1Q17 Conference Call Guidelines

[I-advize people begin talking]

Miguel Angel Peirano*: Good morning and welcome to Coca-Cola Andina's first quarter 2017 results conference call.*
We closed a first quarter of the year, with positive results, both in terms of operating and net income. In each of the franchises where we operate we show growths in Operating Income and EBITDA, as well as expansion of margins. Operating Income grew by 17.7% in the quarter and EBITDA grew by 14.8%, while EBITDA margin expanded 100 basis points. On the other hand Net Income also showed a 29.9% growth and net margin expanded 137 basis points.

These positive results were achieved in spite of the weak macroeconomic environment that we continue to face in the countries where we have franchises, which has impacted the volumes of the industry, a trend that has not yet shown improvement, particularly in the case of Brazil.

However, we continue with a strict control of costs and expenses and with a policy of optimizing prices and packaging for each of the defined segments, in each of the franchises where we operate.
Also, we will continue the work we have been doing at the points of sale, executing the market with excellence, since this is a priority for the development and strengthening of our business.

With respect to AdeS, at the end of March we announced its incorporation into our portfolio, in our franchises. This is a vegetable protein-based beverage, which opens up new opportunities for portfolio development. The addition of this type of products is in line with our strategy of serving our consumers with the wide and growing portfolio of ready-to-drink beverages that has been developed worldwide. We will integrate this new product into our portfolio, leveraging on our extensive distribution network, which reaches more than 52 million consumers in the four countries in which we operate, a market that we serve through more than 259 thousand customers.

Going on to the operations, in ***Argentina*** *during this quarter we continue facing a complex macroeconomic environment that impacted on our sales volumes. Volumes for the quarter were negatively impacted by macroeconomic factors, especially by the drop-in consumers' purchasing power resulting from high inflation, and unfavorable climate, particularly during February. Our market share in the soft drinks segment reached 61.9 points, representing a drop of 10 basis points regarding the same period of the previous year, which is however 10 basis points higher compared to the fourth quarter of last year.*

In Brazil*, this quarter we continue to see a complicated macro-politic environment in Rio de Janeiro, which impacted our sales volumes. Even so, our financial results in the quarter were positive, since we were able to leverage on a successful strategy of pricing and packaging segmentation per channel, along with a strict control over costs and expenses. In this context, our EBITDA margin showed expansions of more than 130 basis points in the quarter. Our market share reached 62.2 points.*

In Chile*, sales volume grew 2.6%, highlighting the categories of water and low calorie soft drinks. This growth was driven in the quarter by a greater demand for water, resulting from forest fires affecting the country during the* *first months of the year. Our market share reached levels of 66.6 points, 150 basis points below the previous year, mainly explained by a reduction in the supermarket channel. The economic results achieved were positive, with EBITDA margins ranging 23.1% showing an expansion of 82 basis points with regard to the year previous.*

***In Paraguay,** our sales volume grew by 0.5%, driven by the water category, while the soft drinks category increased slightly. Our net sales grew by 4.1% during the quarter, that together with the control over costs and captured efficiencies, allowed for an EBITDA growth of 10.3% and an EBITDA margin of 29.5%. We will continue to be focused on the search of opportunities and capturing profitable volume, as well as on controlling costs and expenses, thus maintaining the operation's profitability levels.*

Now Andrés will comment on the Company's financial results.

***Andrés Wainer:** 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 upon consolidation of figures from local currencies in Argentina and Paraguay to Chilean Pesos, particularly resulting from the 13.8% depreciation of the Argentine Peso and the 4.3% depreciation of the Paraguayan Guaraní. On the other hand, regarding our reporting currency, the Brazilian Real appreciated by 16.1% during the quarter, generating a positive impact upon consolidation.*

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 27.6% during the quarter, which was mainly explained by the implementation of price increases and partially offset by the 9.1% sales volume decrease. As already explained, the volume contraction is mainly due to the reduction in private consumption given the macroeconomic conditions the country is going through.*
Cost of Sales grew 25.8% in the quarter, explained by:

1. *The increase in revenues, which has a direct incidence on the cost of concentrate,*
2. *Increased labor costs, mainly due to local inflation, and*
3. *The 8.2% devaluation of the Argentine Peso against the U.S. dollar having a direct incidence over our dollarized costs.*

This was partially offset by a lower cost given lower sales volume.
On the other hand, Distribution Costs and Administration Expenses increased 26.0% in the quarter, which is mainly explained by the effect of local inflation over expenses such as labor, freight and services provided by third parties.
Finally, EBITDA increased 37.0% in the quarter, and EBITDA margin expanded 118 basis points reaching 17.3%. Argentina represented 25.1% of the EBITDA generated by the Company.

***In Brazil** Net Sales decreased 1.3%, which is explained by the 10.3% sales volume reduction that was not able to be offset by the implementation of price increases.*
Cost of Sales decreased 5.5% which is mainly explained by the lower volume sold, by lower labor costs, partially explained by the shutdown of the Vitoria plant, and by the positive effect over dollarized costs of the 19.6% appreciation of the Brazilian Real against the U.S. dollar.
These effects were partially offset by higher concentrate costs due to the implementation of price increases and by the higher cost of sugar.

On the other hand, Distribution Costs and Administration Expenses increased by 4.5%, which in part is explained by increased labor costs and greater advertising expenses, partially offset by lower distribution costs, resulting from lower volumes sold.
EBITDA increased 5.8% in the quarter and EBITDA margin was 19.9%. Brazil represented 32.0% of the EBITDA generated by the Company.

***In Chile** Net Sales increased 6.0% in the quarter, explained by the 2.6% growth in volumes and by price increases in all categories where we participate.*
Cost of Sales increased 5.3% in the quarter mainly explained by the shift in the mix from soft drinks to juices and water.
This was partially offset by the positive effect over dollarized costs of the 6.7% appreciation of the Chilean Peso against the U.S. Dollar.
Distribution Costs and Administration Expenses increased 3.7% in the quarter, mainly explained by greater distribution freight expenses and higher labor costs
EBITDA increased 9.9% in the quarter and EBITDA margin reached 23.1%. The Chilean operation represented 33.9% of the EBITDA generated by the Company.

***In Paraguay** Net Sales increased 4.1% in the quarter, explained by the 0.5% growth in sales volume and the implementation of price increases.*
Cost of Sales decreased 0.6%, which is mainly explained by the drop in sales volume of the category juices and others, which carry a higher unit cost. This was partially offset by greater concentrate costs resulting from the implementation of price increases, and increased sugar costs.
Distribution Costs and Administration Expenses increased 4.5%, which is mainly explained by greater labor costs and greater distribution freight expenses.
EBITDA increased 10.3% in the quarter and EBITDA margin was 29.5%. Paraguay represented 10.3% of the EBITDA generated by the Company.

We are now available for any questions you may have.

Alex Robarts: Thinking about what the macro-situation is, it is obviously still challenging and I would like to know what is your view regarding the recovery in soft drinks and the industry that you contemplate having. If the second semester is usually better, if you are willing to say that the lowest point has passed and your perspective also to raise prices more, thinking about what we are seeing regarding the increase in the price of sugar. So this is the first question. Coupled with it, perhaps if I may, it seems that Heineken is interested in changing the commercial relationship with the bottlers in Brazil, correct? If you can confirm or comment on how important beer is for Andina in Brazil today, and if you are willing to modify it in the case that there is a change in this relationship. If there is a view or some comments on the idea of acting in the Brazilian market without beer. So those are the two questions. Thanks a lot.
Miguel Ángel Peirano: Regarding to the macro-economic situation in Brazil, unfortunately we have not yet seen a clear exit in the short term. The situation has remained relatively stable at low levels from an economic activity standpoint. And in the short term we are not seeing a quick recovery. We are probably hopeful that the measures being taken in Brazil will be effective and that in the second semester we will start to see some kind of change, but we really have to wait for that to happen. And the impact that this has on the industry in which we work, both soft drinks and water and juices, is totally related to cash-at-hand that people have to do their shopping. Unfortunately, when the economy does not generate wealth, people restrict consumption and it is a little what we have been seeing in recent times in Brazil. Anyway, Brazil is a very big country,

it is a country that has tremendous opportunities and we are convinced that a little earlier, a little later, it will come out of this crisis and again be a tremendous business with all the potential it has to develop.
With regard to the issue of prices you commented, in general our policy is to continue more or less in-line with inflation, depending on macroeconomic situations, because ultimately the goal is to defend the profitability of this business and that is our focus.
With regard to the Heineken issue, as you say, we received official information this week that Heineken would be making the decision to distribute products on its own and not through the Coca-Cola System. In the case of beer for us the volume is approximately 5% of the total volume and we will later have to define what will be the following steps. This is all very recent and it will have to be defined in conjunction with the Coca-Cola System.

Pedro Leduc: Regarding SG&As in Argentina, this quarter it was pretty much in line with sales, correct? They went up 26% and your sales in local currency increased 28%. Does this dynamic look sustainable for the rest of the year? I mean, is it possible to see SG&As interfering less with your margins in Argentina or was it much more particular in this quarter? Thank you.
Andrés Wainer: Indeed, as you say, SG&As behaved pretty well during the first quarter of the year. We estimate that they will behave well all this year. The costs are fairly controlled. But in the next few quarters they should be closer to local inflation, as there will be some readjustments in third-party rates, basically labor costs. But yes, you should expect a good year in Argentina in terms of SG&As.
Pedro Leduc: OK. In the special demand in Argentina do you see any improvement? In terms of volume it dropped considerably this quarter, but your market share remained fairly stable. Do you see salaries catching up, helping volumes too? That's the last question.
Andres Wainer: Well, so far we have not seen a recovery in terms of volumes in Argentina, but we are quite optimistic about the second semester. As wages in Argentina begin to readjust with past inflation and future inflation being lower, disposable income or the real wage of people should begin to increase and that should be reflected in the recovery in demand in the second semester.

Nicolás Schild: I wanted to understand a little about the competitive scenario that you are undergoing in Chile, how concerned are you about market share losses and how much are you willing to sacrifice prices for the profitable volume. And I would also love to understand where the biggest competition comes from and that has led you to lose part of the market share. If it is driven by the same supermarkets, if they are exercising competitive pressures to have more sales volume, or is it your direct competitors who are trying to win market share. Thanks a lot.
Miguel Ángel Peirano: As I recently mentioned, we have a pricing policy that is trying to be as close to inflation as possible, in order to protect the profitability of the business and that the volume we generate is profitable volume. Where we have had the biggest impact on market share has been the supermarket channel, which is clearly a more active channel in terms of offers. And I believe that everyone in terms of their analyses, their pricing strategy, packaging and promotions, and well, each company makes their decision depending on that. Our goal is to protect the profitability of the Company and that is how we will continue to work.
Nicholas Schild: Okay. So you are still not at the point of being concerned about losing market share and making it harder to recover in the future?
Miguel Ángel Peirano: No, not at all. With our market share levels above 65, 66, they are very respectable market shares so we are not concerned.

Mariana Hernández: Regarding your relationship with Heineken in Brazil. I would like to know if you can comment a little more on how your economic relationship with Heineken changed over the past two years. I mean, did the distribution margin that you capture change or was there some other significant change? And how were the beer business results for you, in recent years, in terms of EBITDA? I understand that it is difficult now to comment for the future, but speaking about the last two, three years, what is your opinion about the beer business in Brazil? Thank you.

Miguel Ángel Peirano: In the past years we have certainly had an excellent relationship with Heineken, and we continue to have it until this day. And in our particular case, in Rio de Janeiro, the focus on growth has been basically on premium beers, both Heineken and last year with the launch of Amstel which was very good. Facing forward, well, it's Heineken's decision, we have to respect it. And again, each company makes the decisions that they understand are better for their business and we will have to continue working and looking for profitability as we have done with the tools we have. The beer business in Brazil is a very big business. However, in the territories where we operate, basically in Rio de Janeiro, as I mentioned, the volume is relatively low, which impacts us on the total volume at around 5%.

Luca Cipiccia: Regarding the pricing strategy in Brazil. We continue to see a volume-suffering quite also in market share and, despite that, a repositioning, and a price strategy that seems relatively aggressive in some way. Can you explain a little what you are doing in terms of packaging, price and also where you are at in the process of defining positioning in Brazil? Also considering consumer developments, macroeconomic scenarios and competition, please.
Miguel Ángel Peirano: Actually, when we analyze the price strategy, we don't just see it as a price, but we see it as a whole with the pricing and packaging strategy. And in the particular case of Brazil, our pricing and packaging strategy is focused on segmentation, in order to have stronger prices in the most socially important places and where the economic level is lower, to have much cheaper options. And hence the reason for the investment we are making in Duque de Caxias with returnables. So, today our capacity for returnables is full, the line is running at 100% and hence the change that it will generate, at the end of the year or beginning of next year, once we have returnables working, for the purpose of meeting each of the markets in which we participate in Brazil in the way they deserve and require it.
Luca Cipiccia: And in competitive terms, do you think you're evolving? Can you comment a little on the market segmentation in that scenario that we are seeing in terms of brands? Your brands, those of your competitors, B brands. Can you give us some color on that issue? To understand a little more also how the market is coming back because of the worldwide economic consumption scenario.
Miguel Ángel Peirano: As in the case of Chile, the supermarkets channel in the case of Brazil is the most dynamic market, where competition is most active. And the traditional channel does not have that same dynamic. The important thing is to have a clear global pricing and packaging policy and that is what we do.

Nicholas Schild: I wanted to see what expectations you have for margins. Not the figure because I know you cannot give us guidance on that, but the movement of margins going forward, considering the change of mix from soft drinks to more juices and water. Because in reality you do not have concentrate costs rather a joint venture which is where you have greater participation or where you pay less CAPEX compared to soft drinks. And that compared to the margins that each one of the different businesses has. Thanks a lot.
Andrés Wainer: We do not make the disclosure of margins by category, but we have always said that margins in juices and water are lower than in soft drinks. Except in the case of Paraguay, where they are practically the same. Therefore, ceteris paribus everything remaining constant, a change in the mix will affect the margins. And that is exactly what we are working on, in creating stronger brands in juices and water so that they can achieve similar margins as possible to those we have in soft drinks. In addition, we are constantly working on all productivity and efficiency issues, to counteract this negative effect that I was just talking about. Also, we must remember that in all countries today we have Ma 50/50 model with Coca-Cola for all juices and water, where they also contribute 50% of CAPEX, which does not occur in soft drinks. While soft drinks have higher margins, higher EBITDA margins, CAPEX is basically contributed by the bottler. In the case of juices and water, Coca-Cola is financing half of the CAPEX.
Nicholas Schild: That's why I'm asking you. In essence I understand they have lower margins, I know that. But my question is, in the end, the return on invested capital, since you contribute with half of the CAPEX, what is it? Are they more favorable to the agreement that you have with Coca-Cola in the rest of soft drinks?
Andrés Wainer: If one takes everything into account it depends on the country, and on the category. On average, the return is higher in soft drinks taking everything into account. But there are categories where it is the other way around.

Alex Robarts: Regarding CAPEX, it looks like you're talking about US$230 million in CAPEX for this year, correct? Which is 15% more than last year. But what caught my attention was the vast majority, the greater part of the CAPEX, it seems that it will be for the Duque de Caxias plant in Brazil. And I was thinking that the soft drinks industry in Brazil during the last two years has fallen, I guess that Andina and the industry itself has excess capacity and to see here a project for a new plant caught my attention. What is the motivation to install a new plant? Or maybe the simple fact of updating a little or modernizing the manufacturing plant you have there? Any comment on that new plant would be nice. Thanks a lot.

Andrés Wainer: Although it is true that volumes in Brazil have fallen quite a lot, it must be taken into account that the new plant is going to have three lines. One for mineral water. Today we are bringing mineral water from Ribeirão Preto. When we have it in Duque de Caxias the logistical costs will be quite lower, to service the market in Rio de Janeiro with mineral water. Another line will be for returnables. Despite the drop-in volumes we have seen in Brazil, we are currently oversold in our capacity for returnables. We have no capacity to service the entire market. Therefore, we are interested in finishing the plant as soon as possible, in spite of the macroeconomic situation in Brazil, in order to arrive with returnables to the entire market. Especially in the economic situation there is today, where the returnability gains even more importance because it allows us to compete much better with B Brands. It should also be mentioned that during 2016 we closed the Espirito Santo facility, which implied a reduction in the capacity that we had. And finally, the new plant is going to be more efficient than the old one. It's going to have water. It's going to have plenty of water. Today the Jacarepaguá plant is connected to the drinking water network, so water is much more expensive. Therefore, despite the drop in volumes, it is still a very good project and our intention is to finish it as soon as possible and probably have commercial production during the first quarter of 2018.

Alex Robarts: Installed capacity Andrés, so it will increase net?

Alex Wainer: Yes.

Miguel Ángel Peirano: Although installed capacity will increase, it is important when one speaks of installed capacity, to understand the installed capacity in each one of the segments. One can have surplus capacity in returnables, but lack of returnables and surplus in one way, but lack of water. So, in fact, when one talks about capacity, you always have to focus on what kind of products we're talking about in terms of capacity. Because maybe there is a surplus, but there might be a lack of three types of products that are those that are really important, given Brazil's macroeconomic situation.

José Yordan: Sugar has been going down lately, could you remind us what your hedge position is. In other words, when are you going to be able to take advantage of the descending sugar prices?

Andrés Wainer: Much of the sugar we are going to consume from here to December is already purchased. These low prices are going to help us somewhat during 4Q. But they are going to be very helpful in 1Q and 2Q next year. But this year a large part is already purchased in all four countries.

José Yordan: And can you remind us the average price, let's say, for 2017? How much more will it be compared to the average price for 2016?

Andrés Wainer: The average price for the year in U.S. dollars is going to be approximately 20% higher than the previous year. In local currency, it will depend on what happens with the exchange rate.

José Yordan: Of course.

Andrés Wainer: But it's probably going to be less than that. Which will be helpful.

(When there are no more questions)

***MAP**: Simply thank you all once again 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. Please do not hesitate to contact us for any reason. Have a nice day.*

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