CCH – 2017 Half-year results
Conference call script – 10 August 2017

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 2017 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 call is being recorded today Thursday, August 10 2017. 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 2017.

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.

It has been an excellent half and we are very pleased to have delivered growth across all our key metrics.

Net sales revenue improved by 5.7% on an FX-neutral basis, as a result of both price/mix and volume growth.

Category and package mix improvements in all segments, combined with price increases, delivered 4.3% FX-neutral net sales revenue per case growth in the period, with growth in all three segments.

Volume growth accelerated in the second quarter, in part due to the late Easter, driven by the Established and Developing market segments.

Overall for the Group, we grew volumes by 1.4% in the first half – a great achievement by the businesses despite some softness in our two largest markets, Russia and Nigeria.

Although we faced adverse input costs and foreign exchange movements, the operating leverage driven by topline growth delivered 26.8% increase in comparable operating profit. This represents 150 basis points of operating margin expansion to 9.1% for the period.

Finally, comparable EPS grew by 38.5%, buoyed by lower financing costs following our debt refinancing in 2016.

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

Starting with the topline, our net sales revenue grew by 5.7% on a currency-neutral basis. Both volume and price/mix drove this strong result.

The currency impact on our topline was minimal, as the strong Russian Rouble and the weak Nigerian Naira largely offset each other. Therefore, on a reported basis, net sales revenue increased by 5.6%.

Currency-neutral net sales revenue per case improved by 4.3%. This substantial improvement is mainly attributable to our pricing initiatives, mainly in the Emerging segment as well as better package and category mix in all segments.

Despite input costs and the impact of foreign currency movements being adverse in the period, gross margin improved by 110 basis points as a result of relatively low adverse transactional currency impact compared to the top-line growth performance.

The operating leverage in the business also led to a 40 basis-point reduction in operating expenses as a percentage of revenue. I will come back to this later in my presentation.

The benefits of better revenue per case and volume leverage resulted in comparable operating profit up by 26.8% versus the prior-year period. Comparable operating profit margin expanded by 150 basis points, reaching 9.1%.

Comparable EPS was 58 Euro cents, 38.5% higher than in the prior-year period. The EPS uplift was partly due to a 17.5 million Euro reduction in net financing costs, which was the result of the refinancing of the November 2016 bond at significantly better terms.

We continue to optimise working capital, however, the phasing of certain working capital items last year have led to a decrease in free cash flow in the first half of this year. This phasing distortion will normalise by the end of the year, at which time the free cash flow will be broadly unchanged from the level we achieved last year.

Revenue performance in detail

Turning to the revenue performance in more detail

Currency-neutral net sales revenue per case increased by 4.3%, as a result of improved pricing trends, mainly in Emerging markets, as well as mix improvements. This performance is very encouraging as it demonstrates the traction we are seeing in our revenue growth management initiatives and also the abating deflationary environment in Europe. Pricing was boosted by the price increases we have taken in Nigeria, without which currency-neutral net sales revenue per case would have grown by 2.1%.

Let me take you through the key movements on a segmental basis.

In our Established markets, FX-neutral net sales revenue per case improved by 0.2%. The improvement was driven predominantly by package mix as a result of our OBPPC strategies and selective price actions in Austria and Italy.

In Developing markets, category, package, price and channel mix contributed to the 3.4% improvement – a result of the initiatives we've been running, not just in Poland, which we've spoken to you about, but also in Hungary and the Czech Republic.

The Emerging markets saw an 8.6% improvement in FX-neutral net sales revenue per case. This was mainly the result of our pricing actions put in place to mitigate the currency headwinds in countries facing currency depreciation and the associated inflation. Category mix was also positive.

Input cost increases weighted to the second half

Turning to input cost

Comparable FX-neutral input cost per case increased by 2.4% in the half year, driven by world sugar costs, mainly in Emerging markets, while EU sugar costs have been favourable in the period.

PET resin prices were up year on year, driven by higher oil prices. Our extensive pre-buy programme mitigated these increases, driving total resin costs flattish year on year.

The growing contribution of finished goods purchases in the mix pushed total input costs per case higher in the period.

Despite the growth in world sugar and resin prices, the lower spot prices of NY11 sugar and the extensive resin pre-buys employed early in the year led to the first-half performance to close better than expectations.

As we progress through the year, we expect our input costs to increase faster than in the first half. Overall for the full year, we expect to see a mid single-digit increase in comparable FX-neutral input cost per case, improved from the low end of high single-digit growth guidance we gave earlier in the year.

Operating leverage and cost efficiencies

Turning to our opex performance

We have worked hard over the years to right-size our operating cost base, and we continue to use our resources effectively while we grow the topline. In the period, this resulted in comparable operating expenses reducing to 28.6% of revenue - a 40 basis-point reduction compared to the prior-year period.

Let me walk you through the key drivers.

Reductions in administration and warehousing costs led to a 70 basis point improvement as a percentage of revenue.

Sales and marketing expenses increased by 60 basis points. Direct marketing expense increased in absolute terms to support our new product and flavor launches, and was stable as a percentage of revenue.

We also incurred a significant one-off negative impact of 50 basis points in the first half, driven mainly by a bad debt provision in Croatia and the investment we are making in re-designing the revenue growth management framework.

As a result, we are pleased with the ongoing strong underlying performance of our OpEx as a percentage of revenue, especially in view of the growing sales and marketing investments that support our revenue growth management initiatives.

Profit and margin growth

Turning to operating performance, we recorded comparable operating profit of 291 million Euros in the first half of the year, 62 million higher than in the prior-year period, driven by the Emerging markets segment. The operating leverage effect of strong topline growth, mainly from price and mix improvements, was the key driver, while input costs and adverse foreign exchange movements were headwinds in the period.

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

In Established markets we benefited from improvements in price/mix and volume leverage; however, these were largely offset by unfavourable input costs.

Developing markets had a favourable impact from price/mix and volume leverage as well. Higher input costs and a significant bad debt provision for a Croatian customer led to profits 10 million Euros less than that in the prior-year period.

Emerging markets benefited from price increases and a relatively low adverse foreign exchange impact, as the strong Russian Rouble offset most of the adverse impact of the Nigerian Naira devaluation.

Restructuring plans

As far as restructuring is concerned:

In the first half, we incurred restructuring charges of 13 million Euros, mostly focused on Established markets.

For the full year, we expect restructuring costs to reach 26 million Euros, with estimated annualised benefits of 14 million Euros from 2017 onwards.

The savings in 2017 from initiatives taken in 2016 and those that will be taken in 2017 are expected to reach 15 million Euros.

Free cash flow expected to normalise over the full year

Turning now to free cash flow, we generated 95 million Euros in the half year.

This was much lower than the cash generated in the prior-year period as expected.

The main reason for this year-on-year gap was the distorting effect of the receivables and payables performance in Nigeria, due to the major restriction in foreign currency liquidity in the best part of last year.

Cash generated from EBITDA growth was strong in the period, offset by the phasing of our capital expenditure.

The free cash flow performance will normalise by the end of the year, as the working capital distortion will phase out.

Financing cost

Turning to the financing cost in the period, we closed the first half of the year with a 17.5 million Euro improvement year-on-year.

The main drivers of this improvement are the following:

First, the refinancing of our 600 million Euro bond last year at favourable terms, which yields a 7.6 million Euro lower interest cost on a full-year basis, so 3.8 million Euros in the first half of the year.

Second, the cycling of last year's increased interest cost due to the overlapping of the new bond issued in March 2016 with the old one repaid in November 2016. This, combined with the cycling of the new issue premium incurred in March last year, drives a one-off improvement in the first half of this year of 8.4 million Euros.

Taking all these factors into account, we expect the full-year improvement in net financing costs to be in the region of 24 million Euros compared to prior-year.

EBIT margin development

Before I conclude, let me walk you through the EBIT margin bridge for the first half of the year.

Applying the operating leverage formula, our 150 basis point EBIT margin expansion in the period comes from the following factors.

On the positive side, we have:

- 30 basis point expansion from 1.4% volume increase in the half year
- 300 basis point expansion from revenue per case leverage – based on the 4.3% growth in FX-neutral net sales revenue per case

- 20 basis point expansion from our cost productivity initiatives

These are partly offset by the following negative factors:

- 150 basis point contraction from the combined impact of FX and input costs
- 50 basis point contraction from the two one-off elements that I referred to earlier in my presentation - a bad debt provision in Croatia and the cost of the investment we are making in re-designing the RGM framework.

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

Operational review and strategy

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

HY volume by segment

Overall, volumes grew by 1.4% in the first half of the year.

Notably, volume growth was broad-based, with contributions from all three segments.

In the Established markets, volume increased by 0.8%, with a robust second quarter which benefited from the late Easter. Good performances in Greece and Ireland offset volume decline in Italy.

Developing markets also grew by 0.8%, helped by strong delivery in the Czech Republic and Hungary. Poland recovered some of the volume it lost in the first quarter with low single-digit growth in the second quarter, which is in line with the developments we would expect to see in this market.

The Emerging segment continued its positive trend, posting an increase of 1.9% in the first half, driven mainly by growth in Ukraine, Romania and Serbia, while Russia saw a low single-digit decline.

Volume growth by category

Looking at our performance by category:

We have developed a number of commercial initiatives over the years with proven success that can be replicated across all our markets. These, combined with our efforts to implement revenue growth management initiatives and work on our route to market are helping the growth of our categories. While Energy demonstrated the highest rate of volume growth in the period, the biggest contribution to total volume came from the sparkling drinks category.

Sparkling beverages increased by 1.8%, with good performances in most markets, especially in Ukraine, Romania, the Czech Republic, Hungary and Ireland. This more than offset declines in Italy and Nigeria. A number of successful launches such as Coke Zero new formula and Fanta Shokata as well as the Fanta slider bottle supported the growth in the category.

Juice declined by 1.8%. Nigeria saw the biggest decline after the significant price increases we have taken. Ireland was adversely impacted by portfolio changes within the category. In contrast, Russia, the Czech Republic and Hungary contributed positively.

Water grew by 0.7%, driven by strong performances in Italy, Switzerland and Nigeria. In Russia and Poland volumes suffered from cooler weather, and in the case of Poland, the shift to a smaller package size as part of our revenue growth management strategy.

Energy is a strategically important growth category, and therefore the 17.6% increase is particularly pleasing. The strong trend we have seen in recent years continues, as we build Monster volumes, which grew by 34.6% organically. Including new market launches, Monster volumes demonstrated 43.2% growth.

Ready-to-Drink Tea declined in the first half by 6.4%. While we saw positive results in Romania, Hungary and Bulgaria, Russia and Switzerland drove the declines.

<u>Established markets - Focusing on value and execution</u>

Turning now to the reporting segments and some of the big markets in each segment

Established markets volume increased by 1.0% in the first half with growth in the majority of our countries. Water and Energy were the growth drivers, more than offsetting declines in Sparkling, Juice and Ready-to-Drink Tea.

Volume declined in Italy by low single digits in the period, although the second quarter was much stronger than the first. It's good to see the Water strategy we implemented in 2016 delivering, with high single-digit growth in volume and improved net sales revenue per case. Energy continued to grow well, with a good performance in Monster. Sparkling declined overall, as the growth in Coke Zero was more than offset by declines in Coke Regular and Coke Light.

Volume in Greece grew by mid single digits in the first half – a very good performance driven by Sparkling, Water and Energy. Sparkling growth was driven by Coke Zero and the introduction of Coca-Cola with Stevia and zero calories at the end of March.

Volumes in Switzerland increased by low single digits. The good performance was driven by Water, helped by the warm weather, as well as our initiatives such as the launch of the Fanta slider bottle.

Overall in the Established markets, net sales revenue increased by 0.8% in the first half driven by volume growth and favourable price and package mix. We are very pleased to see FX-neutral net sales revenue per case up 0.2% in the first half, with positive price developments in a few markets in the segment.

Developing markets – Continuing broad-based growth

Developing markets volume increased by 0.8% in the first half. A strong second quarter more than made up for the slower start to the year. Volume growth was driven by Sparkling, Energy and Juice, partially offset by a decline in Water.

In Poland, we saw wet weather in the second quarter and a weak NARTD market, which impacted our volumes negatively. Despite this, we recovered most of the volume we had lost in the first quarter and finished the period with a low single-digit decline. Sparkling volume grew, driven by a strong performance by Coke Zero and Fanta following the launch of new flavours. Energy maintained its robust performance.

In the Czech Republic, volume grew by high single digits, with all categories growing except for Water. It was good to see Sparkling beverages grow by low teens, driven by Coke Regular, Coke Zero, Fanta and Sprite. Water declined by high single digits due to competitive pressures and our choice to drive value in the category.

Volume in Hungary increased by mid single digits in the period, with growth in all categories following good execution of promotional activities and favourable weather. Sparkling grew by high single digits driven by the launch of the Coke Zero new formula as well as growth in Coke Regular. Fanta and Sprite both grew strongly following the recent launch of the new Fanta Slider bottle and Sprite Zero.

Net sales revenue increased by 5.8% in the Developing markets. The biggest drivers were category and package mix, as well as a positive foreign exchange contribution from the stronger Polish Zloty. On an FX-neutral basis, net sales revenue per unit case increased by 3.4%.

Emerging markets - Growing despite challenges in two major markets

Turning to our Emerging markets segment, volume grew by 1.9% with broad-based growth in our markets and categories.

Russia declined in the first half, as we continue to operate in a challenging and volatile market, with declines in total NARTD market volume, exaggerated by cool weather. In Sparkling, the low single-digit volume increase was driven by growth in Trademark Coke, and strong growth in Sprite, following the successful launch of Sprite Cucumber. Energy grew by high single digits. Juice volume increased by low single digits, following a very strong second quarter. Volume loss was driven by Water and RTD Tea.

Nigeria delivered low single-digit volume growth in the first half of the year despite a difficult second quarter, impacted by the third round of price increases in April. The sparkling beverages category was broadly stable. In Stills, Juice declined by high teens, while Water grew by low teens, supported by trade incentives and improved availability in the North. Monster was launched successfully in February and is performing well.

Volume in Romania grew by mid single digits, maintaining its positive trend of growth for ten consecutive quarters. Sparkling beverages posted mid single-digit growth, driven by our strong marketing plans, launch of Coca-Cola Lime and the new formula for Coca-Cola Zero. Water increased by low single digits and RTD Tea by high single digits, helped by strong promotional activity and the launch of a new flavour.

Overall in the Emerging segment net sales revenue grew by 9.8%. FX-neutral net sales revenue per case grew by 8.6%, reflecting our strategy of implementing improved pricing in our markets where we face currency headwinds, particularly Nigeria. Excluding Nigeria, FX-neutral net sales revenue per case in the segment grew by 3.9%.

Looking ahead to the second half of the year

Looking ahead, we are confident that 2017 will be a year of strong FX-neutral revenue growth and good progress on margins.

We are encouraged by the underlying trends, and have confidence in the robust plans we have for the remainder of the year. Therefore, we expect the good volume trends to continue in the second half, with an acceleration in the Developing segment.

After a very strong first half of growth in FX-neutral net sales revenue per case, we expect growth to moderate in the second half of the year.

We are revising our input cost guidance down from the low end of high single digits to mid single-digit growth on an FX-neutral per case basis.

We also believe that the net impact from foreign exchange movements on our P&L in the full year will be neutral.

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 11th August]

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 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 we look forward to speaking with you again.