CCH – Results for the 2014 second quarter and half-year Financial Results Conference Call – 7 August 2014

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 2014 second quarter and 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. There will be a presentation followed by a question and answer session. 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 Thursday, August 7, 2014.

I now pass the floor to one of your speakers, Ms Basak Kotler. Please go ahead.

Forward-looking statements

Basak Kotler - Coca-Cola HBC AG - IR Director

Good morning. Thank you for joining our call today to discuss Coca-Cola Hellenic Bottling Company's results for the second quarter and half year of 2014.

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 contained in our related press release and Coca-Cola HBC AG's most recent filings, copies of which can be found on our website at www.coca-colahellenic.com.

Now let me turn the call over to Dimitris.

Second quarter highlights

Dimitris Lois - Coca-Cola HBC AG – CEO

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

As per our usual practice, I would like to take a couple of minutes to go through the highlights of the second quarter before Michalis takes you through our financial performance. I will then discuss our operational performance, and the outlook for the remainder of 2014.

Let me start with winning in the market. In the period, we gained or maintained share in volume and value in 15 markets out of 23 in Sparkling beverages and in 13 markets out of 21 in NARTD.

In line with our expectations, we accelerated the improvement in currency-neutral net sales revenue per case, growing for the 12th consecutive quarter.

Volume remained our biggest challenge. Yet it is good to see areas of sequential improvement and a deceleration in the overall negative trend.

Driven by this as well as the favourable input cost environment, gross profit margin increased on prior year both in Q2 and the half year.

Our focus on improving operational efficiency is reflected in the 50 bps improvement in operating expenses as a per cent of net sales revenue in the quarter.

More importantly and as a result of all of these factors, we are reporting robust growth in comparable EBIT in the quarter.

Finally, free cash flow grew strongly in the quarter, and our working capital balance sheet position improved significantly.

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

Financial review

Michalis Imellos - Coca-Cola HBC AG – CFO

Thank you Dimitri and hello everyone.

In line with our practice, as I take you through our financial results for the second quarter and the first six months 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, our volume declined by 3% in the second quarter, affected by the challenging macroeconomic and trading conditions across our territories. This led to a 3% decline for the first six months of the year.

Net sales revenue declined by 5% in the quarter, negatively affected by the currency headwinds, particularly in our Emerging markets segment, as well as the weak volume performance. For the first six months, net sales revenue declined by 6%. Currency-neutral net sales revenue per unit case grew by 3% in the quarter, bringing the half-year pace to nearly 3% as well. This was supported by our revenue growth management initiatives including pricing as well as package mix.

In the second quarter, the rate of improvement in currency-neutral net sales revenue per case and the favourable input cost environment, more than offset the top line pressure, the significant negative foreign exchange impact, and the concentrate cost increase, leading to a 70bps expansion of the gross profit margin.

Our operating expenses improved year on year on both an absolute basis and as a percentage of revenue, driven by lower warehousing, distribution and marketing expenses. This led to a 50bps decline of operating expenses as a percentage of revenue for the quarter.

As a result of the improvements in gross profit margin and operating expenses as a % of NSR, comparable operating profit margin improved by 120 basis points, and comparable operating profit grew by 8% in the quarter.

Second quarter comparable earnings per share were 37 Euro cents, compared to 34 Euro cents in the prior-year quarter.

We generated free cash flow of €176 million in the quarter, which represents a significant improvement compared to the prior year. I will come to that later in my presentation.

We maintained our focus on tight Working Capital management, as the working capital balance continued to improve substantially year on year. We are committed to continuous working capital balance improvements also in the remainder of the year.

12th consecutive quarter of growth in currency-neutral net sales revenue per case

Let's take a closer look at our top line performance during the second quarter and the first half of the year, focusing on the evolution of currency-neutral net sales revenue per case.

Currency-neutral revenue per case increased by 3% both in the second quarter and the six months, in line with our expectations. The key drivers were positive pricing (related to the mitigation of the incidence rate increase as well as foreign exchange movements) and favorable package mix.

In our Established markets, currency-neutral net sales revenue per case recorded a significant sequential improvement in the second quarter, as it grew by 2%, leading to a 1% increase in the first six months. Improved price and package mix more than offset slightly unfavourable category mix.

Developing markets posted a 3% increase in the quarter and a 4% increase in the first six months in currency-neutral net sales revenue per case, supported by benefits of improved package, price and channel mix.

The Emerging markets segment maintained its growth trend, with currency-neutral net sales revenue per case increasing by approximately 4% in the quarter and 4% in the six months period, driven by the positive price and package mix.

Input cost environment continues to be favourable

Turning to Input Costs:
Currency-neutral input cost per case declined by 5% in the quarter and in the first six months.

The key drivers for this decline were lower EU and World Sugar prices in line with expectations, as well as favourable PET prices.

Given the better than expected PET prices in recent months, full-year currency-neutral input cost per case is expected to be lower than our guidance at the time of the first quarter results, but still within the low single-digit range.

Quarterly improvement in operating expenses

Comparable operating expenses as a percentage of net sales revenue resumed its positive trend and improved in the quarter, decreasing by 50 bps year-on-year to 26.9% and contributing to an EBIT margin expansion.

The main drivers of the quarterly improvement were lower warehousing, distribution and marketing expenses, which more than offset increased sales and administrative expenses.

On a segmental basis, the positive contributors were the Developing and Established segments, which improved by 220 bps and 150bps respectively. In our Emerging markets, comparable operating expenses as percent of net sales revenue deteriorated by 60bps.

Our initiatives to reduce operating expenses remain a key priority across our business.

Mixed segmental trends in comparable operating profit

Turning to comparable operating performance, in the second quarter we recorded comparable operating profit of 194 million Euros, 15 million higher than in the prior year. This led to a comparable profit for the first six months of 167 million Euros, 11 million lower than in the prior year period.

Let me give you some colour on the second quarter performance:
Overall, positive developments in price mix, lower input costs and operating expenses more than offset the impact of the unfavorable foreign exchange movements, the shortfall in volumes and the increase in concentrate cost.

Turning now to the comparable EBIT performance of the three reporting segments in the quarter.

Our Established markets segment was the biggest positive contributor, improving by 20 million Euros year on year. Benefits from our revenue growth initiatives, restructuring, tighter operating expense management and lower raw material costs more than offset the lower volume and higher concentrate cost.

Our Developing markets improved by 14 million Euros compared to the prior year, providing support to our value-accretive volume strategy. Favourable price/mix, lower input costs and operating expenses more than offset the impact from weaker volume and higher concentrate costs.

Emerging markets deteriorated by 19 million Euros compared to the same period last year. Price/mix improvement and lower input costs were not enough to compensate for the significant negative currency impact, lower volume, higher operating expenses and higher concentrate costs.

Restructuring update

In the second quarter, we incurred restructuring charges of 5.1million Euros, mainly in Emerging and to a lesser extent Established markets.

We have identified certain additional restructuring opportunities for 2014, which are expected to increase restructuring costs on a full-year basis by 10 million euros to approximately 45 million. The expected annualized benefits from 2014 initiatives will reach €35m from 2015 onwards.

For the full year of 2014, we expect that the total benefits from 2013 and 2014 initiatives will reach €35m.

Free cash outflow in the quarter

Turning now to free cash flow. In the second quarter we generated 176 million Euros, 38 million more than in the prior-year period. In the first half of the year, we generated 95 million Euros - 3 million less than in the prior-year period.

For the second quarter, increased operating profitability and slightly lower capital expenditure were the key drivers for the increase in free cash flow. Our discipline in working capital management remains intact and is evident in the working capital balance sheet position and the working capital days, both of which have improved across all segments.

We are confident in our ability to generate strong free cash flow and are committed to continuous improvements in the working capital balance in the remainder of the year as well.

Diversified financial profile

Let me now touch upon the financing of our business:
Total second quarter comparable net financing costs amounted to 18 million Euros, decreasing by 2 million compared to the prior-year period. The benefit in financing costs from the successful bond refinancing that took place last year, was partially offset by the unrealised foreign exchange remeasurement losses of approximately €2m, arising mainly from the sharp depreciation of the Ukrainian Hryvnia.

Looking ahead, for the full year, we expect that the annual savings in our financing costs of approximately 18 million Euros will be partially offset by foreign exchange remeasurement losses, depending on the developments with primarily the Ukrainian Hryvnia.

Overall, we remain committed to maintaining a conservative and diversified financial profile, translating to a net debt to comparable EBITDA ratio in the range 1.5 to 2.0x.

2014 Financial outlook

I would now like to sum up with our financial outlook.

Based on current trends across our territories, we continue to expect currency-neutral net sales revenue per case to grow year-on-year, at a higher rate than 2013.

We now expect a slightly more favourable input cost environment for 2014, albeit still in the low single-digit range. This improvement is mainly based on an assumption of sustained favourable resin prices for the rest of the year, although we should note that this commodity carries some risk, given that we cannot hedge it in the market.

Taking into account our hedged positions and the current spot rates, we currently expect the full year FX impact to be in the region of €80-90 million. This is 10 million Euros lower than the range we indicated in May, mainly due to lower exposures to the Russian Ruble in the remainder of the year.

Our guidance for comparable effective tax rate, capital expenditure and free cash flow has not changed.

And with that, let me now pass the floor to Dimitris, who will give you some more colour on our operational performance in the quarter.

Operational review and strategy

Dimitris Lois - Coca-Cola HBC AG – CEO

Now, allow me to take you through the top line developments in our business.

Established markets pace of decline decelerates

Overall, volume decline moderated to 3% in the quarter, cycling a 2% decline in the same period last year. As mentioned earlier, Established and Developing markets showed a sequential improvement and Nigeria returned to growth. In absolute terms, the year-on-year decline in the quarter was predominantly driven by the Czech Republic, Italy, Poland, Romania and Russia.

The Established markets, declined by 2%, following a 6% decline in the prior-year period. Although the segment had a slow start to the year, we saw a moderation of the negative trends in the second quarter which benefited from Easter trade and dissipation of some of the one-off country specific issues.

The Developing markets declined by 5%, cycling a 3% decline in the prior year reflecting our focus on sustainable value-accretive volume in certain markets.

In the Emerging markets, volume declined by 3%, cycling 2% growth in the same period last year. The good performance in Nigeria and Serbia was more than offset by volume declines in Romania, Russia and Ukraine.

Juice and Energy key category drivers for the quarter

Sparkling beverages declined by 2% in the quarter, moderating the first-half decline to 4%. Good growth in Austria, Ireland and Nigeria was more than offset by the weak performance in Belarus, Italy, Poland, Romania and Russia.

Trademark Coca-Cola declined by 1%, cycling 2% growth, and moderating significantly from the trends seen early in the year. Coke Zero maintained its positive momentum in all three segments and continued to outperform the category with 7% growth, despite cycling 18% growth in the prior-year period.

Volume in the juice category improved by 2% for both periods under review and grew for the 4th consecutive quarter. Volume expansion was supported by good growth in key countries such as Czech, Hungary, Ireland, Romania and Russia.

Volume in the water category decreased by 5% in the quarter as we continue with our SKU rationalisation strategy with a focus on profitability. We see evidence of this strategy, with package mix in Water improving by 2.2 percentage points.

Our energy brands continued to grow, marking the seventeenth consecutive quarter of volume expansion in the category. The positive performance in the quarter was driven by strong growth in the Baltics, Greece, Hungary and Italy.

Ready-to-drink tea products declined by 11% in the quarter and by 8% in the half year, with decline across most of our countries.

Established markets
Moderation of negative trends

Turning now to each of our reporting segments.

Volume in our Established markets segment declined by 2% in the quarter.

In Italy, as anticipated, volume decline in the quarter moderated considerably. The decline was predominantly driven by Water and Sparkling, reflecting the challenging underlying trading environment. We continue to expect 2014 to be another challenging year for Italy, particularly in view of the near record high unemployment rate and the continued pressures in disposable income.

In Greece, we are pleased to see that the negative volume trends are moderating after several quarters of double-digit decline. Water was the key growth category, while in the sparkling category the pace of decline remained in the low single-digit range. Looking ahead, we are encouraged by the strong start to the summer in Greece, but we are also mindful of the fact that underlying conditions remain challenging as the environment is characterised by near record high unemployment levels of 26% and disposable income which is not forecast to return to growth in 2014.

In Switzerland, volume decline moderated in the second quarter to the low single-digit range. Water and Juice were the category outperformers supported by new product launches and increased promotional activities. In the sparkling category, Fanta and Coke Zero grew by 18% and 6% respectively, supported by increased activation and improved distribution.

Overall, package mix improved in our Established markets, both in the sparkling and the water categories. This reflects our continuous focus on OBPPC implementation in the segment as a tool to address the market and consumer dynamics.

Developing markets
Focus on value

In our Developing markets, we registered 5% volume decline in the first quarter, following 3% decline in the prior-year quarter.

In Poland, the volume decline reflects our strategic decision to focus on sustainable value-accretive volume in an environment which is highly driven by discounters.

As part of our broader effort to continuously improve operational efficiency, while enhancing our customer execution, we are proud to announce that on 23rd of May we launched a new, fully automated state-of-the art production line and warehouse at our Radzymin plant in Poland.

Hungary registered the first positive quarter following eight consecutive quarters of decline and cycling a 10% decline in the prior year. Volume grew in all key categories. Juice was the key incremental growth driver helped by the positive impact of Cappy Pulpy. At the same time, Sparkling package mix improved by 1.3pp driven by increased promotional activities in single-serves. Whilst we are encouraged by volume growth in Hungary, we are cautious of the fact that underlying trading conditions remain volatile, and consumer confidence remains at low levels.

In the Czech Republic, volume was negatively impacted by our decision to broaden our value-accretive volume initiatives. Decline was across all key categories, with the exception of Juice. Coca-Cola Zero grew by 21%, helped by increased distribution and activation in the organised trade.

Emerging markets
Sharp deterioration in consumer demand

Volume in our Emerging markets segment declined by 3% in the second quarter, cycling a 2% growth in the prior-year period.

In Russia, the escalation of the geopolitical situation and the decelerating macroeconomic trends have adversely affected consumer spending and led to sharp declines in underlying demand. In fact, according to Canadean sell-in data this is the first decline recorded in more than 10 quarters. Against this backdrop, we registered declines across all key beverage categories with the exception of Juice which grew for the 10th consecutive quarter supported by increased distribution.

As part of our long-term commitment to Russia and following the successful integration of our Multon juice business, we have assumed responsibility for the Moya Semya brand from TCCC in the Russian and Belorussian markets. Moya Semya represents approximately 4% share of the Russian juice category. Looking ahead and taking into account recent trading, we expect Russian volume trend to remain negative in the second half of the year.

Nigeria returned to growth, at mid single digits, cycling a 10% growth rate in the prior year. Overall, underlying macro economic and trading conditions remain buoyant. Looking ahead, we have further strong activation plans in place for the remainder of the year, including those for Coke Zero. We continue to focus on expanding further distribution and volume per outlet of our core brands, driving availability across the board and finally, selectively introducing OBPPC initiatives.

Romania declined by 10%, although we have gained share in a tough market. Our performance continues to be negatively affected by a deterioration in the trading environment, as well as competitive promotional pressures. Volume declined in all key categories with the exception of Juice, which was supported by the launch of Cappy Pulpy. Overall, we remain cautious as domestic demand and consumer confidence remain under pressure.

Looking ahead

Looking ahead to the remainder of the year, we expect the prevailing difficult economic and trading conditions to remain unchanged in most of our territories.

These conditions, combined with the sudden deterioration in Russia, have led us to review our volume outlook. We now expect that the volume trends we have seen in the first half will persist in the remainder of the year.

As always, we are focusing on implementing our strategic priorities while mitigating the ongoing headwinds in some our markets.

And therefore, we expect the challenging volume environment to be offset by the positive trends in currency-neutral net sales revenue per case, input and operating costs, combined with less foreign currency pressure than previously anticipated.

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

QUESTIONS AND ANSWERS

Operator

Thank you. As a reminder, ladies and gentlemen, if you wish to ask a question please press "star-one" on your telephone keypad and wait for your name to be announced. If you wish to cancel that request, please press the "hash" key. That's "star-one" to ask a question.

And your first question, sir, comes from the line of Nicolas Ceron of Sogen. Please ask you question.

Nicolas Ceron – Societe Generale

Good morning. Two questions, if I can. The first one is on gross margin. Could you talk about the main drivers behind the difference in Q1 versus Q2? And also, could you tell us if we should think Q2 as the best guide for H2, going forward? And the second one is on Russia and your juice business there. Could you explain in a bit more detail what happened with The Coca-Cola company and Nidan? How much money did you pay? What was the impact of sales and volume in Q2 in Emerging by the fact that you took over that brand? And how shall we think about margin going forward, in the juice business? Thank you.

Dimitris Lois - Coca-Cola HBC AG – CEO

Let me take your second question, then Michalis will cover your GP margin. So Multon, which is our Russian joint venture with The Coca-Cola Company, assumed responsibility for the Moya Semya brand, as I've shared with you, in both the Russian and the Belarusian market. Moya Semya represents approximately four percent share of the Russian juice category. Moya Semya was previously managed separately by The Coca-Cola Company through its Nidan subsidiary. So going forward, Moya Semya will be produced and distributed using our Multons and CCHBC existing production and distribution infrastructure.

That is what the overall framework of Multon is. Nidan has been a wholly-owned (subsidiary) by TCCC. Obviously, with regards to the transaction, this is a small transaction and we will not give you more on this transaction with regards to the price. And I will pass that to Michalis for the GP margin.

Michalis Imellos - Coca-Cola HBC AG – CFO

Yes, hi, Nicolas. If I look at quarter one margin, that - gross margin, that was more or less flat year-over-year. Whereas in quarter two we expanded it by about 70 basis points. The first observation is that, as we have said, quarter one is a very small quarter with very low leverage, volume leverage. And therefore, it should not be a reliable quarter in order to project trends for the full year. So definitely, the first half is the one that you should consider going forward.

And if I was to give you some more color in the difference between the two quarters in terms of gross margin, the biggest improvement is coming from Established, where in the first quarter, we declined in terms of gross margin whereas in the second quarter we expanded significantly. In the first quarter, clearly we had the volume deleverage factor compared to the second quarter in Established markets. We did talk about some one-offs, as well, in quarter one which, obviously, we don't have in quarter two. And generally speaking, the price mix in quarter two in Established was far better, not only because in quarter one there was some significant promo pressure in Established markets, but also as we completed all the pricing actions with regard to the mitigation of the incidence rate increase.

In Developing markets, the expansion of the gross margin is very much comparable. In Emerging we had a small deterioration in quarter two in our gross margin, and that's primarily because of the volume deleverage as well as the full Forex impact that we had in emerging negative impact in quarter two. So overall, the most reliable indication is the first half, not quarter one and not quarter two either in isolation.

Nicolas Ceron – Societe Generale

OK, thank you.

Operator

Thank you. Your next question comes from the line of Edward Mundy of Nomura. Please ask your question.

Edward Mundy - Nomura

Morning, gents. Three questions, if I may. First of all, the comments in the outlook statement that the challenging volume environment will be offset by positive pricing, less Forex and some input costs tailwinds. I was wondering whether you were able to quantify what exactly that means. Does it - does it imply that you're confident on margin expansion for the full year, or keeping profits broadly flat with prior year?

Secondly, on concentrate, it looks like concentrate per case up 10 percent in Q2, in euro terms, after a five percent increase in the first quarter. Are you still comfortable with an incidence price increase of 40 million euros for the year? It looks like, in absolute terms, the concentrate is up 31 million in H1.

And then finally, on Russia. Clearly, the macro is pretty tough. There's a - there's a story on Bloomberg this morning that Duma could impose high taxes on non-alcoholic beverages, depending on the sugar content. I was wondering whether you had any comments on that.

Dimitris Lois - Coca-Cola HBC AG – CEO

Morning, Ed. Let me take your last and your first, and then Michalis will cover the concentrate. Yes, we heard this morning also the news. At this point of time, it's definitely far too early to comment. So I don't have anything more to say. I think it's probably unlikely to see this route developing. Now, on your first question, yes, you are absolutely right. We have two forces, one force which is the volume force. And what we are seeing right now is that the trend of year-to-date June overall will continue for the full year. So that is a negative force.

The positive force is what you described, starting with the revenue per case FX neutral. And we see that, more or less, the trend will continue. We have a favorable input cost environment. And what we heard also from Michalis, this will continue at the low single digits - low single digits, most probably towards the upper part of that. And we also have a 10 million improvement of FX versus what we said with you in May. And our work, obviously, behind operating expenses.

So the two forces will offset each other. So your assumption is definitely in the right direction, both on GP and on EBIT. Let me pass the floor now to Michalis for your concentrate (question).

Michalis Imellos - Coca-Cola HBC AG – CFO

Hi, Ed. As we were discussing also in the previous quarter, the figures that we disclose in terms of concentrate purchases are cash purchases. And therefore they are not comparable 100 percent to what ends up in the P&L. So I would not go by exactly the purchases, the cash purchases, that occurred between quarters. Because this is not a reliable, let's say, indication for what ends up in the P&L. What we shared with you in February in terms of the impact in 2014 remains the same. We're talking about the 40 million, which represents half a percentage point of net sales revenue, the total group net sales revenue.

Edward Mundy - Nomura

OK, thank you.

Operator

Thank you. And your next question comes from the line of Adam Spielman of Citi. Please ask your question.

Adam Spielman – Citi

Thank you. I have a question about channel mix and packaging mix. I was quite struck by the fact that packaging mix is positive. And also in some - in some of your regions, channel mix is positive. And I suppose, for me at least - that's a big change. And how should we think about it going forward? Do you think that we've now got past the stage of negative channel mix in many geographies, and can we continue this positive package mix? Thank you very much.

Dimitris Lois - Coca-Cola HBC AG – CEO

This package mix is a consistent result from the efforts behind OBPPC. So we are working and we have been working through OBPPC, and part of OBPPC is the single-serve and the single-serve multipacks. So what we see in that, both in sparkling and in water, is improving that for a couple of quarters. So what we see - the consistent efforts behind our OBPPC strategy – which provides results. So this is evident also in another quarter, in another very difficult quarter. So this is something that will continue. Our focus behind our OBPPC, delivering results.

Adam Spielman – Citi

And on the channel mix, as well - say, thank you for that. And on the channel mix, as well? Do you think that can continue to be as - you know, in the past it's been some really, really severely bad, going back a year or two. Do you think we can look forward to sort of stable or even positive channel mix?

Dimitris Lois - Coca-Cola HBC AG – CEO

On the channel mix, here there is an element that we have been focusing and sharing in the past two quarters that has to do with the value accretive volume. This is far more evident in Developing countries. And within Developing, I would choose Poland. Poland represents approximately 40 percent of our Developing countries. So in an environment that has been driven mainly by discounters we have seen, in the last couple of quarters, a bit of a change with the rest of the organized trade also catching up, being positive.

And more importantly, small convenience having a good position. So in view of that, we have been working quite a bit on our value accretive volume strategy. And this is obvious, also, looking at the results. And especially at the results of the whole segment. And I'm referring to the EBIT results. So yes, we continue working on our value accretive strategy. The most important part is Developing, and out of Developing we can see Poland and the Czech Republic being the ones that we focus. So this covers also the channel mix question that you've referred to.

Adam Spielman – Citi

OK, and I'm sorry to sort of keep on going on about it. Do you think in Q2 it was particularly strong? I mean, I'm hypothesizing that with good weather maybe there was more consumption - you know, purchases for immediate consumption - that may have boosted channel mix. And maybe I should get less excited going forward, or do you think it will just continue as it has done in Q2 and the first half?

Dimitris Lois - Coca-Cola HBC AG – CEO

So first of all, you referred on weather. I don't like talking about the weather, but since you picked that, definitely it was not a tailwind in Q2.

Adam Spielman – Citi

OK.

Dimitris Lois - Coca-Cola HBC AG – CEO

So what you see is not a result of a tailwind because of weather. The only good weather we had was Ireland, and we referred to that.

Adam Spielman – Citi

Thank you.

Operator

Thank you. As a reminder, ladies and gentlemen, if you wish to ask a question please press "star-one" on your telephone keypad and wait for your name to be announced. If you wish to cancel that request, please press the "hash" key. That is "star-one" to ask a question. And your next question comes from the line of Tristan Van Strien of Deutsche Bank. Please ask you question.

Tristan Van Strien – Deutsche Bank

Good morning, guys. Three questions for you this morning. Can you expand a bit on your volume outlook? Because it looks like it's not just Russia, it's a bit beyond that. And what markets you do not see improving. And I think I'm thinking particularly on your value accretive markets. Has the volume declined more than you expected? And the second, just to follow up what Adam was saying around your price mix, can you quantify the mix in your three percent revenue per case growth in there?

And then lastly, some great margin expansion this quarter. A lot obviously driven by COGS. But Michalis, talked more about the PET benefit rather than the sugar benefit. And with sugar prices being down 30 percent, do you see sugar coming more towards the end of this year or even next year? Should hedges roll over, or is that something we shouldn't expect?

Dimitris Lois - Coca-Cola HBC AG – CEO

I'll take your first two questions on volume, and give you a bit more light on the three percent revenue per case. So first of all, looking at the volumes, I will reiterate, the trend year-to-date June is more like - more likely to continue for the full year. Taking now the different segments, starting with Emerging. Obviously, the size and the developments in Russia do affect, greatly, the whole segment. And I'm saying that because for the rest of the year we see Russia being negative in volume. Along with Russia, we have another two markets. The first one is Ukraine, and we have seen the overall environment in Ukraine deteriorating a lot in Q2, both NARTD and also SSDs. And obviously, the geopolitical situation and the extreme volatility right now does not allow us to see any kind of improvement in Ukraine.

So that's another market that will negatively affect the second half of the year. There's a third market, and the third market is Romania. It's a very important market. We have seen also Romania deteriorating in Q2 versus Q1. This is a trend that we believe will continue for the rest of the year. Smaller countries also. Bulgaria is deteriorating. We have seen floods also that will affect the second half of the year. So this is a picture that reflects Emerging. Moving to Developing - what we have seen behind Developing, and especially in Poland and in Czech, here we have a reflection more of our decision for value, accretive volume, and this will continue for the rest of the year.

So what we have seen will continue at more or less the same trend. And then moving to Established. Again, I think the year-to-date volume trend is a good trend in terms of following the same for the rest of the year. So that gives you a bit more color on the three segments. Now going to the price mix we have seen on the revenue, FX neutral per case, three percent increase in Q1, three percent increase in Q2. If I can give you a bit more color, this three percent, more than 50 percent of this three percent comes from covering a part of the FX, and that's in principle the three countries, that's Russia, Ukraine and Belarus, and the second part is the covering of the incidence rate. So that's more than 50 percent of that three percent increase. Now, from the rest, by far the dominant part comes from our OBPPC and the overall revenue growth initiatives. And I will pass the floor to Michalis for the gross profit question.

Michalis Imellos - Coca-Cola HBC AG – CFO

Hi, Tristan. On input costs, first of all in the quarter, looking at quarter two, everything with regard to sugar came more or less in line with our expectations. Yes, comparing to prior year sugar has a very big contribution to the decline of input costs. But there is nothing different to what we were expecting since the beginning of the year. And cannot be any other way because, as we have shared a few times, we locked into those contracts late in the prior year. So for 2014, we locked into the EU sugar contracts at the end of 2013.

And for the world market sugar, we are substantially hedged already, and therefore there is not much variability there. Where we had an improvement versus our expectations was in the resin prices. Originally, we were expecting that resin will be more or less flattish versus prior year. Now we see very low, single-digit decline for 2014. So we do have an improvement versus prior year, and at the same time an improvement versus our expectations earlier in the year. So the only change, really, in terms of expectations is resin. And indeed, as you said, versus prior year sugar is giving us a very big tailwind for 2014.

Now for 2015, as you asked, it's a little bit early. We are at the point where we are building our plans. But indeed, we have some early indications that the EU sugar part will be particularly strong, particularly good in terms of a further decline next year. This is not so much the case with world sugar. We will come back later in the year, by February definitely of next year, with some more detailed guidance for 2015.

Tristan Van Strien – Deutsche Bank

Thanks, Michalis. Just to follow up, Dimitris, on your value accretive strategy. When you do the trade-off between value and volume for Poland and Czech in particular, I mean is that high single-digit volume decline, is that kind of the acceptable rate in your equation for that to be profitable?

Dimitris Lois - Coca-Cola HBC AG – CEO

Well, we don't have sort of an acceptable or nonacceptable. But what we can see from the results in EBIT, and especially in Developing, I think that's the right strategy.

Tristan Van Strien – Deutsche Bank

OK. OK, thank you very much, guys.

Dimitris Lois - Coca-Cola HBC AG – CEO

Thank you.

Operator

Thank you. And your next question comes from the line of Charles Pick of Numis. Please ask your question.

Charles Pick - Numis

Good morning, gentlemen. I've got three questions, please. Firstly, can you quantify, please, the impact of FX in Q2? In particular what element of that came in the Emerging markets? Second question, Russia obviously was far worse than you expected in quarter two. Can you sort of quantify, please, the decline rate at the end of Q2? And the third question. The extra cost savings of 10 million euros, are they almost entirely in Russia and the Ukraine?

Dimitris Lois - Coca-Cola HBC AG – CEO

Let me take your volume question on Russia, and then Michalis will cover the other two. What we have seen in Q2 started probably sometime May, is a low single digit, and this has been consistent in May and June. So we have not seen a big deterioration, but we need to be very, very, very cautious, seeing all the latest developments. And again, referring to looking at the market, this is the first quarter after 10 quarters where, according to Canadean, both NARTD and SSD market is mid single-digit down. We haven't seen that for 10 quarters.

So we need to be very, very cautious. And not, in principle, looking specifically at a month or so. That's why we came back saying that we believe that for the remainder of the year Russia will be negative. Now, let me pass that to - let me pass (for) your two questions to Michalis, the floor.

Michalis Imellos - Coca-Cola HBC AG – CFO

Charles, the Forex hit in quarter two is around 20 million. You can assume that in Established and Developing it's almost nothing. In Developing it's a very, very small negative, but very small. All of it is coming from Emerging.

Charles Pick - Numis

All right, thank you very much. And the extra savings?

Michalis Imellos - Coca-Cola HBC AG – CFO

Sorry, extra savings on ...

Charles Pick - Numis

Extra cost savings. The extra 10 million euros vis-à-vis the 25 million originally specified. Is that entirely Russia and the Ukraine?

Michalis Imellos - Coca-Cola HBC AG – CFO

No, no. You are referring - you are referring to the incremental actions that we will be taking this year. The 35 million, first of all, is the result of all our actions for next year. Just to clarify, the extra 10 million of restructuring costs that we communicated is still primarily Established. I would say around 80 percent is coming from Established. Now, out of the 35 million for next year, coming from all the actions that we are taking in 2014, again, the majority is coming from Established, the vast majority, with some small part from Emerging as we're consistent to our communication earlier in the year that we will try to offset the Forex hit in the Emerging through a combination of pricing and cost-cutting.

Charles Pick - Numis

Thank you very much.

Operator
Thank you. There are no further question, Mr. Lois. Please continue.

Long-term growth drivers

I want to thank you for joining us today and for all the questions that facilitated a good discussion around our second quarter results.

- As a final remark, let me reiterate that we are confident that we have the right strategy to successfully respond to the challenges in the marketplace.
- We continue to focus on the elements we can control, becoming stronger, leaner and more efficient.

We have a clear strategy and we know that when executed with excellence, it works. Our main objectives are:

- Winning at the point of sale, every day and in every occasion.

- Growing currency-neutral revenue per case consistently while continuing to address affordability.
- Cost leadership in every aspect of our business as we work on improving efficiencies and optimizing our cost base.
- And finally, focusing on working capital improvement and continuing to generate strong free cash flow.

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

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