3Q16 Conference Call Guidelines

[I-advize people begin talking]

Miguel Ángel Peirano**:** *Good morning and welcome to Coca-Cola Andina's third quarter 2016 results conference call.*

As we already discussed during the conference call last quarter, the Olympic Games took place during August in the city of Rio de Janeiro. Fulfilling our role as hosts, we had an outstanding presence both where competitions took place, offering athletes and the attending public an ample product portfolio and in the market where the presence of our brands and products was highly visible. This allowed to demonstrate our team's ability to successfully coordinate and execute complex, massive and highly visible events, as it was also the case of the World Soccer Cup in 2014.

Also in Brazil, the previous quarter we discussed the industrial reorganization that we are implementing and that involved the closure of the plant in Vitoria. Within the mentioned plans was the transfer of the canning line from Vitoria to the Jacarepaguá plant, which took place uneventfully. This line is already producing since the first week of October. Additionally, with regard to the PET line we had in Vitoria, this will begin bottling mineral water in Riberao Preto towards the end of the year. I would like to emphasize that having the versatility to produce Mineral water is very positive, since today Coca-Cola Andina Brazil does not produce it in the territories where it operates, it only distributes it.

In September, we announced that we were selected to be part of the Dow Jones Sustainability Index family, better known as Dow Jones Sustainability Index. From September 19, 2016, the company joined the Santiago Stock Exchange Sustainability Index, forming part of a group of only 21 Chilean companies. The scopes in which we most excelled were brand management, relationship with clients, risk and crisis management, environmental policies, relationships with communities and talent attraction and retention, among other variables. This recognition by the Dow Jones is a reflection of our team's dedication and commitment to develop sustainable business processes and consistently deliver value to our stakeholders and the communities that we are privileged to serve. This great achievement is also a future challenge to continue growing and strengthening our leadership and reinforce our commitment to create shared value by integrating economic, social and environmental issues.

Going on to the operations, in Argentina, we have seen highly volatile sales volume during the quarter. Real wages are decreasing due to high inflation, affecting consumption, a situation we hope is reverted *during the upcoming months. Price increases and the complex macroeconomic environment have had an impact on our sales volume. However, key commercial initiatives such as the development of the low-calorie and immediate consumption segment, enhance the transactions of our products, in a higher value segment.*

In Brazil, our market share this quarter reached 62.2 points, reflecting a gain of 50 basis points over the previous year. The economic and market environment continue to be challenging, however we believe that the Brazilian economy is reaching the point of inflection. Our pricing and packaging by channel segmentation strategy has allowed us to minimize the impacts of these conditions which we will continue to optimize in order to strengthen our competitive market position.

In Chile, sales volume grew 2.6%, driven by the juices and water category. We believe that the volume decrease we saw in the second quarter of the year is a point out of the curve and that it would be explained by a very adverse weather impact, weak macroeconomic conditions, a tough comparison basis, and, the new labelling law. Conditions have not changed but temperature stabilization regarding the previous year were helpful, thus driving volume growth.

In Paraguay, one of the main targets for the year was to improve our competitive position, implementing a new specialized and exclusive service model, expanding direct service to our clien6ts, capturing volume from distributors and thus generating incremental margin. This meant that our market share measured in terms of value has consistently remained at levels close to 75 points, more than 400 basis points above last year's average. We will continue focused on the search for opportunities and on capturing profitable volume so as to maintain the profitability levels that this operation has.

Finally and regarding our investment plan, during these first 9 months of the year on a consolidated level, we have invested US$130 million and we estimate total CAPEX for the year to close at US$180 million. This figure is below our initial plan, mainly explained because some of the investments of the Duque de Caxias plant will be implemented next year, which nevertheless does not imply a delay in its inauguration. During 2017 on a consolidated level, we plan to invest approximately US$225 million, somewhat more than 50% in Brazil, where we plan to finish building our new modular plant at the property located in Duque Caxias. These figures may present some adjustments during the year, since the investment plan is permanently under review.

*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 39.6% and the 6.4% depreciation of the Argentine Peso and the Paraguayan Guaraní, respectively. On the other hand, regarding our reporting currency, the Brazilian Real appreciated by 6.7% 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 27.0% 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 in part is due to the reduction in private consumption given the macroeconomic conditions the country is going through.*
Cost of Sales grew 22.6% 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 61.6% 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 and the lower cost of dollarized raw materials.
On the other hand, Distribution Costs and Administration Expenses increased 33.1% 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 27.4% in the quarter, and EBITDA margin expanded 4 basis points reaching 13.0%. Argentina represented 23% of the EBITDA generated by the Company.

***In Brazil** Net Sales increased 6.3%, which is explained by the implementation of price increases which were partially offset by the 5.1% reduction sales volume.*
Cost of Sales increased 6.9% which is mainly explained by:

1. *Higher concentrate costs due to the implementation of price increases*
2. *Higher cost of other beverages, particularly driven by greater water consumption*

These effects were partially offset by:

1. *Lower cost in U.S. dollars of dollarized raw materials*
2. *Lower labor costs, in part due to the shutdown of the Vitoria plant, and*
3. *The positive effect of the appreciation of the Brazilian Real against the U.S. dollar over dollarized costs.*

On the other hand, Distribution Costs and Administration Expenses increased 8.0%, which in part is explained by higher labor costs and greater distribution freights due to the shutdown of the Vitoria plant generating increased freights from Rio de Janeiro and Riberao Preto to Vitoria.

EBITDA decreased 1.0% in the quarter and EBITDA margin was 14.0%. Brazil represented 31% of the EBITDA generated by the Company.

***In Chile** Net Sales increased 8.0% 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 4.3% in the quarter mainly explained by:

1. *The change in the mix from soft drinks to juices and water, and*
2. *Greater concentrate costs due to the implementation of price increases.*

This was partially offset by the positive effect over dollarized costs of the 2.4% appreciation of the Chilean Peso against the U.S. Dollar and the lower cost in U.S. dollars of our dollarized raw materials, mainly sugar and PET.

Distribution Costs and Administration Expenses increased 7.7% in the quarter, mainly explained by greater labor costs and increased marketing expenses, partially offset by lower distribution freights.

EBITDA increased 21.8% in the quarter and EBITDA margin reached 18.7%.The Chilean operation represented 35% of the EBITDA generated by the Company.

***In Paraguay** Net Sales increased 2.7% in the quarter, explained by price increases in all categories and partially offset by the 4.1% decrease in in sales volume.*

Cost of Sales decreased 2.1%, which is mainly explained by lower sales volume, particularly juices, which carry a higher cost. This was partially offset by:

1. *Greater concentrate costs resulting from the implementation of price increases, and*
2. *The effect of the 4.3% depreciation of the Guarani against the U.S. Dollar, which has a negative effect on dollarized costs.*

Distribution Costs and Administration Expenses decreased 1.5%, which is mainly explained by lower marketing expenses and lower depreciation charges which were partially offset by higher distribution freights.

EBITDA increased 18.3% in the quarter and EBITDA margin was 25.1% expanding 331 basis points regarding the previous year.
Paraguay represented 11% of the EBITDA generated by the Company.

We are now available for any questions you may have.

Alex Robarts: Regarding sugar, in fact it seems that we are seeing bullish trends in the region. Can you explain, or give us the trends you are seeing in the four countries, and if for 2017 you might have somewhat of pressure on costs of sugar against this year? This is the first question. The second question, in Brazil, you said that you are seeing a point of inflection in the Brazilian economy. Therefore we are seeing soft drink volumes falling in the industry in Brazil, I am counting six, seven quarters. Your colleagues in Sao Paulo have mentioned that there will be a rebound in the soft drink consumption trend before the second half of 2017. Do you agree with this? May be in your markets you may see an earlier rebound? And what would be the conditions for the prospect of a volume rebound trend in the short term?
Andrés Wainer: We have the whole year hedged at low prices, before the rise in the price of sugar that occurred during the first quarter of this year. Therefore, in 4Q we won't see any effect resulting from the rise in the price of sugar. Yes we are going to have a gradual effect during next year. In the case of Chile, practically all of the first quarter is hedged at low prices, and we will begin to see the effect of the rise starting the second quarter. In the case of Argentina, we have secured at low prices roughly half of the volume for next year, we have approximately half of each quarter, so the effect will not be as relevant. We will see a stronger effect in the case of Brazil, where we have approximately 10% of the volume of the year set at low prices, and the other 90% is being hedged at much higher prices than the previous year. And finally in the case of Paraguay, the effect is not very relevant, since Paraguay is a closed market where there is a direct relationship between the domestic price and the international price of sugar. Yes we are seeing an increase in the domestic price, but it is about 10%, a far cry from the 40-50% increase in the international market.
Miguel Ángel Peirano: Regarding the subject on Brazil I think that is segmented between the macroeconomics and the microeconomics. In what refers to the macro, yes from our point of view we are seeing a true point of inflection in the sense that the reforms that have been voted on and have already been half approved are focused towards deficit control, and in some way towards putting the economy in order. Now, this is clearly going to perhaps imply adjustments in the short term, and the impact on the Brazilian consumer's pocket will not be visible until next year. It is difficult from our point of view to exactly predict when the economy for the Brazilian consumer's pocket will begin to take off, but I believe that in the situation in which Brazil is, the good news is that we are seeing actions to sort out the economy. And politically, it has also somehow improved with respect to the past, resulting in good prospects facing the future, but the moment when these changes or these improvements will begin to hit the consumer's pocket, it still some months away.

Pedro Leduc: Regarding Chile, we saw a fairly strong margin expansion, in terms of gross margin. And I'd like to hear if we can expect the same amount for next quarter, given that it is possible that there are explainable reasons for improvement; and how you view the price dynamics for the consumer in Chile, if you seek to increase them again or if they are presently OK. Thank you.

Andrés Wainer: In fact in Chile, we had a significant expansion in margins this quarter. We also hope they will be good next quarter, maybe not with the expansion of margins that we saw, but yes we hope to have a good quarter. You should also remember that the previous year the fourth quarter wasn't very positive, so the comparison is easier. Now, a great part of this is going to depend on what happens with the weather. The weather in the region has been quite unstable, so it is still difficult to make a projection for the quarter. We are just ending the first month, and fortunately in the case of Chile the weather has been quite reasonable, and we will probably have positive volumes. But much of this, as you know, is given in December. Therefore it is quite soon to make a projection for the quarter. Regarding price dynamics in Chile, we always have a very important competitor which is CCU, but usually they have been quite rational on the pricing issue. We aim to go increasing prices with inflation or slightly above that. Probably next year, precisely on the issue of sugar that will begin to significantly hit us starting the second quarter, we may have to implement increases in order to maintain the margins that we have today.

Pedro Leduc: There were some changes regarding your contracts, your plants in Chile, or this expansion was due to external factors or others?

Andrés Wainer: Margin expansion in Chile is basically due to two reasons: prices, let's say price increases we were able to achieve, and the decline in dollarized raw materials, especially sugar, compared to the previous year. Those are two of the issues that most explain the rise in margins.

(When there are no more questions)

Miguel Ángel Peirano: *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.*

--- The End ---