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QUESTIONS FROM

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QUESTIONS AND ANSWERS

Telephone Operator

Okay ladies and gentlemen, so just a reminder if you would like to ask a question it's *1 on your telephone keypad.

Our first question comes in from the line of Andrew calling from Credit Suisse. Please go ahead.

Sanjeet Aujla, Credit Suisse

Hi it's Sanjeet here. Just two or three questions on my side please. Firstly can you just help us think about the margin progression for the second half of the year and in particular why input costs are accelerating? And should we anticipate the bad debt provision and the investment in the revenue management framework to be as significant as it was in H1?

Secondly, can you give us a bit more detail on the redesign of the revenue management initiatives that you're undertaking, what are catalysts for that and what does that actually mean, what are you changing?

And then thirdly, when you set the 11% margin target by 2020 last year I think the message at the time was that would be more backend loaded, and over the last - well since then that's been coming in much quicker. So can you just help us think about how we should think about margin progression out to 2020 from the current level? Thanks.

Dimitris Lois, Chief Executive Officer

Let me take the last two and then Michalis will help you with the first one. So starting with what we said last year in June, just a reminder of our scorecard we communicated. We said that we are expecting on average FX neutral revenue to grow 4 to 5% per annum. By 2020 we are targeting opex as a percent of revenue to be 26 to 27% and our EBIT margin to reach 11%. We are happy to reiterate that position today.

And let me give you a bit more colour, after I would say, a muted volume performance in 2016 we have grown volume in all three segments in the first half and we are working to increase the pace of volume growth in the full year. We also expect a substantial increase in FX neutral net sales revenue per case in 2017. These two elements boost revenue growth, which in turn benefits the bottom line due to the operational leverage in the business.

Since this is a somewhat, I would say an unusual year, with positive correction of the rouble and some strong pricing in Nigeria, we are seeing a bigger benefit to the margin than we would - I say normally anticipate. So we do not anticipate that this will occur any time soon. And therefore we reiterate our 11% reach of EBIT margin by 2020.

Your second question had to do with the overall redesign of our revenue growth management. So looking back over the last five years we have been focusing a lot behind revenue growth management. We thought that we wanted to push the bar higher, we want to challenge ourselves.

So this year we have been working, we started to work with one of the best experts - consultants in the area of revenue growth management. And in principle what we are doing is challenging ourselves on the set of initiatives for each of our markets, obviously starting with the biggest markets. Evaluating, and sequencing, and prioritising the set of initiatives. And additionally looking at the portfolio expansion and how this, through RGM, through revenue growth management would further boost our initiatives with regards to revenue growth management.

So this is the work we have started this year and we will overall conclude at the end of this year, seeing a bit of acceleration as we move in terms of the second half. And with that let me pass to Michalis for your first part of the question.

Michalis Imellos, Chief Financial Officer

Hi Sanjeet. So on input costs the question is why half two will accelerate its growth compared to half one? So in half one we saw the 2.4% increase on the per case basis currency neutral. In the second half we expect this increase to be high single digit, at the lower end of the high single digits. So the combination of the two will lead to a mid single digit on a full year basis.

So it's the movement primarily in resin and to a lesser extent aluminium between half one and half two. In the first half, as we said earlier in the presentation resin was flattish due to the extensive pre-buys that we did early in 2017. For the second half we expect resin to grow more significantly because of the oil spot price growth in the second half we expect higher than $50, whereas last year in the second half of 2016 it was in the region of $45 to $47. So that's one.

The second one is aluminium; we have seen the aluminium spot price, both in euro terms and in dollar terms, to move a lot higher than the second half of 2016. So that will be the second driver.

From sugar we don't have this impact; sugar was up in the first half of the year due to the New York 11 spot prices moving higher than last year, albeit in a declining trend. EU sugar was down low single digits in the first half. Overall in the second half we see sugar moving flattish versus prior year due to the low New York 11 spot price.

Now on your question about the one offs and the bad debt provision. Clearly the bad debt provision in the first half is a one off; we don't expect any movement in relation to that in the second half. Overall the one offs that we flagged for half one were 50 basis points of impact to the margin. And we expect that with the acceleration of the redesign of the revenue growth management framework initiative in the second half we should see a very similar impact also in the second half of around about half a percentage point.

Sanjeet Aujla, Credit Suisse

Very helpful, thanks.

Telephone Operator

The next question comes in from the line of Richard calling from Morgan Stanley. Please go ahead.

Richard Felton, Morgan Stanley

Good morning, thank you for taking my question. Can you please provide a little update on Russia, because following signs of recovery in Q1 the situation seems to have deteriorated there a little, could you perhaps comment on how much of that is related to the underlying consumer environment and how much was caused by bad weather in Q2, and do you still expect FY'17 to be a year of stabilisation?

Secondly, coming back to the bad debt provision in Croatia, could you perhaps provide some guidance of what the operating margin performance would have been in Developing if you ex out that bad debt provision? Thank you.

Dimitris Lois, Chief Executive Officer

Richard, let me take your first question with regards to Russia. So overall we reiterate what we said in May, that it will be a volatile environment and it is a volatile environment. The market NARTD is mid-single digit negative and overall this has been exacerbated by the weather. Now the weather in June was bad, this continues in July also. So obviously the overall market has been affected by this negative trend from the weather.

Now with this in mind and at this point of time, and having very strong plans for H2, we reiterate what we said in February and in May that we do work to see Russia stabilising this year with an overall market being negative. With this let me pass to Michalis.

Michalis Imellos, Chief Financial Officer

The impact of the bad debt provision in the first half for Developing segment is if we didn't have that we would be somewhere about flattish to slightly negative in terms of margin performance year over year.

Richard Felton, Morgan Stanley

Great, thank you very much.

Telephone Operator

The next question comes in from the line of Laurence Wyatt. Please go ahead.

Laurence Whyatt, Société Générale

Hi, thanks very much for the question. On Nigeria where do you see inflation is on your raw materials and how far ahead of that are you pricing your product at the moment?

Secondly, you've increased you're A&P as a percentage of sales, do you expect to maintain that level or is there further room to increase that further? Thanks very much.

Dimitris Lois, Chief Executive Officer

Let me take your second question and then Michalis will comment on the inflation in Nigeria. Yes, we are very happy with increasing and supporting sales and marketing. This is something that will continue. So this is already incorporated in what we have been sharing with you with regards to the second half. And obviously this is reflected in what we see both in volume terms and in revenue per case terms. So this will continue. And with that Michalis will comment on the inflation for Nigeria.

Michalis Imellos, Chief Financial Officer

Yes, specifically for input costs the trends are not dissimilar to what we see in other markets in terms of sugar and resin. So they follow the world sugar trends in terms of price. And also for resin, as I mentioned earlier in terms of the half one and half two. What makes a significant difference in Nigeria is the impact of FX in terms of the transactional exposure that we have there. And it's quite a complex situation with regard to how the forex has moved.

Overall we see very positive signs in terms of how the situation is developing and the impact that therefore it has on our input costs. We have seen in the last four months or so with the introduction of the NAFEX market gradually this market becoming the point of reference for all forex transactions in Nigeria. And we have seen the naira to dollar rate stabilising around 365 to 370 and that has had a very stabilising effect also overall on our input costs if you take into account the transactional impact on the raw material purchases.

Laurence Whyatt, Société Générale

Thanks that's helpful. Just on Nigeria I understand you have increased the prices, I'm just trying to get a handle on whether you think you're increasing those prices ahead of inflation or not, or whether you think you're just taking it in line with inflation?

Michalis Imellos, Chief Financial Officer

Specifically for 2017 and starting with the fourth quarter of 2016 as you know we have been taking pricing very aggressively and with three major price increases which on average contribute something like 30% in terms of revenue per case currency neutral growth. As you can imagine this is well ahead of inflation and the reason for that is that this is aimed to recover also the significant devaluation of the naira that happened since the beginning of last year.

So any pricing at this point in time is significantly ahead of both the CPI inflation and of course the input cost inflation because we are trying to recover to a large extent the impact of the naira devaluation.

Laurence Whyatt, Société Générale

That's very helpful, thank you very much.

Telephone Operator

The next question comes in from the line of Stam calling from Eurobank Equities. Please go ahead.

Stramatios Draziotis, Eurobank Equities

Hi there, just a couple of quick questions please. First one if you would like to share some thoughts with us regarding your expectations for input costs per case for next year please if that's possible?

And a quick question for Michalis, could you explain the decrease in the D&A expense in H1 and maybe give us some guidance as to what we should pencil in for FY'17 please?

Michalis Imellos, Chief Financial Officer

Hi Stam, I would say it's too early right now to call the 2018 input costs, we will certainly come back later in the year and certainly in February next year with a more definitive guidance. With regard to depreciation I think you are referring to depreciation?

Stramatios Draziotis, Eurobank Equities

Yes, yes.

Michalis Imellos, Chief Financial Officer

Yes, it was indeed down and that is driven primarily from the impact of our restructuring programme, it relates to consolidation of plants that happened overall in Europe and that is driving a significant decline in the depreciation.

Stramatios Draziotis, Eurobank Equities

And Michalis just as a follow up, should we just annualise this figure for full year '17 I mean?

Michalis Imellos, Chief Financial Officer

Well it will be a slowdown in the rate of decline, but we do expect that overall it will be a decline. On the other side our capex programme is growing and our capex as a percent of revenue and in absolute terms if growing. So gradually this will be an offsetting trend, but it will kick in a little bit later from the following years.

Stramatios Draziotis, Eurobank Equities

That's clear thank you.

Telephone Operator

Okay, so we currently have no further questions coming through, so just a reminder it's *1 on your telephone keypad.

Okay, so our next question comes in from the line of Komal, calling from JPMorgan. Please go ahead.

Komal Dhillon, JPMorgan

Hi good morning Dimitris and Michalis, just one question from me please and I'm sorry if I missed this earlier, but just wondering whether you can - you've said that you expect margin progression to be better than the 50, 60 bps you guided to at the beginning of the year, can we go through what you can expect now for the full year? Thanks.

Dimitris Lois, Chief Executive Officer

Komal, what I recommend is to follow exactly the same way Michalis presented the EBIT margin for H1 and take each and every element. So I'll start with something that Michalis already covered and that has to do with two elements, operational elements. The first one being overall what we expect from productivity. So what we will see in H1 more or less we expect in H2.

The second element has to do with the 50 bps one offs, and here reiterating what Michalis said, we expect more or less the same 50 bps in H2 hit.

Let me go now to top line, volume will continue to grow and here what we will see is Established and Emerging markets following broadly similar trends as we have seen in H1. Developing markets will accelerate in H2. So we do expect a volume higher in H2 driven by Developing.

Now let me go to the revenue per case FX neutral, this will moderate. And the key driver of moderation, as expected, is Emerging markets. And here just to remind you that in Emerging markets, taking the two big ones, that's Nigeria and Russia, and the overall Emerging markets we have taken I would say most of the price increases in H1, while at the same time last year we have taken price increases in the second half. So that's why the strong, I would say element of moderation will come from Emerging.

We will also see Developing markets revenue per case FX neutral moderating. And with this in mind, taking into consideration the different leverage from volume and revenue per case to the EBIT margins, obviously this will have an overall moderation versus the 330 basis points that we have seen in H1.

Then moving to the more technical elements and that's input costs and FX, FX will reverse in H2 giving us a significant positive and input costs will be quite a bit worse than H1. Overall we expect to see a somewhat smaller hit to our EBIT margin combining the two.

So with this I believe that you have a very good view on how things will evolve in H2. Overall in H2 we will see a growth in our margin, but not to the extent of the 150 that we have seen in H1.

Komal Dhillon, JPMorgan

So that's very clear thank you. So that is basically around - it sounds like around 100 bps margin expansion for the full year, is that reasonable?

Dimitris Lois, Chief Executive Officer

Well I think I gave you a really good and very colourful approach, I will leave the number to yourself Komal.

Komal Dhillon, JPMorgan

Okay, thank you very much Dimitris.

Telephone Operator

The next question comes in from the line of Tristen calling from Redburn Partners. Please go ahead.

Tristan van Strien, Redburn Partners

Good morning gentlemen I've got three questions if I may. The first one Michalis on your PET pre-buys, that's kind of a new thing normally it's done at spot, so I'm just curious to understand how far ahead you're buying that and what proportion of your PET purchases are in that area?

The second bit is on your marketing spend, you did increase it but I also see that your contribution from the Coca-Cola Company has come down, so how should we think about that - are we going to see less contribution from the Coca-Cola Company going forward?

And third, may be a bit esoteric but I'm just curious to find out how this Sprite Cucumber innovation went about, is that an initiative from you guys, did that come from the Coca-Cola system? And can we find more products like that going more towards the adult area of soft drinks so to speak?

Dimitris Lois, Chief Executive Officer

Tristan I'll take your third question with regards to Sprite Cucumber and then if you would allow me I'll say a few more words on the overall product launches and the whole innovation part. We are very happy with the launch of Sprite Cucumber and we see that obviously in the results so far in Sprite overall for Russia.

And then always innovations are elements that are done together with the Coca-Cola Company and this is a very special case that started in Russia. We are very excited and this is something that most probably we will consider for next year in some of our markets, especially the markets that are strong in Sprite.

Now with this in mind I want to say a word about overall innovation. First of all we are in great alignment with Coke with regards to the system ambition in the total beverages, as well as strong initiatives behind reformulation. At the same time we work with the Coca-Cola Company to prioritise these innovations in line with the consumers' preferences in our markets.

In a nutshell our product strategy, and here I will echo what James is usually saying and he's saying there is no road to the future without a successful Red Coke - absolutely there. So our product strategy is to win in Sparkling. We are working together with the company to accelerate in Juice. You have heard our plans in Tea. And we are also working in accelerating in Water. And nurture new profit pools while sustaining our excellent growth in Energy.

Some of those initiatives within this, about which we have talked to you, include Light and Zero acceleration and we have seen that being evident in the first half and it will continue in the second half. Innovating in Juice, and it's not only Pulpy and what we have seen with regards to Pulpy performance in, I would say a good number of our markets, Nigeria stands out positively. Looking at premiumising Water, we talked about redefining Tea. And also we are considering launching plant based dairy. So in a few words a very long list of product launches. We are absolutely excited and most of them cover the non-Sparkling.

And with that - I made my answer a bit longer and it's not only the Sprite Cucumber, but with that let me pass the floor to Michalis.

Michalis Imellos, Chief Financial Officer

Hi Tristan, so on the PET pre-buys, this is not a new thing; however it is generally speaking opportunistic, in other words there needs to be a suitable window from a price perspective. And also based on the season the supplier has to have enough capacity in order to provide this resin pre-buy.

It's just that it so happened that we were able to be in a favourable price window at the beginning of the year with an anticipation of growing oil price and spare capacity by suppliers and we were able to leverage that and protect ourselves to some extent in half one. So pre-buys do happen from time to time, but as I said it's quite opportunistic it's not like commodity financial hedging that happens with other commodities.

When it comes to the contribution from the Coca-Cola Company I suppose you are looking at the note at the back end of the press release. This is very much based on cash transactions rather than P&L. So here there is a big impact from phasing, what is received in the specific period and what's not. I would really not read anything as a trend in terms of increasing or decreasing concentrate purchases or advertising support.

Tristan van Strien, Redburn Partners

Thank you Michalis. Just to a follow up, it's actually quite interesting around your innovation pipeline, I'm just curious to find out with Sprite Cucumber are you aiming at a much older target audience or is the same core target audience as Sprite itself?

Dimitris Lois, Chief Executive Officer

Allow me to split that in two - the overall Sprite audience is young teenagers, so we are targeting and specifically in Russia in that audience. Adult is another very important part in our territory and this is part of our overall product innovation and working together with the Coca-Cola Company with new launches. And we do have specific products that cover the overall adult innovation, existing and new, for mainly the second part of the year and also for 2018.

A key product under this category is Schweppes and in Schweppes I would say most probably our territory and our countries are rating second and third in the world with countries like Bulgaria, Serbia and there are a lot of countries that eventually - working together with the Coca-Cola Company we are supporting Schweppes, both in terms of marketing and in terms of innovation. So a lot of focus behind adults with Schweppes and additional product launches that we do expect early next year.

Tristan van Strien, Redburn Partners

Thank you Dimitris.

Telephone Operator

The next question comes in from the line of Pace, calling from Jefferies. Please go ahead.

Cole Hathorn, Jefferies

Good afternoon everyone, please could you give a little bit more colour on the margin expansion in the Emerging markets, was there any big cost take out in Nigeria or Russia that helped drive that big operating leverage in Emerging markets?

And secondly is there any colour you can give on the potential Coca-Cola Beverages Africa deal and where that is on a timeline perspective with your discussions with the Coca-Cola Company? Thank you.

Dimitris Lois, Chief Executive Officer

Well let me take the second one which is easy, you know we've been loud about our policy not to comment on market speculation, so this is where we are. And with that let me pass the floor to Michalis for your first one.

Michalis Imellos, Chief Financial Officer

So on the Emerging margin growth, there isn't really something unusual or one off in there. What is happening if we take a step back is that we have significant price increases happening in Nigeria to recover the sharp devaluation of the naira. And we have been very effective in being able to recover a very large part of that negative currency impact.

And on the other side, if you look at Russia we have been taking pricing in the last couple of years and we have the cumulative effect of this pricing, particularly of 2016, flowing into 2017, with some small pricing that we also took at the beginning of the year. And on the other side the rouble has been correcting positively to a very significant extent. So the combined effect of pricing, particularly what is brought forward from the prior year with positive FX impacts from the rouble is actually buoying the margin growth in the Emerging markets.

Cole Hathorn, Jefferies

Great thank you.

Telephone Operator

Okay, so we have no further questions coming through so I shall hand it back over to yourselves for any concluding remarks.

Dimitris Lois, Chief Executive Officer

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 our Investor Day in London just over a year ago. We will continue to optimise our cost base and drive revenue to capture the benefits of the operating leverage in the business. We have already seen consistent 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 towards our 2020 objectives. Thank you and I look forward to speaking with you again. Thank you operator.

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