CCH – 2016 Half-year results
Conference call script – 11 August 2016

CORPORATE PARTICIPANTS

Dimitris Lois - Coca-Cola HBC AG – CEO

Michalis Imellos - Coca-Cola HBC AG – CFO

Basak Kotler - Coca-Cola HBC AG - IR Director

Operator

Thank you for standing by ladies and gentlemen, and welcome to the Coca-Cola HBC's conference call for the 2016 half-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 2016 half-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 call is being recorded today Thursday, August 11 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 the first half of 2016.

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

Half-year highlights

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

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

We are pleased with the strong revenue and margin performance in the first half of the year. The results demonstrate the good progress in the second quarter, and underpin our expectations for the full year .

Net sales revenue was up 2.4% on an FX-neutral basis. Adjusted for the one less selling day in the period, the improvement in FX-neutral net sales revenue was 3.0%.

While volumes increased only marginally, our focus on revenue growth management initiatives drove the top line and ensured the delivery of increased profitability.

The underlying volume growth, after adjusting for the one less selling day was 0.7%.

This good performance, combined with favourable input costs, and further savings in operating expenses led to a 60 basis-point expansion in our comparable EBIT margin to 7.5%.

Finally, we improved comparable EPS by 7% year on year, and generated €240 million of free cash flow.

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 first half of the 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, taking into account the one less selling day, our net sales revenue on an FX-neutral basis grew by 3.0% in the period.

Net sales revenue declined by 3.4% in the period, negatively affected by the significant currency headwinds, particularly in our Emerging markets segment.

Currency-neutral net sales revenue per unit case improved by 2.4% year-on-year. This substantial improvement is mainly attributable to our pricing initiatives aimed to offset the currency headwinds in certain markets, better package and brand mix in all segments, and some improvement in markets where we saw deflationary pressures in 2015.

Our volume increased marginally by 0.1% in the half year. Dimitris will provide some more granularity on our volume performance later in the presentation.

The input cost environment was favourable in the period, partly offsetting the negative impact of foreign currency. Combined with the significant currency-neutral revenue growth, that I referred to earlier, the net result was a 10 basis point expansion in the gross profit margin.

The cost reductions achieved through our optimisation initiatives, supported by our restructuring actions, led to a 45 basis-point reduction in operating expenses as a percentage of revenue. I will come back to this later in my presentation.

Comparable operating profit increased in the half year by 4.8% versus the prior-year period, and comparable operating profit margin expanded by 60 basis points. Better price and mix, cost efficiencies and favourable input costs more than offset the adverse currency impact that amounted to €68 million in the period.

Comparable EPS was 42 Euro cents, 7% higher than in the prior-year period.

We continue to optimise working capital and have driven improvements in both the working capital balance and the working capital days in the period.

Once again we generated strong free cash flow of 240 million Euros in the half year, up 20 million compared to the prior-year period.

Substantial improvement of FX-neutral net sales revenue per case growth

Turning to the revenue performance in more detail:

FX-neutral net sales revenue per case increased by 2.4%, representing an improvement in pricing trends across all segments compared to the prior-year period. We are pleased with this improvement which demonstrates the business's ability to return to growth levels achieved prior to 2015.

There were a number of key factors which influenced this outcome. Let me take you through them on a segmental basis.

In our Established markets, FX-neutral net sales revenue per case improved by 0.5%. The improvement was driven predominantly by category and package mix as a result of our OBPPC strategies. It is pleasing to see FX-neutral NSR per case in our Established markets segment improving for the third consecutive quarter and now being in growth territory.

In Developing markets, package and category mix were also positive, although not enough to offset the unfavorable price and channel mix. Nevertheless, it is encouraging

to note that this 1.1% deterioration in FX-neutral NSR per case represents the 3rd consecutive quarter of deceleration in revenue per case declines in the segment.

The Emerging markets saw a 6.8% 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. Package and category mix were positive too.

Input cost benefits and phasing

Turning to input cost:

Comparable FX-neutral input cost per case declined by 3.8% in the half year, in line with our expectations.

The key drivers for the decline were mostly lower PET resin and sugar prices, driven by lower oil prices and some well-timed prebuys.

Let me add some colour on the phasing of input costs in the year.

In the first half of the year, we had a continuing benefit from the favourable input cost environment in late 2015 and the execution of several pre-buys early this year for the first half.

However, we do expect that in the second half of the year our currency-neutral input cost per case will increase, due to the following factors:

- the impact of the growing World sugar prices on our unhedged exposures in the remainder of the year
- the anticipated improved sparkling mix in the summer compared to prior year
- the cycling of low oil prices in the second half of last year, which will be reflected in our resin prices

Taking all these into account, we continue to anticipate input costs per case – FX neutral – to marginally increase in the full year.

Cost management initiatives delivering results supported by operating leverage

Turning to our opex performance,

Our initiatives to optimise our operating cost base continue to deliver good results. In the period, we reduced our operating expenses in absolute terms, leading to a 45 basis-point reduction in comparable operating expenses as percentage of net sales revenue.

Let me walk you through the key drivers.

- Reductions in warehouse, distribution and admin costs, led to a 75 basis point improvement as a percentage of revenue.

- We increased direct marketing expenses in order to support our growth aspirations. This contributed a 30 basis point increase as percentage of revenue.

We continue to believe that we can achieve further improvements in comparable operating expenses as percentage of revenue in the remainder of the year, while increasing direct marketing spend.

Operating leverage and input cost benefits delivering profitability

Turning to operating performance, we recorded comparable operating profit of 230 million Euros in the first half of the year, 11 million higher than in the prior-year period. Overall, operating leverage, lower input costs and cost control more than offset the impact of adverse foreign exchange movements.

There are differing dynamics in the segments, so let me provide you with some more colour on those key drivers on a segmental basis:

In Established markets we benefited from improvements in mix, cost efficiencies and input costs. These were only partially offset by volume deleverage.

Developing markets had a favourable impact from volume leverage and input costs, offset by unfavourable channel and price mix, as well as adverse currency movements, mainly from the Polish Zloty.

In the Emerging markets, higher currency-driven pricing and revenue growth management initiatives, as well as improved volume and favourable input costs were more than offset by the significant currency headwinds in the period.

Accelerated restructuring programmes

As far as restructuring is concerned:

We incurred restructuring charges of 34 million Euros in the period, mostly focused on Established and Emerging markets.

We are accelerating our initiatives, by bringing forward certain plans from 2017 into this year. Therefore we now expect this year's restructuring costs to reach €48 million, with estimated annualised benefits of €32 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 €23m.

Strong free cash flow generation in the first half

Turning now to free cash flow, we generated 240 million Euros in the half year, 21 million more than the cash generated in the prior-year period.

The free cash flow increase was driven by operating profitability growth and working capital improvements, partly offset by capital expenditure.

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

Diversified financial profile

Let me also make a few points of clarification following the recent refinancing of our long-term debt.

In March this year, we raised a 600 million Euro medium-term bond to refinance the respective November maturity. We have already redeemed €215 million of the November maturity. We will use the remaining funds from the March issue to redeem the outstanding €385 million in November.

The favourable rate of the new bond will reduce our cost of debt from 2017 onwards. In 2016 however, you will not see a material improvement, due to the 9-month overlap of the two bonds.

So, in the first half of the year, total net financing costs amounted to 35 million Euros, a 2 million reduction compared to prior year. This improvement was driven mainly by lower net foreign exchange losses on re-measurement of certain foreign currency balance sheet items.

Benefiting from operating leverage

Before I conclude, let me remind you of what we communicated during our Investor Day in London at the beginning of June, regarding the operating leverage formula and how it manifests itself in our P&L.

Applying the operating leverage formula, our 60 basis point EBIT margin expansion in the year can be explained as follows:

- No material impact from volume leverage due to the only 0.1% volume growth in the half year
- 170 basis points expansion from revenue leverage – based on the 2.4% growth in FX-neutral net sales revenue per case in the year
- 135 basis points contraction from the combined impact of FX and input costs
- and finally, 20 basis point expansion from our cost productivity initiatives

As also discussed recently on our Investor Day, the above dynamic is translated in a marginal increase in our gross profit margin (10bps in the period) and a bigger increase in comparable operating expenses as percentage of revenue (45 bps in the period).

With that let me pass the floor to Dimitris for the operational review and outlook for the year.

Dimitris Lois - Coca-Cola HBC AG – CEO

Stable volume performance

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

Overall, volumes increased marginally in the first half of the year. Excluding the impact of the one less selling day volumes would have grown by 0.7%.

Across our segments we had a mixed result with Developing being the main growth driver along with Emerging, largely offset by a decline in Established. Looking at volume growth by country the key drivers were Nigeria, Romania and Poland.

In the Established markets, volume declined by 2.8%. Volume declines were experienced across almost all geographies and in particular Italy and Ireland, partly impacted by poor weather and weak performances in most categories except for Energy.

Developing markets performance was strong, with a 3.5% growth in the first half. We saw a continuation of good volume growth momentum, with most key categories contributing.

In the Emerging markets, volume grew by 0.5%. Volume performance in the first half was driven by continued growth momentum in Nigeria and a strong performance in Romania and Serbia, partially offset by Russia.

Excellent contribution from Sparkling and Energy

Looking at our performance by category:

- Good growth has been supported by our commercial initiatives including, the new OBPPC packs, selective affordability measures and campaigns such as Taste the Feeling and Share a Coke II in Nigeria. The biggest contribution to volumes came from the sparkling drinks category.

- Sparkling beverages volumes increased by 1.1% in the first half, with good performances in Nigeria, Romania, Poland and Serbia more than offsetting declines in Russia, Ireland, Italy and Greece. Within the category, low-teens growth in Coke Zero and good performance from flavoured sparkling beverages and Schweppes, helped drive the result.

Juice declined in the period by 5%, on tough comparatives. A deceleration in Russia, cycling a 34% growth in the prior-year period, was only partly offset by growth in Nigeria, Romania and the 4% growth in the Developing segment.

Water was stable in the period. Good performance in the Developing markets with all markets growing except Czech&Slovakia. This was supported by the acquisition of Neptunas in Lithuania. In Emerging markets good growth in Romania, Nigeria and Serbia partly compensated for the decline in Russia, largely attributable to the economic

conditions prevailing in the country. Established markets also registered a decline mainly driven by the delisting of smaller water brands in Italy.

Energy maintained its strong growth, with volumes up 23%. Nearly every country contributed to the growth, with Russia, Poland and Italy shipping the biggest number of cases.

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

Established markets - Decline partly impacted by weather

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

Established markets volume declined by 2.8% in the first half. Volume declines were experienced across almost all geographies, and in particular Italy and Ireland. However, there were good performances from Coke Zero across the board, Coke Life launches in Austria and Italy, and good Energy growth across the region.

In Italy, performance was partly impacted by weather. Key driver of the decline was Sparkling, down by low single digits. Good performance from Coke Zero and Fanta, supported by Coke Life, only partially offset the decline in brand Coca-Cola. Water decline was driven by the delisting of the smaller brands. Excluding this impact, Water grew by more than 3%. Energy also grew well, capitalising on the distribution expansion for Monster.

Greece was stable in the period, having accelerated its performance in the second quarter. Key drivers of this growth were still drinks, mainly Water and to a lesser extent Juice. Tea also grew well. In Sparkling, a decline in Trademark Coca-Cola was partly offset by 3.3% growth in Coke Zero and strong growth in Energy. Macroeconomic and trading environment remains challenging.

Switzerland's performance was impacted by the wet weather, leading to a low single-digit decline in volumes. Growth in Energy only partially offset declines across all other categories. Coke Zero and Brand Coca-Cola also performed well.

Overall in the Established markets, net sales revenue declined by 3.6% in the first half driven by volume decline along with adverse currency impact, driven mainly by the Swiss Franc. We are very pleased to report an improved pricing environment, with FX-neutral net sales revenue per case up 0.5% in the first half.

Developing markets -Continuing growth

In our Developing markets, volume grew by 3.5%, with good performances in most of our countries and categories. Sparkling beverages category was the main growth driver, followed by Water which was buoyed by the addition of the Neptunas brand to the portfolio in Lithuania.

Poland, registered a mid single-digit volume increase with most categories performing well. Sparkling beverages grew by mid single digits, driven by Trademark Coke performance, particularly brand Coca Cola. Fanta also performed well. Water grew by low teens driving a mid single-digit increase in Still beverages. Juice also grew well. Energy maintained its robust performance, driven by Monster.

In the Czech Republic, volume declined in most key categories in the first half. We saw a good performance in flavoured sparkling beverages and mid-teens growth in Juice, while Energy also registered double-digit growth. This performance partially compensated for declines in Sparkling and Water, in an environment of increasing competitive pressure.

Hungary saw good growth across all categories. Sparkling beverages performance was the key driver of growth, as a result of the successful implementation of our OBPPC initiatives. Energy category remained on its growth trajectory, with growth from both Burn and Monster, reflecting the strength of our dual brand Energy strategy. Juice volumes increased by low single digits, helped by the growth of Cappy. Our focus on increasing single-serve contribution delivered results, with package mix improving by 1.4 percentage points in the first half.

Emerging markets - Balancing varying trends

Turning to our Emerging markets segment, volume grew by 0.5% with strong performances in Nigeria, Romania and Serbia along with Sparkling and Energy growth.

In Russia, volume declined by high single digits amidst a challenging backdrop. Discontinuation of a small number of low value brands accounted for c.1% of this decline. Coke Zero maintained its positive momentum, with good growth also from Fanta, helping to arrest the decline in Sparkling to mid single digits. Energy also grew well, with good performance from both brands, though mainly driven by Monster. Juice posted a low teens decline, driven by the poor performance in fragmented trade.

Nigeria maintained its positive momentum. This was driven by the successful implementation of our initiatives. The introduction of the 600ml PET, supported by the second wave of the successful 'Share a Coke' campaign and juice innovation, enabled the business to deliver a very good performance across all categories. Nigeria remains a key growth driver for the Group.

In Romania volumes accelerated in the second quarter, with good performances across all our categories. This represents the sixth consecutive quarter of volume growth. Sparkling performance was the key driver of growth with all brands growing well. Energy

grew by almost 50%. Water grew by low teens and Cappy Pulpy continues to drive robust results in Juice. Package mix continued to improve driven by good growth in the Sparkling single-serve packages.

Emerging market segment revenue declined by 4.4% in the first half impacted by the substantial negative impact from currency movements. FX-neutral net sales revenue per case grew by 6.8% in the period, in line with our strategy to implement pricing initiatives in territories facing currency headwinds.

Looking ahead

Looking ahead, we are confident that 2016 will be a year of strong FX-neutral revenue growth and progress on margins based on our expectations for

- acceleration in FX-neutral net sales revenue per case in the remainder of the year leading to a substantial improvement in the full year,
- volume growth overall, with the Developing and Emerging segments growing and Established considerably moderating the decline,
- a marginal headwind from input costs,
- adverse impact of €115 million from currencies, and
- significant reduction in operating expenses as a percentage of net sales revenue.

Q&A

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 Friday 12th August]

Clear strategy - Delivering results

I want to thank you for joining us today and for all your questions that facilitated a good discussion.

I will leave you with the following thoughts.

We are focused on our strategy as laid out during our 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 proven strategy, combined with our leading market share positions and broad geographic exposure, position us well in the medium and long term.

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