1Q16 Conference Call Guidelines

[I-advize people begin talking]

Andrés Wainer: *Good morning and welcome to Coca-Cola Andina's first quarter 2016 results conference call.* ***The focus that we put into the development of a business strategy****, pointing to the granularity of the proposals for each group of customers, along with* ***the optimization of the execution on the market*** *which seeks to maximize the profitable volume,* ***as well as the work we have performed on cost-containment****, led us to show an* ***expansion of 129 basis points in consolidated EBITDA margin*** *during the first quarter of the year. The quarter's results were positive in each of the franchises where we operate.*
Besides the macro-economic challenges we had to face in all our operations*, the average income per unit case grew compared to the previous year, although sales volumes were affected by the weak macroeconomic conditions, and in the case of Brazil, also by unfavorable weather conditions*.
In consolidated terms, the devaluation of local currencies with respect to the Chilean peso, had a negative impact over our results. *Thus EBITDA decreased 2.4% when compared to the same period of the previous year,* ***which is compared with a 7.1% growth based on neutral currency i.e., isolating the effect of devaluation of local currencies with respect to the Chilean peso.***

Continuing with our operations, in Argentina *sales volume grew 0.3% explained by a significant growth of the juices and waters category. The good performance of this category is based on market share gains we have achieved in these segments, resulting from the roll out of launches carried out. Additionally, the change in the way we service the market, by extending the route to market strategy to our entire franchise, allowed us to gain 40 basis points of market share in soft drinks, reaching 61.9 points. Looking forward,* ***our commercial priorities will be the optimization of the price architecture and continue developing returnable packaging.***

In Brazil*, our market share this quarter reached 63.7 points, reflecting a gain of 70 basis points over the previous year, explained by the* ***execution quality and the implementation of our market pricing strategy.*** *Nevertheless, and as we have said on other occasions,* ***the environment continues to be challenging from the macroeconomic point of view.*** *The growth of our volumes was affected by weaker consumption and much colder weather in this first quarter of the year.* ***We will continue to monitor our product and price strategy in the franchise, to minimize the impact the previously mentioned factors may have on our results***
In Chile*, we anticipated the requirements of the new labeling law, and since the mid-March we are selling some formats with the "Stop" sign required by law. Therefore, as of June 26, all of our one way products will have the new labelling.* ***We see this Law as an opportunity****, and for that we have been adjusting our portfolio for several months. In conjunction with Coca-Cola we launched "Masterbrand", a single brand strategy, which unifies Coca-Cola as a single brand with four options, highlighting the attributes of sugarless and low-cal products. In addition, it seeks to ensure access of all our customers to light version products, by increasing availability of Coca-Cola in low-cal and 0-calories options in different points of sale throughout our franchise. In addition, we launched the Coca-Cola Zero campaign "Taste it to believe it".* ***All this has enabled us to take our sugarless product mix to 26% of the product portfolio in the quarter****, with a clear upward trend. Our Market Share in the sugarless segment is*

high, which allows us to think that to the extent that consumers make the switch to these products, ***our sales volume will increase****.*

In Paraguay**, *our competitive position continues to strengthen, gaining market share, with a focus on the nation's capital.*** *We have greatly increased direct service, capturing* ***profitable volume****, which led our market share measured in terms of value to reach 75 points. In regards to volume market share,* ***we gained more than 450 basis points compared to the previous year, reaching 67.9 points.***
Looking at the rest of the year, our focus will be aimed at the ***correct segmentation of our business strategies, in order to adapt them to each type of client.*** *Additionally,* ***the right product and packaging portfolio and its execution at the point of sale*** *will remain being key factors, without neglecting the strict control over costs and expenses that has characterized us in recent years,* ***keeping us on the path of value creation for our clients, consumers, employees and shareholders****. There is a lot to do and it is our commitment to continue moving forward.*

Now Paula will comment on the ***Company's financial results.***
Paula Vicuña**:** *To begin, I would like to refer to the exchange rates of each of the countries where we have operations and their impact on the consolidation of figures. Again during this quarter we had a negative impact in every country upon consolidation of figures to Chilean Pesos, resulting from the 32.6% depreciation of the Argentine Peso, 17.7% of the Brazilian Real and 7.8% of the Paraguayan Guarani regarding our reporting currency.*
We will now review each of the franchises where the company has operations, and for a better understanding, the figures that we will analyze in each one of them are expressed in local currency.

In Argentina *Net Sales increased 31.0% during the quarter, which was mainly explained by the implementation of price increases.*
Operating costs grew 22.7% in the quarter, explained by:

1. *The increase in revenues, which has a direct impact on the cost of concentrate,*
2. *Increased labor costs, mainly due to inflation, and*
3. *The 66.7% devaluation of the Argentine Peso against the U.S. dollar having a direct incidence over our dollarized costs.*

On the other hand, Selling and General Administration Expenses increased 35.6% in the quarter, which is mainly explained by the effect of local inflation over costs such as labor, freight and services provided by third parties.
Finally, EBITDA increased 50.0% in the quarter, and EBITDA margin expanded 204 basis points reaching 16.1%. Argentina represented 24% of the EBITDA generated by the Company.

In Brazil *Net Sales decreased 1.1%, which is mainly explained by 7.8% drop in volumes, which was not able to be offset by the implementation of price increases.*
Operating costs increased 3.8% which is explained by the effect of the devaluation of the Real against the U.S. dollar which was 36.6% in the quarter which impacts our dollarized costs. This effect was partially offset by a decrease in sales volume.
Selling and General Administration Expenses decreased 11.6%, which is partially explained by lower distribution costs, resulting from the internalization of the production fleet and lower sales volume, as well as by lower marketing expenses.

EBITDA decreased 2.3% in the quarter and EBITDA margin was 18.6%. Brazil represented 30% of the EBITDA generated by the Company.

In Chile *Net Sales increased 5.3% in the quarter, positively influenced by price increases in all categories where we participate.*
Operating costs increased 2.4% in the quarter mainly explained by the effect of the 12.4% depreciation of the Chilean peso to the U.S. dollar, which has a negative impact over dollarized costs, and by greater concentrate costs due to the implementation of price increases.
This increase was partially offset by the lower cost in U.S. dollars of dollarized raw materials and the lower incidence of juices and waters resulting from the change in the business model of these categories.
Selling and General Administration Expenses increased 3.5% in the quarter, mainly explained by greater distribution expenses and labor costs resulting from higher inflation.
EBITDA increased 15.7% in the quarter and EBITDA margin expanded 200 basis points reaching 22.3%.The Chilean operation represented 35% of the EBITDA generated by the Company.

Finally in Paraguay *Net Sales increased 9.7% in the quarter, explained by price increases in all categories and the 2.3% growth in sales volume.*
Operating costs increased 10.2%, which is mainly explained by the effect of the 21.8% depreciation of the Guarani against the dollar, which has a negative effect on dollarized costs and by the change in the mix towards products that carry a higher unit cost such as juices.
Selling and General Administration Expenses increased 2.1%, which is mainly explained by greater labor costs and partially offset by lower depreciation charges.
EBITDA increased 10.7% in the quarter and EBITDA margin was 27.8%, expanding 23 basis points. Paraguay represented 11% of the EBITDA generated by the Company.

We are now available for any questions you may have.

(Q&A Session begins*)*

Andrea Teixeira: How is the volume trend in Brazil now? And also, if you can help us project the costs of sweeteners for year-end. I imagine they have increased as the case has been with most bottlers, can you confirm that? Are you going to perform cost-hedging? Thank you.
Andrés Wainer: Regarding your first question, the trend that we are seeing in Brazil, the truth is that we had a very bad January resulting from both macroeconomic issues as well as the weather. In the particular case of Rio, it was raining almost during the entire month. February was fairly flat, and March was positive, also, accompanied by a quiet obvious weather improvement; and April is also positive, accompanied by better weather conditions too. While we are seeing a positive trend, I think it is still too early to project and say that there is a change in the trend, given that the weather has somewhat affected what is happening. Now, for the rest of the year, we expect volumes will probably be flattish, or slightly negative. We do not expect to have another quarter as bad as the first quarter was. The first quarter was quite influenced by January, where it rained practically the entire month.
Andrea Teixeira: And the Olympics?
Andrés Wainer: The Olympics will help volumes in a particular month, which is August. It is impossible to make a projection of what the impact will be, but clearly we will have above-normal volumes in that month. So that will also obviously help volumes in 3Q.

Andrea Teixeira: But flat, if I understood well, flat is your estimate for Brazil this year in terms of volumes, isn't it? But it seems conservative.

Andrés Wainer: For the remainder of the year. The first quarter was obviously very negative, volumes have dropped by 7.8 per cent, and for rest of the year we see it fairly flat. Maybe we will have a slight growth, maybe we have a slight decrease, but we don't expect to see another quarter with volumes falling by 8 percent.

On the issue of sweeteners, in fact we have been hedging. In the case of Chile for example we have hedged nearly 90 per cent of the volume at a cost quite below what is seen today in the market. The market had an increase of approximately 15 percent in the past two months, and we hedged before that. In the case of Brazil we have also hedged approximately 70-75 per cent of the volume, and in the case of Argentina and Paraguay, we already have a fixed price for the entire year. Therefore, the increase we're seeing today in the international markets, will essentially not impact us this year, somewhat in 4Q, but slightly, and it will have more of an impact next year when we start hedging.

Andrea Teixeira: Also a question on SG&As, they have significantly dropped which has helped a lot in Brazil on the distribution part, on administrative costs, which have significantly decreased, operating costs. Is that sustainable, because they have dropped from 212 to 137 million reais.?

Andrés Wainer: We'll have good SG&A numbers this year, but probably not as strong a fall as the one we saw now. We must remember that SG&As consider marketing expenses, and sometimes marketing expenses, the contributions with Coca-Cola are changing every month, they are not always the same. This quarter was notably lower than normal. That also helped SG&As, but actually there are things that are already structural as the internalization of the fleet, which will help throughout the year.

Andrea Teixeira: So if I understand correctly, do you think SG&As for year-end will be flat in Brazil or a little more because of the Olympics.

Andrés Wainer: We do not give projections for year-end SG&As, but levels will be quite good, quite favorable for the company, despite the Olympics, which will involve an increase marketing expenses towards the second half.

Andrea Teixeira: In Brazilian real, right? in local currency

Andrés Wainer: Yes, everything we are discussing is in local currency of each country.

Jorge Opaso: I have several questions, first I wanted to really understand what you mentioned in the Press Release in Chile regarding that the lower incidence of juices and waters by change of business model, boosted margins. Is this related to the partnership with Coca-Cola Embonor? Is it the idea to basically unconsolidate the business? I wanted to understand a little, if you could tell us exactly what happened and quantify, if possible, how much of the increase in margins in Chile is due to the issue of juices.

Andrés Wainer: In the middle of last year, in Chile we made a change in the model of Stills, juices and water, since then we're seeing the effect, and for now that is, that the profit split between bottler and Coca-Cola became 50-50, both in the profit, or operating income of the business, as well as CAPEX, the investments related to this. It is the only change that has occurred so far. At the same time and as part of this model change, we set up a new Joint Venture with Coca-Cola Embonor, which will be for the future development of these categories, whereas today production is in Vital Jugos and Vital Aguas.

Eventually, these companies will be, at some point, probably absorbed by this new Joint Venture. But what you're seeing so far is simply a re-balancing of the profit split between Coca-Cola and bottlers. We believe, we are very confident that this new model will better align incentives between Coca-Cola and bottlers for the development of these new categories. Therefore, a strong focus and development in these categories, with new product launches should be expected during the next few years. How much did the margin improvement contribute? that is something that we do not make public.

Jorge Opaso: Can you tell us more or less how much the profit split was before that?

Andrés Wainer: It was approximately 60% for Coca-Cola and 40% for the bottlers.

Jorge Opaso: And what I conclude Andrés, if I understood well, in the future, you will basically unconsolidate, juices and waters will be absorbed?

Andrés Wainer: Today it is already unconsolidated, i.e. there is a company Vital Jugos, which produces juices for all of Chile and sells them to Andina and Embonor, and there is another company, Vital Aguas, that produces waters, and that also sells them to Andina and Embonor. In the future, it is likely that at least part of the juices will be absorbed by this new Joint Venture. It is not clear if waters will continue as Vital Aguas or if it eventually will also be absorbed. But what matters more than the model of who are the operating companies, what is relevant for Andina and for the market, is that the model becomes 50-50, independent of the operating companies, one calculates the profit left by this business, and incidences are to be calculated so that The Coca-Cola Company is left with 50 percent of the profit and the bottling system with 50 percent, and Coca-Cola will also participate with 50 per cent of all related investments in the business.

Jorge Opaso: With respect to Chile, the loss in market share that you had this quarter, I wanted to somewhat understand the dynamics of what's happening with competitors. Basically, are the competitors being more aggressive on prices? Are you privileging margins? Ultimately, the dynamics of the industry, if you could shed some light on what is happening in terms of the aggressiveness of the rest with regard to what you are doing.

Andrés Wainer: In the Chilean market, there are basically two competitors, we have approximately 70 per cent of the market, then there is ECUSA that has about 25%, and then there are other local brands and supermarket brands that have maybe 5% of the market. What has happened lately is that we have made price increases and competition, basically ECUSA, has delayed raising prices, and have kept slightly lower prices, increasing the gap with us, especially in the supermarket channel, where we have been more aggressive, with more promotions, and that is what has motivated the loss of share that in any case is quite low, it is not very relevant. It is also noteworthy that in Chile we have increased prices above local inflation, and that also affects: when competition raises prices slightly less, price gaps increase, and that translates into a small loss of market share.

Jorge Opaso: With respect to Argentina, I wanted to understand two things, one, is what lies behind the strong EBITDA increase in Argentina, do you view them as more or less sustainable levels? And also, with respect to short term dynamics of what is happening in Argentina today, if you see that the trend in terms of volumes is something that could continue, in terms of volume increases, or are you seeing something else that is changing the dynamic in this country?.

Andrés Wainer: Regarding your first question, on increased EBITDA margins in Argentina, we have managed to increase prices in Argentina quite close to inflation. The truth is that if one sees the last months now, a little less, because inflation soared in the first quarter of the year, more than everyone expected, and in Argentina we continue having controlled prices, and we still don't know how long it will last, we believe that the new Government will slowly begin releasing price controls, but for now it continues. Although we have increased prices slightly below inflation, our costs, the cost of sales primarily increased quite below inflation. Mainly because the raw materials we're using today were purchased at fairly low values and before the devaluation of the dollar. Therefore, this year we should have no problem in maintaining the margins we are showing, we are quite optimistic about that. Costs will probably increase next year, raw materials will be purchased at more expensive prices and with the current exchange rate, but on the other hand we hope that the price issue starts to normalize and that we can implement price increases to offset that. Therefore, we believe that next year we should have no problems in maintaining, or probably continue increasing margins, reaching the levels that we once had in Argentina, before price controls began. With respect to volumes, they are quite flat in Argentina, already in the second half of last year and the first quarter. Some months we have had a quite positive trend, in other months an important fall and there is not a clear trend. Should there not be any significant change in the economy, it is likely that volumes remain fairly flat. April is not good; volumes are quite negative, because as in Chile, we are experiencing a cold wave throughout our territories in Chile as well as Argentina, between 5 and 7 degrees below the previous year, which is quite strong. But also, one cannot consider a bad month with bad weather to project the rest of the year.

Claudia Cavada: I wanted to ask about the Labeling Act in Chile. You already started labeling some categories, and I wanted to ask if there some sensitivity on that issue. And the second thing I wanted to ask is what has happened with returnables and if there has been any obstacle in delivering these products, given that there are labeling complications.

Andrés Wainer: The Labeling Act will become in force on June 26 and we anticipated it; we have already been giving our clients the new packaging, bottles already have 'Stop' sign. We do not expect an impact. Researches that we have show that people that consume sugary sodas know that they contain sugar, therefore the effect would be quite minimum. Also, on a supermarket shelf, between 70 and 80 percent of the products have the “Stop” sign, so basically all products will have it. In our case only one, in the case of other products, three and up to four 'Stop' signs. Therefore we do not see a major risk on this issue. The Juice category might be more affected, because you will have a “Stop” sign, and there are people who drink juices and are not aware of the high sugar contents. Therefore eventually there may be a transfer from juices to other beverage categories such as waters, and eventually sugar-free beverages, carbonated sugar-free. With respect to what you mentioned on returnable bottles, we have no problems in using returnables even without the label that says 'High in sugars'. What matters here is the date of manufacture of the returnable container. Returnable containers last for two years, and if it was produced prior to the law, there is no problem. Now, in any case, we have to keep our audience well-informed. We will put the “Stop” sign on the caps of our returnable bottles; it is something that was discussed with the authorities of the Health Ministry, and an initiative which they applauded.

Mauricio Martínez: Has there been any change in the execution at the point of sales with the new Coca-Cola and Embonor JV in juices, and if this has represented some benefit in market share, if you have been stealing some market share from your competitors? The second question is, I understand that some of the volume in Chile has been impacted by the weather, a bit of a consumption slowdown, but I wonder if you have seen any recovery in the month so far and do you have any expectations for the rest of the year that you can share with us?
Andrés Wainer: Hello Mauricio, on the juice issue, the new Joint Venture created with Embonor and Coca-Cola is still not operating, will begin operating in the next few months, therefore today, any change in the execution at the point of sale is unrelated to that. Obviously we always are trying to improve our performance in all categories where we participate. But today the Joint Venture is not yet actually operating, therefore there are no changes in the execution that are related to that. Regarding volumes in Chile, in fact the first quarter was fairly flat, slightly negative, and it is likely to continue throughout the year as well. In April, as I explained, weather issues, in April it has already rained a third of what it rains throughout the year in Chile, during a normal year, in Santiago at least, volumes will be quite negative. But that cannot be extrapolated to the rest of the year. It is likely that we will see a quite flat year, greatly impacted by the macroeconomic issues that we're seeing in Chile, with a fairly depressed consumption.

Luca Cipiccia: Hello, good morning. I'd like to ask a question on consolidation. It has clearly returned in terms of debate events, there are also more announcements; I believe that yesterday a new merger in Japan was announced. And my question is if Andina in Latin America is still identified as a Consolidator or if at this stage it is more *managing to maintain territories*, or if you are still seeking opportunities to grow inorganically, also as it seems that Coca-Cola Femsa, Arcacontinental, both have mentioned that they are open to continue.
Andrés Wainer: Andina is a Consolidator, we have been saying it for the last four or five years, Andina is a Consolidator, and we intend to continue to be so. Now, obviously we have to analyze the opportunities there are, one by one, and any purchase or merger, we'll only be done -and this is what is important- when we believe it adds value to our shareholders. If it doesn’t, we will not only grow to be bigger and grow. Insofar as we evaluate opportunities that are profitable for the shareholders of Andina, yes we will them take.
Luca Cipiccia: And at this moment are you looking for opportunities or there is nothing that could clearly be synergistic with growth?
Andrés Wainer: There is nothing concrete in this case, but we are always proactively looking for different alternatives, particularly in Latin America.

Jorge Opaso: Can you give us some guidance on expected CAPEX for this year by country or on consolidated terms. And the other is with regard to Chile; you have implemented an efficiency program since you moved the plant, which has been quite successful. I wanted to ask, well, there are always synergies that can continue to be performed and there are always improved efficiencies, but I wanted to ask if you have already completed most of the expected efficiencies, or is there still something relevant to do according to the initial program.
Andrés Wainer: Concerning CAPEX, we are talking about total CAPEX in the year between two hundred and ten, two hundred and twenty million dollars approximately at group level.

Most of this will be in Brazil. Between 80 and 90 million dollars will come from Brazil, and half of that is going to be the Duque de Caxias plant. In the other countries, we are calculating investments of approximately 60 million dollars in the case of Chile, 50 million in the case of Argentina and 15 million dollars in Paraguay. The only large project is Duque de Caxias in Brazil, approximately half of the CAPEX of all this plant is going to be this year and the other half would be next year. The plant would be operating during the middle of next year, or towards the end of next year, and will have three production lines: a one way PET line; a mineral water line, and a Ref-PET line. On the issue of efficiency of the plant in Chile, we already reached the planned levels quite some time ago. And in the case of the synergies from the merger with Polar, I would say between 90 and 95 percent is already reached, there still are some smaller things, systemic, that will be ready during the year. But I would say that the majority has already captured.

Tania Gil: My question is related to the re-franchising issue now that Coca-Cola announced that it would speed up the process. I wanted to know if you would be interested in having some territory or if you had contact with Coca-Cola on the subject by chance.

Andrés Wainer: No, we have not had contact with Coca-Cola on the subject, but eventually, if the business model seems attractive, and the size of the franchise is commensurate with the size of Andina, it is something that we would be willing to assess at the time.

Closing Remarks:

Andrés Wainer: *Once again I would like to thank you all for your time, for participating in this conference call, and for your interest in Coca-Cola Andina's results. As always, our investor relations and management team are and will be available to answer your questions and meet with you whenever you wish. For any reason please do not hesitate to contact us. Have a nice day.*

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