per case improved marginally in comparison to the prior year. The key driver was our revenue growth management initiatives including pricing in order to mitigate adverse foreign currency movements in markets impacted by currency depreciation. However, this good performance was partially offset by limited pricing opportunity in certain deflationary economies and markets with affordability concerns.

In our Established markets, FX-neutral net sales revenue per case declined by 2.4%. This decline was driven by deterioration in price mix, given deflationary pressures, as well as negative category mix.

In Developing markets, improved category mix was not enough to offset unfavorable price and channel mix, leading to a 2.4% decline in FX-neutral net sales revenue per case.

The Emerging markets saw a 4.0% improvement in FX-neutral net sales revenue per case. This was mainly the result of our pricing actions put in place to mitigate the FX headwinds in countries facing currency depreciation and the associated inflation. Category mix was also positive, more than offset by negative channel mix.

Favourable input cost environment

Turning to input cost.

FX-neutral input cost per case declined by 9% in the full year, in line with our expectations.

The key drivers for the decline were mostly lower EU and World Sugar prices, as well as improved PET resin prices, which are correlated to declining oil prices.

Cost management initiatives delivering results despite higher FX management costs

Turning to our OpEx performance, our consistent focus on optimising our operating cost base achieved good results in the year, leading to a nearly €50 million absolute reduction in operating expenses.

Operating expenses as a percentage of net sales revenue remained stable in the year, at 29.2%. This is because good progress on our cost efficiency actions was offset by increased FX management costs, attributable to the extreme currency volatility in the year.

Let me walk you through these drivers of the operating expenses as percentage of net sales revenue on a segmental basis.

In Established markets, we continued to make good progress on cost optimisation as a result of our restructuring efforts, with a 40 basis point improvement, which was invested back in the market with a 40 basis point increase in marketing spend.

In Developing markets, the startup costs on our investment in an automated warehouse was the main driver behind the 20 basis point increase in operating expenses. In addition, we invested significantly in the market, with a 50 basis point increase year on year.

In Emerging markets, our recent restructuring focus has paid off, with a 50 basis point improvement in cost management performance. Marketing costs also improved on a reported basis, as we cycle the Sochi Olympics and other investments of last year. This was partly offset by FX management costs going up by 40 basis points, due to the significant currency volatility in the year.

Cost efficiency remains a key priority across our business and we are confident that we can achieve significant improvements in operating expenses as percentage of net sales revenue in 2016.

Operating leverage and input cost benefits delivering profitability

Turning to operating performance, we recorded comparable operating profit of €473 million in the year, 48 million higher than in the prior year. Overall, volume leverage, lower input costs and cost control more than offset the impact of adverse foreign exchange movements.

Volume leverage and input costs were tailwinds across the segments, while adverse currency impact was a headwind predominantly for the Emerging segment.

Let me provide you with some more colour on those key drivers on a segmental basis:

In Established markets we benefited from volume leverage, input cost tailwinds (mainly from EU sugar) and cost optimisation initiatives. These were only partially offset by adverse impact from our affordability measures and deflationary pressures in several of our markets.

Developing markets had an even more pronounced favourable impact from input costs, further supported by volume leverage, in view of their stronger volume growth. These benefits were offset to some extent by the affordability initiatives we put in place.

Volume leverage and input costs benefits were a tailwind for Emerging markets as well. There are however two elements differentiating the performance of this segment. This segment attracts nearly all of the €174 million adverse FX P&L impact. This is only partly offset by pricing initiatives we implemented within the framework of our efforts to mitigate this currency impact.

Restructuring update

As far as Restructuring is concerned,

We incurred restructuring charges of €54 million on the year, mostly focused on Established and Emerging markets.

Annual restructuring benefits in 2014 and 2015 amounted to €51 million.

Looking ahead to 2016, we expect annual restructuring costs of approximately €35 million with estimated annualised benefits of €25 million from 2017 onwards.

The savings in 2016 from initiatives taken in 2015 and those that will be taken in 2016, are expected to reach €22m.

Solid free cash flow generation in the year, achieving three-year target

Turning now to free cash flow, we generated €412 million in the year, 79 million above prior year. We are pleased to report that this brings the last three years' free cash flow total to € 1.16 billion, achieving our target for €1.1-1.2 billion in the three-year period 2013-2015.

The free cash flow increase was driven by working capital improvements and capital expenditure further supported by operating profitability growth. We remain disciplined in our working capital management approach as evident in the working capital triple-digit negative amount and working capital days' ongoing improvement year-on-year.

Looking ahead, our annual capex spending over the medium term is expected to remain in the range between 5.5% and 6.5% of net sales revenue. In 2016, this ratio could be at the lower end of this range, in view of the overall economic volatility.

We remain confident in our proven ability to generate solid free cash flow in the short to medium term, despite the macroeconomic and currency headwinds.

Diversified financial profile

Let me now touch upon the financing of our business.

Total net financing costs amounted to €68 million, decreasing by 5 million compared to prior year. This improvement was mainly driven by the cessation of hyperinflation accounting in Belarus and lower foreign exchange remeasurement losses from the Ukrainian Hryvnia and the Nigerian Naira.

Our net debt/EBITDA ratio stood at just over 1.5 times at year end.

In view of the volatile and uncertain environment in the near term, we expect to maintain a Net Debt to comparable EBITDA ratio of approximately 1.5 times.

Benefitting from operating leverage

Before I conclude, let me take you through two slides that could help you with your modeling.

Firstly, a portrayal of the operating leverage formula we provided to you in 2015. As a reminder, all else being equal, one percentage point of volume growth, yields 25 basis points of EBIT margin improvement, while one percentage point of revenue growth, yields 70 basis points of EBIT margin improvement.

Applying this formula to our results, our 100 bps EBIT margin expansion in the year can be explained as follows:

- 70 basis point expansion from volume leverage – based on the 2.6% volume growth in the year
- 20 basis point expansion from revenue leverage – based on the 0.3% growth in FX neutral net sales revenue per case in the year
- 10 basis point contraction from the net impact from FX hit and input cost benefits
- and finally, 20 basis point expansion from our cost productivity initiatives

Sensitivity analysis in a volatile environment

Turning now to 2016 and the volatility we have experienced so far in the year, let me walk you through an analysis with regard to the impact of oil prices on input costs and foreign exchange - two key drivers of our financial performance.

Oil prices are fairly closely correlated with resin prices, which account for approximately 8% of our cost of goods sold. In addition, oil prices impact the currency exchange rates of major oil exporting countries – in our case predominantly the Russian Rouble.

As you will appreciate, for any given oil price movement, the resin price and the Rouble exchange rate move in opposite directions, thus providing to some extent a natural hedge to each other, albeit not one-for-one. The Rouble rate has a greater impact than the resin price movement.

In our example, we have depicted the year-on-year impact of FX and input costs on EBIT from a $30 oil price movement from current spot prices. The chart is not to scale, but it shows the following:

- At the current oil price and FX spot rates, we expect a €135m negative FX impact on the P&L vs prior year, as well as a low single-digit growth in input cost per case – this is the left hand side of the chart and this is the scenario for which we have built our actions for the year.
- If the oil price were to move $30 higher today and stay there for the remainder of the year, we would expect a €80m negative FX impact on the P&L vs prior year, as well as a mid single-digit growth in input cost per case – this is the right-hand side of the graph.
- Therefore, in this example, a $30 oil price increase generates a €20m relief vs the total P&L impact estimated at the current spot rates. This natural hedging mechanism between FX and resin costs that I described ensures that oil price swings either side of the current spot rate scenario generate relatively small-size impacts to EBIT (relief if the oil price increases or hit if the oil price reduces from current spot levels).
- In other words, we have prepared for the current challenging spot rate scenario and expect that any oil price upside will generate a small benefit to the bottom line. Clearly, as things stand, we expect a scenario somewhere along the

spectrum we are showing you on this slide, although it is very difficult to be precise at this point in time.

- In conclusion, we expect to continue on the volume growth trajectory of 2015, accelerate the FX-neutral NSR/uc growth to pre-2015 levels and deliver cost improvements. Driving these three pillars ensures top-line growth and profit margin expansion in 2016. The successful execution of our mitigation strategy in 2015 gives us confidence that we can deal with the 2016 headwinds as well.

With that, let me now pass the floor to Dimitris, who will provide some more colour on our operational performance in 2015.

Dimitris Lois - Coca-Cola HBC AG – CEO

Operational review and strategy

Thank you Michali - I will now turn to the operational highlights for the period.

Business returning to volume growth

Overall, volume increased by 2.6% in the year, cycling a 2.8% decline in the prior year.

All three market segments grew in 2015. While Emerging and Developing markets were the main growth drivers, Established markets also returned to growth. Looking at volume growth by country the year-on-year improvement was predominantly driven by Nigeria, Romania, Poland, Ukraine and Hungary.

In the Established markets, volume increased by 1.0%, following a 5.4% decline in the prior year. Water performance coupled with good growth in Italy and Greece, more than offset decline in Ireland.

Developing markets performance was strong, following our successful rationalisation strategy in 2014. We achieved 5.7% growth in the year, cycling a 6.0% decline in the prior year. Good performance across the segment, mainly driven by good Sparkling growth, supported by Water performance.

In the Emerging markets, volume grew by 2.5%, cycling stable performance in the prior year. Volume performance in the year was driven by continued growth momentum in Nigeria, strong performances in Romania and Ukraine as well as exceptional performance in Juice. The juice category grew well in Russia, partly supported by the addition of Moya Semya, but also in Nigeria where it registered high-teens growth.

Good growth in most categories

Looking at our performance by category:

Sparkling beverages volumes increased by 2% in the year. This performance was driven by a number of elements. Firstly, execution of initiatives at the point of sale. A good example is our ongoing work to develop occasions such as Coke with Food across our territory. Also, our focus on targeted and better-quality marketing such as Share a Coke in Nigeria. Finally in the Developing segment, our performance in the organised trade.

Within the category, Trademark Coca-Cola increased by 3% and Coke Zero by 24% supported by the launch in Russia.

Juice continued its positive momentum, delivering growth of 8%. Russia was the main contributor to this growth as a result of the drive behind our expanded juice portfolio in the country with Moya Semya. We also delivered good growth in juices in Nigeria, Greece, Bulgaria and Serbia. Excluding Moya Semya, growth in the juice category overall for the Group was 2%.

Water grew by 5% in the year, demonstrating good performance in most of our countries, particularly Ukraine, Poland and Romania. Additional investment behind our brands and promo intensity in markets with affordability concerns were key drivers along with good weather in Q3.

Energy maintained its growth, with volumes up 7% driven by Hungary, Poland and Ireland.

RTD Tea performance remained weak except in certain markets such as Romania and Ukraine.

Established markets - Return to growth

Turning now to the reporting segments and some of our bigger countries in each segment.

We are very pleased to see our Established markets segment return to growth. Volume grew by 1%, cycling a 5.4% decline in the prior year.

In Italy, we are seeing positive signs such as expansion of disposable income, however the underlying macroeconomic and trading environment remains challenging. Within this context, our focus on executing our OBPPC strategy with key initiatives behind the glass contour bottle and Coke with Food led to growth in most key categories. The sparkling category's 2% growth was mainly driven by Trademark Coke, Fanta and Sprite. Water also performed well at 4%, driving overall growth in the stills category. Single serve mix also improved in the year, as a result of our OBPPC actions especially in Sparkling.

Greece grew by 1% in the year, building on the 2% growth in 2014. Still drinks, especially Water and Juice, were the key growth drivers. We are pleased with this performance in very challenging trading conditions. Looking ahead, we remain cautious as the macroeconomic environment is uncertain.

In Switzerland, volume was stable in the year, cycling a 7% decline in the prior year. Good performance in Water which grew by 6% in the year and increase in Trademark Coke offset decline in the other categories.

While deflationary pressures limited the opportunities for price increases in Established markets, package mix was favourable owing to our focus on OBPPC initiatives.

Developing markets - Sustainable growth

In our Developing markets, we grew volume from a healthier base while expanding our profitability. With this I am referring to the €40 million EBIT uplift in the segment.

Overall the segment grew volume by 6% in the period with contributions from all of the countries.

The sparkling beverages category was the main growth driver in the segment, supported by Water and to a lesser extent Juice.

In Poland, volume increased by 7% in the year. We saw good performances across most categories, with Sparkling beverages growing by 7%, driven by good results in the organised trade. Still beverages also grew by 7%, driven by Water performance.

In the Czech Republic we also saw increases across all key categories. Water, which grew by mid-teens, was the key driver. Double-digit growth in Fanta led Sparkling to a 2% increase while Juice also grew by mid-teens.

In Hungary, 8% volume growth was driven by Sparkling beverages, which increased by 8%. Water also grew by low teens driven by marketing activations in the fragmented trade. Our focus on increasing single-serve contribution also delivered results, with package mix improving by 1.7 percentage points in the year.

Deflationary pressures in the segment, combined with a less favourable channel mix, resulted in a 2.4% reduction in FX-neutral net sales revenue per case.

Emerging markets - Navigating adversity

Volume in our Emerging markets grew by 2.5% in the year in the face of challenging conditions in some of our markets.

We are pleased with our performance in Russia as we are outperforming the market and are in line with our expectations. More specifically volumes in Russia declined by 6% in line with our expectations in an NARTD market declining by double digit. This performance is largely driven by the Juice category, which benefitted from the increased distribution of the Moya Semya brand as well as organic growth. The performance of Coke Zero following its launch in May has been very encouraging, helping Trademark Coca-Cola arrest its decline at 2%.

Volume growth in Nigeria was robust, increasing by 10% in the year. A successful 'Share a Coke' campaign, additional PET bottle production capacity and improved product availability helped Sparkling grow by low teens. Furthermore, the pulpy juice innovation drove high teens growth in the category. We continue to capitalise on the growth opportunities that Nigeria has to offer.

Volume in Romania increased by 11% in the year, with good performances across our portfolio, partly supported by the VAT reduction in June. Good performance in Sparkling, both in Trademark Coca-Cola as well as in Fanta, was further supported by Water and Juice growth. Package mix continued to improve, driven by good growth in both Sparkling and Water single-serve packages.

FX-neutral revenue per case grew by 4% in the period, in line with our strategy to implement pricing initiatives in markets facing currency headwinds.

Looking ahead

In closing, we are happy with our performance in 2015 which we consider as the first step on our journey to return to growth both in the top as well as the bottom line. We are encouraged by the slowly improving conditions in many of our markets. Our business is strong, and our track record gives us confidence to address the challenging conditions in some of our geographies.

Looking at 2016 we expect:

Further volume growth in all segments.

A substantial improvement in FX-neutral net sales revenue per case, more in line with our performance prior to 2015. Currency depreciation and the associated inflation will remain a key feature in some of our markets, and we see inflation picking up in our more developed markets.

At current oil price levels, input costs are expected to be a low single-digit headwind in the year mainly driven by World Sugar.

Taking into account our hedged positions and current spot rates, the adverse impact on EBIT from foreign currency would be in the region of €135 million for the full year.

Our actions in cost management are expected to result in a significant reduction in operating expenses as a percentage of net sales revenue, supporting EBIT margin growth.

Questions & Answers

With that, I will now hand over to the operator, and Michalis and I will take your questions.

Q&A transcript will be available on the Company's website on 22 February.

Clear strategy - Achieving results

I want to thank you for joining us today and for all your questions that facilitated a good discussion around our full year results.

Let me leave you with the following thoughts.

We have a clear strategy and we have seen evidence of delivery in 2015.

Our focus for 2016 is to build on this year's good performance with another year of volume and revenue growth along with margin expansion.

We are confident that our proven strategy, combined with our leading market positions and broad geographic exposure, also positions us well in the medium to long term.

Thank you and we look forward to speaking with you again soon.