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Richard Felton, Morgan Stanley

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QUESTIONS AND ANSWERS

Telephone Operator

Thank you, so ladies and gentlemen if you would like to ask a question please press *1 on your telephone keypad. If you change your mind and wish to withdraw your question, please press *1 again. You will be advised when to ask your question.

The first question comes from the line of Sanjeet Aujla from Credit Suisse in London. Please go ahead.

Sanjeet Aujla, Credit Suisse

Hi, Dimitris, hi Michalis, just a couple of questions from my side please. Firstly, on Nigeria, have you seen any change in consumer behaviour since the devaluation? And secondly can you just talk a little bit more about your optimism in substantial improvement in FX neutral net sales per case, what's really driving the optimism there? Thanks.

Dimitris Lois, Chief Executive Officer

Yes, let me start with FX neutral and I will refer to the second half of the year. So let me start with the first half, showing a very pleasing improvement for the Group. And this was also supported by satisfactory trends across all three segments, so the implementation of our revenue growth management is yielding results.

Looking ahead we expect to further accelerate this performance and I would like to give you a bit more colour. So firstly, more pricing initiatives; we have been consistent in our strategy to take pricing in certain emerging markets, mostly impacted by adverse currency movements. We will continue to implement those actions. Of course the extent of those actions will depend on the macro developments.

Secondly, we have also been seeing the results of the implementation of our OBPPC initiatives in several of our established and developing markets. And we have also taken some selective pricing in some of our markets. Our OBPPC initiatives include improving our pack mix, increasing our transactions ahead of volume, through single serve expansion and capitalising on three key elements.

First of all the glass bottle expansion that we have been referring to, second it's the Taste the Feeling campaign and we have a very strong marketing calendar for Q3, and finally it's the Rio Olympic Games, and such events provide a very favourable setting for successful implementation, especially on the single serves, while always building brand equity.

Now going back to Nigeria, what we have seen is in the second quarter we have seen - I would call it some side effects from the pre-devaluation. Let me give you a few examples, we have seen shortages in gas and fuel, obviously this is having an effect in our operation. And that's why in Q2 we have seen a deceleration in the growth.

Now as we move and as this devaluation is kind of normalised these side effects are smoothing. So as we move along we reiterate our optimism and it's exactly what we said, both in February and in May, with regards to the overall volume for the year. And you'll recall we started with mid single digits and now we are reiterating mid to high single digits.

Sanjeet Aujla, Credit Suisse

Got it, thanks.

Telephone Operator

We have a question now from Kate Kalashnikova from Citigroup in London. Please go ahead.

Kate Kalashnikova, Citigroup

Hello, I've got two questions, my first question is on Nigeria, given a very sharp Nigerian naira devaluation is there a risk that the Coca-Cola Company may want to increase incidence level in the country, because of course your concentrate is priced as a percentage of local currency sales?

Dimitris Lois, Chief Executive Officer

We don't see that that has the potential to happen to be honest no.

Kate Kalashnikova, Citigroup

Okay, great. My second question is on input costs. Currency neutral input costs per case declined about 4% in the first half of the year, and your full year guidance is for a marginal increase in input costs. This to me suggests that you expect close to mid single digit increase in input costs per case in the second half of this year? Can you confirm it? And then how should we think about the input cost environment for the next year in light of this?

Michalis Imellos, Chief Financial Officer

Okay, Kate let me take this one. So indeed in the first half we saw a decline of 3.8% and we explained during the call some of the drivers for that. In the second half things will change on a number of fronts. First of all we already see increased world sugar prices having an impact on our open exposures, primarily in Nigeria and to a lesser extent Ukraine and Belarus. We expect to see improvement in the Sparkling mix in the second half, primarily in quarter three, because last year as you recall we had a very hot summer and the volumes of water were abnormally high in the mix. And thirdly we are cycling low oil prices in the second half of last year and that obviously will be reflected in the resin prices in the second half.

So overall, yes we see that there will definitely be an increase in the second half. And the important thing is, that on a full year basis we see a marginal increase on the currency neutral input cost per case.

Kate Kalashnikova, Citigroup

Great.

Michalis Imellos, Chief Financial Officer

And about '17, I would say that it is very early to call now what the development will be versus 2016. We are in a good place with regards to our EU sugar because we are already 100% contracted in for EU sugar. For Russia we are also 100% covered and we have some good coverage on aluminium. Resin of course is not hedged. So although we are in a good positon right now it's a little bit early to call it. We will come back in February with detailed guidance.

Kate Kalashnikova, Citigroup

Thank you so much.

Telephone Operator

We have a question now from Nicole McHugh from Goldman Sachs in London. Please go ahead.

Nicole McHugh, Goldman Sachs

Hi good morning. I just have a question on the reinvestment of your savings. You mentioned that you were reinvesting some of them in H2, and I was wondering if you would also be reinvesting some of the incremental savings you have announced today for F'17 as a well? Thank you.

Dimitris Lois, Chief Executive Officer

In the first half - you are referring to marketing is my understanding correct?

Nicole McHugh, Goldman Sachs

Yeah, the marketing.

Dimitris Lois, Chief Executive Officer

So in the first half the Group registered an increasing marketing investment compared to prior year of 8%. Overall for the year marketing investment is expected to increase and this increase will mainly be driven by Emerging. Now looking at Established and

Developing, overall we remain broadly at the same level, there are pockets within Established and Developing that we will be investing more, but broadly it's at the same level. And here we are cycling a very strong growth of our investments in the prior year.

We plan to invest in marketing to capitalise further on the Taste the Feeling campaign and Q3 is a key quarter where we have a very strong marketing calendar. We are also focusing behind targeted promotional activities and that's mainly in the organised trade. And lastly, I referred a bit earlier, it's the overall Olympic Games in Rio, an event like that helps us towards two directions, one which is the medium term and that's building equity, and the second is more shorter term and that's single serves. So those are the three or four pillars of where we will be investing and Q3 has a very, very strong marketing calendar.

Telephone Operator

And we have a question now from Richard Felton, from Morgan Stanley in London. Please go ahead.

Richard Felton, Morgan Stanley

Good morning, thank you for taking my questions, just two from me if that's okay. Firstly, please can you give us an update on the rollout on the Energy portfolio, when do you expect to hit the shelf in Nigeria and are there other markets that you're going to rollout to in H2?

Then secondly on the additional restructuring initiatives, can you give us a bit more colour on where the additional 7 million of savings by FY'17 are going to come from please? Thank you.

Dimitris Lois, Chief Executive Officer

I'll take your first question. As we speak we have from the larger markets - we have already launched in Russia, Romania, Italy - Nigeria is towards the second part of Q4 and our target is to be with Monster in most of our markets within the year, probably - it might be one or two months in '17, but our target is mostly to cover all of our countries within this year. And I'll turn now to Michalis for your second question.

Michalis Imellos, Chief Financial Officer

So the acceleration in the restructuring costs is happening primarily in Emerging markets and that - I would say the say key focus there is Russia and to some extent Nigeria. We have brought forward some of our 2017 high level plans into 2016. So the savings, the extra 7 million that you talked about will be primarily in Emerging and focused mainly in Russia and to some extent Nigeria.

Richard Felton, Morgan Stanley

Thank you, that's very clear.

Telephone Operator

We have a question now from Stephanie D'Ath, from Bank of America in London. Please go ahead.

Stephanie D'Ath, Bank of America

Hi, good morning, first of all can I please ask, your naira hedge, how you expect it to impact next year as we haven't seen a big impact for this year's guidance in terms of FX headwind on EBIT?

My second question concerns pricing, could you please let us know by how much you increased prices in Russia and if you have changed prices at all in Nigeria? And maybe what the net revenue per case constant FX, excluding Nigeria and Russia would have been in the region?

And then finally in Established markets you surprised on the upside in terms of EBIT, could you please let us know if that was really driven by input costs more than by cost savings? Thank you.

Dimitris Lois, Chief Executive Officer

Let me start with your pricing questions and then Michalis will cover the rest. So starting with Russia we have taken a high single digit price increase in mid Q1 and we have also taken a mid single digit increase at the end of Q2. Now we have been referring to markets like Russia with our pricing initiatives which are contingent to the overall external environment. So we are very closely monitoring the external environment for the remainder of the year.

Now moving to Nigeria, the answer is yes we have been taking pricing and we have been taking pricing before the official devaluation. Again, we have been reiterating that Nigeria is a market where affordability is a key element. So there is an excellent balance from the team, taking into consideration the devaluation and affordability. And yes we do plan to continue taking pricing for the remainder of the year in Nigeria.

Now you asked me excluding Nigeria and Russia what the FX neutral, I don't have that number, so maybe afterwards you can connect with IR to give you the number.

Stephanie D'Ath, Bank of America

Thank you.

Dimitris Lois, Chief Executive Officer

So with that let me pass to Michalis and he will cover your other two questions.

Michalis Imellos, Chief Financial Officer

So on the naira first of all looking at 2016 we have seen the naira devaluing by nearly 40% since the central bank decided in June to float the currency freely. So it went from just under 200 naira to the dollar to around 320 naira to the dollar now. Still the hard currency liquidity is challenging in the country. It is felt that the central bank measures need some more time to achieve the desired impact in the market. So we have to wait and see how long it will take for liquidity to be restored and what will be the impact on the naira as a result of that.

So I would say that unless we really see where things will stabilise hopefully in the next three to four months, certainly by the end of the year, it's very premature to call the naira for next year.

Stephanie D'Ath, Bank of America

But can you maybe remind us at what level you are hedged for this year, just to understand if there would be a big headwind coming through for next year?

Michalis Imellos, Chief Financial Officer

We have not - we do not hedge the naira, up until very recently it was not possible to hedge the naira, slowly, slowly we might be getting some instruments that will help us to hedge. For this year as we said also in the press release we have assumed as a positioning a further 10% devaluation from the current spot rates for the year to go. So we are taking an extra hit as a result of the situation with the naira which is offset largely by better news from the rouble and that's why we are keeping the FX guidance for the full year at the same levels as previously communicated, the €115 million.

As I said, next year - it's very early to call the naira, however, we have started with significant pricing actions as we do in emerging markets when currencies devalue significantly. So you should look at this in combination, rather than just potentially the impact of the FX only.

Stephanie D'Ath, Bank of America

Okay, thank you.

Michalis Imellos, Chief Financial Officer

Now you had a third question about the input costs, if I understood well it was a question as to what is the positive impact of input costs in 2016?

Stephanie D'Ath, Bank of America

It was specifically on Established markets, because I think if we look at your results today the big beat in EBIT was all driven by Established markets, so I was wondering if

Established markets had maybe benefitted more than other regions from either input costs or cost savings? Thank you.

Michalis Imellos, Chief Financial Officer

No - to be honest with you proportionately all three segments benefited from input costs. So in absolute terms for example Emerging benefits are double that of Established, but that's not the best way to look at it. Proportionately this improvement is more or less similar across the three segments.

Stephanie D'Ath, Bank of America

Thank you.

Telephone Operator

We have a question from Tristen van Strien from Deutsche Bank in London. Please go ahead.

Tristan van Strien, Deutsche Bank

Good morning guys, just two questions. One - just you call out the negative channel mix impacts, can you maybe just give a little colour on that - which channels and do you expect that trend to continue, or do you see that calming down?

And the second bit is, I mean you guys have cut one third of your workforce since 2008, another 2,000 jobs year on year now. Is this is a full clean you've cut down 2,000 full time employees, or is this movement from a fixed cost to a variable cost base, how should we think about that part of your opex efficiency? Thank you.

Dimitris Lois, Chief Executive Officer

Hi Tristan. So let me go to your first question. You first question is channel mix. So here I would focus on, in principle, two areas. The first is Developing, and this is what we have seen for, I would say, the last couple of quarters. That's mainly driven by Poland, and that's something that we don't see will be very different in the quarter to come. That's why we have been focusing behind our OBPPC; that's why we have been focusing behind our singe-serves and single-serves multi-packs.

The second area where we see the channel mix is an area that we have also been referring, and that's Russia. Now still fragmented trade in Russia is the majority. But the growth or the performance of organised trade is definitely a lot better than the performance of fragmented trade. So, with this in mind, again, looking at Russia, we don't see that this trend will materially change. So still the organised trends are going to be better than again fragmented.

Now with this in mind, we again have, as we have been discussing, a lot of actions behind supporting the package mix and supporting also the marketing calendar behind organised trade. So this is what we are referring with regards to the channel mix.

Now, with regards to your question on our employees, this is a result of a restructuring. So that is explaining the 2,000 that you have been referring to.

Tristan van Strien, Deutsche Bank

Just a follow up on the Russia channel point that you're making. How does your market share compare between the fragmented trade and the modern trade? Do you have a better market share one or the other?

Dimitris Lois, Chief Executive Officer

We do have better market share in fragmented, but the growth of our market share in organised trade is faster.

Tristan van Strien, Deutsche Bank

Thank you very much.

Telephone Operator

We have a question now from Edward Mundy from Jefferies in London. Please go ahead.

Edward Mundy, Jefferies

Good morning, everyone. Three questions, please. The first is on Russia; do you feel you're getting closer to a turn here? I think previously you'd indicated that 2017 might be an inflection point.

Secondly, on capex. Your overall capex is up 15%, but your actual payments for purchase of property, plant and equipment is up 30%. Could you perhaps give a bit more colour here, and in particular as to whether this is growth capex or capex to drive productivity gains?

And the third question is really coming back to margins. Obviously a few puts and takes for the second half. Are you able to give an estimation of what you think the margin improvement might be for 2016?

Dimitris Lois, Chief Executive Officer

Hi, Ed. Let me take your first question with regards to Russia. So going back, we are staying the course on what we said in February, that the first half will continue like 2015 - so high single digits over all in the market. And then gradually that will start decelerating, eventually resulting in a year which is going to be a better year than 2015. And that's exactly where we stand. And I'm saying that because we were pleased to see July. And of course July is one month - a strong month in Q3, but we have seen a considerable moderation in the decline, so that's one point. And that is without Juice, because Juice in Q2 suffered a low teens decline. And we were extremely pleased with Juice because Juice had marginal growth.

Now, we are far too early - that's only July - but this is giving us extra confidence with regards to reiterating that this year is going to be a better year than last year. And then you refer to a turning point with regards to 2017. Again we are staying the course. We do believe that 2017 is going to be a turning point, and we do see that, again very early stages, towards the second part of the year. And with that, let me turn to Michalis to cover your other questions.

Michalis Imellos, Chief Financial Officer

Yes, so, hi, Ed. On the capex, I would really disconnect the capex spend from the cash payments per se. What I would like to reiterate is that first of all we cannot look at first half trends compared to the guidance we have given the 5.5% to 6.5% of revenue spend, because that works only on an annual basis. We had last year a capex spend on a full year basis of just under 5.5%. This year we expect that we will be a little bit over the 5.5%, within the 5.5% to 6.5% range. And it's only a phasing question right now, that we had a little bit of acceleration in the first half, this will moderate in the second half compared to prior year.

And we continue to spend around 75% of our capex on revenue generating activities, namely coolers and production investment.

Now, on your last question about the margins for H2, compared to what happened in the first half. So as we explained in the call in the first half, the margin expansion was mainly the result of operating leverage on a very lean cost base. So we had also an improvement from input costs, which helped a small increase in our gross profit margins. So with that, looking into the second half, we would expect that the volume leverage will improve, supported by the extra selling day and the improvement in Russia. Of course we have the siting in Q3 of the hot summer last year going against us.

On revenue per case, currency neutral, we expect an acceleration, so that way we will enhance the revenue leverage equation. On input costs we will turn from a tailwind to a headwind, as I explained earlier. FX impact will not be dissimilar to Q1. As we said, we maintain our €115m full year FX guidance, and cost efficiencies will be more or less at the same levels as the first half, potentially with a very small improvement.

So overall, we expect that margins will grow also in the second half and the growth that we saw in the first half can be a good guidance as to where we are going also in the second half.

Edward Mundy, Jefferies

Okay, thank you.

Telephone Operator

We have a question now from Komal Dhillon from JP Morgan in London. Please go ahead.

Komal Dhillon, JP Morgan

Hi, good morning, Dimitris and Michalis. Just one question, please, on working capital.

You've done a lot of work on this in that last few years, and H1 again quite strong. I'm just wondering how much we can expect going forward into the second half, but also beyond? How much more is there to do here? Thank you.

Dimitris Lois, Chief Executive Officer

There isn't an awful lot really from this level to improve. I mean, certainly the rate of improvement is slowing down. Going forward, our focus is on the operational elements of working capital, receivables first of all, and also inventories. And we saw in the first half significant improvements coming from inventories. And of course we continue to manage payables, but that will not be going forward the major area of improvement. So, slowing down the rate of improvement but continuing to optimise working capital.

Komal Dhillon, JP Morgan

Thank you. So can we expect then going forward in the medium term for cash conversion to be slightly lower than what we've had in the last year also?

Michalis Imellos, Chief Financial Officer

The expectation is that operating profitability - growth - will replace practically the benefit that we have been seeing from the working capital improvements. So as working capital is slowing down in terms of the improvement rate, operating profitability will be picking up. And as we have a capex spend guideline being a percent of revenue, that should maintain overall the cash generation equation.

Komal Dhillon, JP Morgan

Okay, that's very clear. Thank you.

Telephone Operator

I have a question now from Nik Oliver from UBS in London. Please go ahead.

Nik Oliver, UBS

Good morning. Just one question left from my side. In terms of outlook, you talk about in the Established markets the rate of volume decline to moderate considerably. Could you just run through the reason for the optimism? And should we expect that to be broadly based across the key country markets? Thank you.

Dimitris Lois, Chief Executive Officer

Yes, Nik, we do expect to considerably improve/moderate the decline. I would like to give you a bit more colour behind that.

First of all, this will be based on a couple of initiatives that are covering most of the markets in Established. And I will start with the very, very strong marketing calendar for Q3.

The second, we have very well defined, targeted promotional initiatives in the organised trade.

And we have also, having worked to accelerate initiatives behind single-serve and single-serve multi-packs. Now here we are capitalising on two key elements. The one is the Taste the Feeling campaign, and the second one is the Olympics. And that will allow us to improve our FX neutral revenue per case and the main focus is organised trade.

And the last part is the one extra selling day, and here I would like to reiterate that this one extra selling day is in December versus the one that we lost, which is in January. And December is a lot stronger than January.

So those are the four key pillars that drive our optimism with regards to considerably moderating the decline.

Nik Oliver, UBS

Okay, that's very clear. Thank you.

Telephone Operator

We have a question now from Charles Pick from Numis in London. Please go ahead.

Charles Pick, Numis

Good morning, everyone. Thanks very much. I'm afraid I've got a number of questions.

Just to clarify on the input costs, you originally have been talking about low single digits in terms of the increase this year, which is now marginal. Is that improvement because of the advantageous hedging actions you undertook in the first half of this year?

Second question, is it possible to identify what the package mix improvement did in terms of the EBIT margin in the first half?

The third one is on the bond savings on the 600m bond that you mentioned. Is it possible, please, to quantify the sort of benefit you might get in 2017 from that?

And also, in the first half of last year, when you had the four extra selling days, you said that was worth about 25m euros to the EBIT line. In theory, that equates to about 6.3m less in the first half of this year, from the one fewer selling days. But given what you've just said about January being a weak month, was it in reality less of a hit factor than that?

And finally, is it possible to split down, please, the €68m FX hit in the first half between translational and transactional?

Dimitris Lois, Chief Executive Officer

Thank you for your long list of questions, and very detailed. We will try to do our best to cover.

I will start with the second one that has to do with the pack mix. First of all, we are extremely happy because we have seen this pack mix being very consistent for the last couple of quarters - I think it's six quarters - where we have been improving our pack mix. Now this is not a science, so I cannot give you an exact contribution to the improvement of the FX neutral revenue per case. I would say, taking a bit of risk here, I would say that probably is one quarter to one third contribution to our revenue per case. And obviously this has to do also with the country mix. So there's a different contribution if that comes from an Established, and there is a different contribution if that comes from an Emerging.

So you need to take into consideration the one fourth and the one third, and then you need to combine the contributions coming from the country mix. So that refers to the pack mix. I will now hand over to Michalis to take the rest of your questions.

Michalis Imellos, Chief Financial Officer

Yes, hi, Charles. So starting with the input costs question, yes there is a marginal improvement in the guidance we had guided for low single digit input cost per case currency neutral increase. Now we are talking about a marginal increase. More importantly for direction, there is an improvement, and this is coming primarily from improvements from the world sugar cost overall. As you quite rightly said, we had also some pre-buys and hedges which helped. So we see some improvement there, and also some improvement in the Resin cost. Because of the development of the oil prices, we expect now a little bit better cost than previously on Resin. So, on balance, a marginal increase for the full year.

On your question about the bond interest, indeed in 2017 we expect the pure interest cost to go down by about 8m. That's simply the difference between the all-in cost of the retiring bond, which was 4.25% and the new bond which is just under 3% on 600m. But also we see a benefit, one-off benefit in 2017, because in 2017 we will be cycling the new issue premium and the extra cost that we had in 2016, as we raised the new bond. So just over 8m will be the benefit in 2017.

Now on your question about the foreign exchange. Of the 68m that we have in the first half this year, around 75% of that is transactional. Out of the 68m, around 75% (50m) is the transactional.

Is there anything that we have not covered?

Charles Pick, Numis

It's just the impact of the one fewer selling days.

Michalis Imellos, Chief Financial Officer

Okay. Really you cannot see it like this because the dynamics of what one selling day is worth in EBIT terms is first of all different month by month and is also different year over year. The dynamics last year with FX, with input costs and so on, are completely different to those this year. So I would not try to draw any conclusion as to the absolute amount of EBIT per day year over year.

Charles Pick, Numis

Okay. Excellent. Thank you very much for those answers.

Telephone Operator

We have a question from Stamatios Draziotis from Eurobank Equities in Athens. Please go ahead.

Stamatios Draziotis, Eurobank Equities, Athens

Hi there. Thank you very much for taking my question. This one actually is to your 2020 targets as communicated at the Investor Day in June. I was just wondering about your guidance for the 11% EBIT margin by 2020. What does it assume in terms of raw material inflation going forward? Do you anticipate this to be more than offset by pricing and mix?

Michalis Imellos, Chief Financial Officer

We did say that we have a high level estimate or a high level assumption about input cost inflation on a per case basis, not dissimilar to what we have seen over the previous years. In other words, something like low mid-single digit increase on average per year.

Stamatios Draziotis, Eurobank Equities, Athens

Okay, that's clear. Thank you.

Telephone Operator

Here we have no further questions coming through at the moment.

Dimitris Lois, Chief Executive Officer

Well, thank you, Operator. I want to thank you for joining us today and for all your questions that facilitate a good discussion. I will leave you with the following thoughts.

We are focused on our strategy as laid out during the Investor Day in London. We will continue to optimise our cost base and drive revenue to capture the benefits of the operating leverage in the business. We are already seeing evidence of delivery in our results.

Looking forward, we are confident that our improving strategy, combined with our leading market share position and broad geographic exposure, position us well in the medium and long term.

I want to thank you, and we'll look forward to speaking with you soon again.

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