

## **1Q14 Conference Call Guidelines**

[I-advise people begin talking]

Miguel Ángel Peirano: Good morning and welcome to Coca-Cola Andina's fourth quarter 2013 results' conference call.

*This is the second quarter that we present Coca-Cola Andina's results incorporating Ipiranga's results in Brazil. This is how our consolidated sales volume during the quarter increased 17.1% and the Company's consolidated EBITDA increased 18.0%. Considering a comparable basis, i.e. including Ipiranga's results in 2013, we can also see positive growth rates: Consolidated volume grew 5.2% during the quarter and EBITDA grew 5.7%. As already mentioned on other occasions, we estimate that we will be able to capture US\$30 million in synergies during 2014, resulting from the merger with Polar, which to date are in line with our initial estimates. In the case of Ipiranga, the 10 million Reais of synergies we mentioned in terms of costs will begin to be captured during 2015, while in 2014 we will capture 5 million Reais. These synergies do not include the transfer of best practices, which we intend to carry out between the territories of Ipiranga and our franchise in Rio de Janeiro, where we believe that there is high additional value, very difficult to quantify.*

*As part of Andina's 2020 vision, we continue working on the Company's integration and standardization processes. This is to standardize our business processes with best practices as defined in conjunction with the Coca-Cola System in the implementation of the Coke One project. In Argentina the process of integration of this common platform is already completed, as well as in the Brazilian operation. During the month of August we hope to bring Chile into Coke One, the new franchise of Ipiranga in September and concluding with Paraguay at the end of this year. We are convinced that the benefit of having single, optimized and standardized processes in our operations is very important in order to continue to be a world-class company.*

*Reviewing each of our operations,*

***In Argentina, sales volume growth rate was around 9%, despite the devaluation that took place at the beginning of the first quarter of the year and that probably affected our volumes. The implementation of excellence at the point of sale that our operation has developed, allowed us to earn 130 basis points of market share, thus the average market share during the first quarter reached 60.9%. In addition, in this first quarter of the year, we launched our mineral water Bonaqua in the southern part of our franchise, and also a new formulation of Powerade, which included changing the bottle and image, which leverages on the figure of the Soccer World Cup. We continue with important investments in cooling equipment, which will help us to further increase our market share.***

**In Brazil, despite warmer temperatures at the beginning of the year, from a macroeconomic point of view, the environment continues to be challenging.** A weaker consumption, and high inflation on food, have had a negative impact on the disposable income of consumers. This scenario, which already has been prolonged for a little over a year, led us to accelerate the roll-out of Ref Pet 2-litres bottles of Coca-Cola at the end of last year. This new packaging allows us to serve the market with an attractive value proposition regarding low priced brands, reaching lower and medium segments consumers of the population. This strategy explains in part the 60 basis points gain of market share that we achieved reaching 59.6% with respect to the same quarter of the previous year. Additionally, in 2014 we will begin the construction of a new plant in Duque de Caxias, property which we acquired last year. Finally, we are moving ahead in the rationalization of costs, which will positively affect our performance in 2014, and makes us optimistic regarding the results we will obtain.

**In Chile, in a context in which we have increased prices, in order to protect our profitability in the different distribution channels, our market share was 67.8% during the quarter, a figure that is 40 basis points higher when compared to the fourth quarter of last year.** The launches carried out over the past year, such as Coca-Cola Life, Ref Pet 3 liters for flavors and a wide range of new formats and flavors in the categories of juices and water, have been volume growth catalysts during this quarter.

**In Paraguay, we maintain leadership in all segments where we participate. In spite of the entry of a new competitor to the soft drinks category during the fourth quarter of 2011, this is the second consecutive quarter in which we have increased our market share, closing at 61.5%, 160 basis points higher than in the same quarter of last year and 70 basis points higher than the fourth quarter of the previous year.** The investments we have carried out in the market, together with the execution capacity of our operation, have allowed us to successfully face this competitive scenario. In addition, the fact that we are facing lower-cost for sugar, because we set the price in local currency and developed new suppliers of this raw material, allowed us to achieve significant margin improvements.

In 2014, we estimate a Capex investment of US\$265 million, partially explained by organic Capex in all our franchises and by new investments in Brazil, resulting from the construction of a new modular plant at Duque de Caxias, property which we acquired last year. **Since our investment plan is under permanent review, these figures may undergo adjustments/changes during the year.**

**After a period of strong inorganic growth in 2012 and 2013, this year 2014 our focus will be to complete integrations and capture the potential of acquisitions and investments. In this sense, the focus will be on increasing productivity and efficiency of our operations, production and logistics processes in line with our commitment to deliver value to our customers, consumers and shareholders.**

**Now Andres will discuss the Company's financial results.**

**Andrés Wainer:** Hello, good morning. As in the previous quarters, all figures we will review are in local currency. When we talk about proforma figures it means that for comparative purposes, figures for the first quarter of 2013 incorporate the results of Ipiranga.

*This quarter we continue to see the negative effects that we have seen during previous quarters resulting from the depreciation of currencies in local operations with respect to the Chilean peso. Compared to the previous year, the Brazilian real depreciated 1.3% and the Argentine peso depreciated 23.2% compared to the Chilean peso, generating negative financial impacts on the consolidation of figures. The Paraguayan Guarani appreciated 4.4% with respect to the Chilean peso, so that, in this case, the effect of consolidating was positive.*

***We will now review each of the franchises where the Company has operations, and for a better understanding, figures that we'll analyze in each one of them will be in local currency.***

*In Argentina Net Sales increased 32.4% in the quarter, which was driven by the 8.9% increase in volumes. As Miguel Ángel mentioned, the launches carried out late last year and early this year have been volume growth catalysts.*

*Operating costs increased 33.3% during the quarter, explained by:*

- 1. the increase in volumes,*
- 2. the devaluation of the Argentine Peso against the U.S. dollar, which impacts the cost of dollarized raw materials,*
- 3. the increase in sales, which has a direct impact on the cost of the concentrate,*
- 4. increases in the cost of labor above local inflation, mainly explained by increases in staffing as a result of higher volumes, and*
- 5. an increase in the mix of juices, which carry a higher cost.*

*All these effects were partially offset by lower cost per ton of sugar.*

*Sales and General Administrative Expenses rose 26.4% in the quarter, which is explained mainly by:*

- 1. the effect of local inflation over costs such as labor, freight and services provided by third parties, and*
- 2. the effect of higher volumes over freight costs.*

*Finally, EBITDA increased 54.3% in the quarter, with which Argentina represented 18% of the EBITDA generated by the Company.*

*In Brazil Net Sales increased 50.3%, which is mainly explained by:*

- 1. the incorporation of Ipiranga's results*
- 2. the increase in volumes, aided by a more favorable climate, as well as by market share gains and price increases.*

*These effects were partially offset by the effect of the depreciation of the Brazilian real on the Chilean peso. On a proforma basis Net Sales increased 12.4%.*

*Operating costs increased 40.5% proforma which is explained by:*

1. the incorporation of Ipiranga's results,
2. the shift in the sales mix towards distributed products which carry higher unit costs,
3. the negative effect of the depreciation of the real against the dollar, which affects the cost of raw materials denominated in dollars, notably sugar, PET and aluminum, and
4. the higher cost of concentrate due to increased sales volume and price increases.

On a proforma basis, costs would have increased 15.0%.

Sales and General Administrative expenses increased 50.8%, mainly due to:

1. the incorporation of Ipiranga's results,
2. higher marketing expenses during the period,
3. higher distribution and transportation costs, and
4. higher depreciation charges due to increased investments in capital goods.

On a proforma basis, SG&A would have increased 15.0%.

EBITDA increased 34.4% during the quarter or a proforma 5.7%, with which Brazil represented 39% of the EBITDA generated by the Company.

In **Chile**, Net Sales increased 7.1% in the quarter, influenced by the growth of volumes and price increases in all the categories in which we participate.

Operating costs increased 6.4% in the quarter which is explained by:

1. an increase in the mix of distributed products (juices and waters), which carry a higher unit cost,
2. higher costs of dollar-denominated raw materials, and
3. higher depreciation of capital goods.

Sales and General Administrative expenses increased 14% in the quarter, mainly explained by:

1. an increase in distribution and transportation freight charges due to increases in the rates, and
2. higher labor costs.

EBITDA increased 0.6% in the quarter, with which Chile represented 33% of the EBITDA generated by the Company.

Finally in **Paraguay** Net Sales increased 4.8% in the quarter, which was explained by the increase in volumes, driven by price increases and water volumes.

Operating costs fell 0.7%, which is mainly explained by a lower cost of sugar, which was partially offset by higher expenses for the depreciation of capital goods resulting from the investments carried out.

*Sales and General Administrative expenses increased 6.3%, mainly due to higher labor costs.*

*EBITDA grew 27.1% in the quarter, representing 10% of the EBITDA generated by the Company.*

***We are now available for any questions you may have.***

**(Q&A SESSION BEGINS)**

**Andrea Teixeira:** There is one thing that I would like to understand a bit more and it is in terms of changes in the improvement of margins in Brazil and how they are following the synergies that you have there, if they are at 50% of the process, how much more do you expect to achieve? Also in the competitive environment you mentioned that you maintained and gained some market share, do you think that this is sustainable in Brazil? Also, what is the price and volume environment in Chile? And finally talk a little bit about the eagerness you have for M&A or any other transaction. Thank you.

**Miguel Ángel Peirano:** I'm going to answer the part regarding the competitive environment, pricing, and M&A and I will leave margins and synergies for Andrés to answer. Regarding the competitive environment as we have mentioned during previous teleconferences, the focus in Brazil has been on improving the execution at the point of sale, and have a product portfolio better suited toward the price segmentation that we have to implement in Brazil with regards to the fleet and distribution internalization process. The combined result of these different actions, of the focus on the sales force, of the better service we are having through the direct management of the distribution fleet, and having Ref Pet packaging increasingly installed in areas where we have started to sell them, allowing a better price segmentation, has improved the average price on the one hand, and at the same time increased our competitiveness, which has allowed us to increase our market share. As for M&As clearly the focus this year, as we discussed recently, is to take advantage of the synergies both in Brazil as in the rest of the territories and the acquisitions that we have made. However, in the case that there is a chance, and that this opportunity adds value to our company and our shareholders, we will undoubtedly consider them. At this moment, the main focus is to obtain full benefit from the purchases and inorganic growth we have carried out.

**Andrés Wainer:** Following with your question regarding EBITDA margins in Brazil, we believe that this year there should not be significant changes in the margins in Brazil. They can be a little more or a little less than the previous year on a proforma basis, but we do not expect significant changes. There are elements that can probably help as the exchange rate, which apparently during the next quarter will be even lower than the previous year, there are also synergies, and there are also forces that play against it, the mix for example: we know that margins from juices and waters is lower than soft drinks. Finally, regarding synergies, we had mentioned that we will have approximately 10 million reais of annualized synergies after the integration of Ipiranga. This process is going very, very well, better than expected, and we believe that the number that we are going to achieve in the end will be substantially greater than that, but until we have the final figures we will not give a public number. We will probably do it during our next press release, but not now. But it should be a number that is much more important than the 10 million annualized which was once mentioned.

**Andrea Teixeira:** I understand from your comment that you will probably invest this in marketing campaigns, so you shouldn't expect something that will have a great impact on margins, correct?

**Miguel Ángel Peirano:** Clearly Andrea this year, due to the Soccer World Cup, and if you compare marketing costs with the previous years, they have been increasing and that is clearly affecting results in the short-term but in the medium and long term you will have a profit on the strength of the brand. The Soccer World Cup is a moment where, although it lasts a month, the impact of the presence of the brand, the advertising campaigns and

interaction people have with our products intensively during that period, generates a growth basis towards the future, not necessarily impacting that month, but in the long run.

**Andrea Teixeira:** OK. In Chile, the pressures that you have on transportation costs, transportation expenses, do you think that they will continue?

**Andrés Wainer:** Andrea, last year, in the middle of last year, there was a significant increase in the rates we paid to third party distribution companies in Chile, therefore all the first half of this year compared with the previous year we will see a significant increase. In the second half, this effect should be substantially less. Now, we still have cost pressures on all of our distribution network in Chile.

**Andrea Teixeira:** OK, so it is recurrent. And the same happens in Paraguay, the positive points of having a large margin gain, 400 or 500 basis points, year over year? Do you also think it is recurrent?

**Andrés Wainer:** Yes, in Paraguay, margins increased quite significantly, we are reaching the levels that the bottler had a couple of years ago. We should recall that much of the margin loss we had in the past was due to an increase in the price of sugar, which more than doubled in the case of Paraguay, and now we are at a slightly more normal price. It is still a high price, but a bit more normal, therefore we believe that those margins should stabilize at similar to current levels.

**Luis Miranda:** To understand a little bit the issue of marketing costs in Brazil, should we expect these to be higher during the first half of the year due to the Soccer World Cup, or are we talking about a recurring investment already above these levels in Brazil? And the other issue, I don't know if you could comment on it, expectations or your vision of prices in Chile for the remainder of the year.

**Miguel Ángel Peirano:** Regarding marketing expenses, they are contracts in reality, so I do not think that there will be a great change during the year, perhaps there will be a change looking towards next year, but not during this current year. They will be more or less at the current levels, perhaps a little below, but nothing significant. In what refers to customer prices in Chile, the retail price in Chile, the target is to continue increases in line with inflation or a little higher, so as to offset the cost increases that we are having, especially in the logistics area, and avoid losing money due to devaluation, but on the contrary, remain equal or a little above.

**Luis Miranda:** And on the labor issue in Chile, the issue of inflation on labor costs, do you believe that it will continue during the year or are we already seeing stabilization?

**Andrés Wainer:** The issue of labor costs in Chile has indeed been a very complicated issue in the past five years, with the economy growing strongly and with a very, very low unemployment rate. Today, with the economy cooling down, and the unemployment rate increasing slightly for the first time in a long time, we believe labor costs pressures should significantly decrease. It is likely that in Chile real wages will continue to grow above inflation, but at much more normal rates, let's say 2 percent, not 4, 5 or 6 as we are seeing for the last few years.

**Cristina Acle:** Hello, good morning. Unfortunately I will ask reiterating some of the above questions. The issue of costs in Chile, does it mean that we should begin to get used to lower margins on a permanent basis in Chile? And still on Chile, the labeling law which has been withdrawn, is it the same as the traffic light law? Are they two different laws? If you can somewhat clarify us regarding that issue.

**Andrés Wainer:** Regarding margins in Chile, they have actually dropped recently, the most important cause was the increase in the concentrate incidence from Coca-Cola, which impacted approximately 4 points of EBITDA margin. There is another negative effect such as distribution costs which have increased significantly, and are closely linked to labor costs. As labor costs do not increase as much as we saw in the previous question, we would expect stabilized margins in Chile, and that they begin to increase in time, leveraging the increase in volumes. And

regarding nutrition labeling law, in fact it is the traffic light law that froze and it will be reviewed, and would only be operational next year, therefore this year, from what the Government has said, no law will be implemented and it will be amended, they will be discussed in due time and would only be implemented next year.

**Bárbara Angerstein:** I wanted to know if you could please remind us what was the ratio within the costs of each of the countries in terms of dollars, which are denominated in dollars; and what are the hedging policies in each of the countries for these costs.

**Andrés Wainer:** We have not made public the percentage of dollarized costs per country. In any case Paula can give you the consolidated total information. We don't have it here. On currency hedging policies, in Chile the year is covered, with hedge agreements entered into last year. We cover the dollars that we will need to purchase dollarized raw materials. It is 100 percent covered and we've also covered part, approximately half of the first quarter of 2015. The other country where we have done this is Brazil, where we have hedged 60% of the dollar needs to purchase raw materials in that country.

**Luca Cipiccia:** I'd like to inquire about Brazil again, only to understand a little better the pricing policy for the coming months, after the tax freezing over soft drinks, and additionally, we understand that the sector will not increase prices in the coming months, at least until the new tax situation. And I would like to understand if also that is the perspective from Andina's view or if in fact it only hits some Brazilian companies. I'd like to know what you expect with regard to prices in Brazil because of this tax dynamic.

**Miguel Ángel Peirano:** Regarding consumer prices in Brazil, yes there is concern on our part that given the Soccer World Cup event, there is no unilateral price increase from the channels. The goal is to try to keep prices stable, and try as far as possible to minimize what normally happens when these events take place in any country, not only in Brazil, but in any country, there is a significant concentration of people for such an important event like the World Cup where channels, the smallest above all, try to increase prices by taking advantage of that opportunity. Our goal is to try to keep prices as much in line with our policy which has been stable throughout this period. I don't know if the issue on prices is clear.

**Luca Cipiccia:** Yes, so you will not increase prices until after the Soccer World Cup.

**Miguel Ángel Peirano:** Initially we are not thinking about increasing prices until after the Soccer World Cup.

**José Yordán:** Two quick questions. First, if you can give us an update on what's happening with the proposal to add tax to sugared beverages in Chile? And second, what is happening in Argentina with your ability to increase prices with inflation, etc.? How is the situation with governmental influence on your pricing policy and what percentage of the products are being affected by that, etc.? And what can we expect on this matter for the near future?

**Andrés Wainer:** Regarding the status of the tax reform in Chile, it has already been approved by the House of Representatives, and now has to be discussed in the Senate, where the discussion is expected to be quite deeper and it is likely that the reform as a whole will undergo some changes. Now, we obviously don't know what those changes will be, so we cannot comment much on the subject. But we do want to remind you that as the reform is today, in Chile all soft drinks are taxed with a 13% rate, and that rate would increase to 18% for sugared soft drinks. That is what the reform would achieve. The Senate is expected to take about three or four months to analyze the subject and towards the end of September or October there should be an approved reform.

**Miguel Ángel Peirano:** On the issue of prices in Argentina, I would say that this chapter has two parts: one is the negotiations with the Government, where ultimately the Government has a controlled price, not a frozen one;

which means that there are meetings with the Government where, by explaining the impact of the devaluation that the Argentine peso has had on the raw materials that we use, and therefore on the costs of our products, has enabled us to partially increase prices. The other part is the revenue management, i.e. through the mix of packaging, push those packages and make the necessary changes to compensate for the missing part with respect to current inflation. Actually, the target is trying to reach similar to real inflation increases if possible, or a little lower and make up for what we lack via cost synergies, and through improvements in the operation. Thus, in order to achieve, maintain and increase margins as we have been doing so far, the price issue is being covered by negotiations with the Government, through revenue management, and cost controls and efficiencies and vertical integrations resulting in cost reductions.

**José Yordán:** Of course, thank you and this quite large reduction in costs, lower SG&A expenses in the quarter, how sustainable is this more than 6 percentage points decrease? Was it something special in the first quarter or how long can you take it forward?

**Andrés Wainer:** No, there is nothing special. But in fact, marketing expenses are changing from quarter-to-quarter. Now, with a full year view, there will obviously not be such an important decrease. There is also an issue of seasonality within costs.

**Fernando Ferreira:** My question is also regarding Argentina. I wanted to understand a bit what the sustainability of this margin improvement is and if all the improvement we saw was a result of better hedging, because you already purchased all the raw materials for the year, and if we will also see an increase or an improvement in margins during the coming quarters. Thank you.

**Andrés Wainer:** In Argentina, the issue on margins for the year will largely depend on our ability to increase prices in line or similar to inflation. If we can increase prices in line with inflation or even 4 to 5 points below local inflation, we should have no problem with margins. You must keep in mind that in Argentina we didn't do hedging to currency directly, but we did purchase in advance an important part of dollarized raw materials before the devaluation. Therefore margins for this year will actually be benefited by this decision we made.

**Isabel Darrigrandi:** My question is regarding hedging in Brazil, with respect to dollarized raw materials. I wanted to ask, first of all, if this is new. I thought you were not hedging in Brazil, in this respect. And if this means a change in strategy towards the longer term, or are you taking advantage of the current exchange rate situation.

**Andrés Wainer:** Hedging in Brazil is recent, only a few weeks ago, and it corresponds to a Board decision with respect to the exchange rate level in Brazil, which presented a good opportunity to meet some of the dollar requirements for 2014. If this is a practice that we will carry out in the future, it depends on our Board's decision which they will analyze when appropriate.

**Isabel Darrigrandi:** Perfect, and how much did you say you were hedging? What percentage of yearly costs approximately?

**Andrés Wainer:** 60 percent of the dollars we need to purchase raw materials for the remainder of 2014.

**Consuelo Barahona:** I have two questions. First, I would like to ask about final flows for the company expected for 2014, and especially CAPEX, I do not know if you could give some detail by region.

**Andrés Wainer:** Yes, we expect 260 million dollars of CAPEX. Approximate numbers, 50 for Chile, 50 for Argentina, 20 for Paraguay, and approximately another 50 for the existing joint ventures in Chile, that although not entirely of our property we do consolidate them, and then approximately another 80 or 90 more in Brazil, and with that the figure will be rounded at 250 or 270 million dollars a year.



**Consuelo Barahona:** And with respect to the final flow, I don't know what do you expect for the end of this year. If there is a reduction in debt, or the debt will remain the same, and what would be the Leverage and Net Leverage ratio. Would the improvement come this year or maybe next?

**Andrés Wainer:** With respect to flows for the year, we give no guidance to the market in this regard.

**Consuelo Barahona:** I wanted to follow-up on that point. Yes, I know that you do not give guidance, but I do remember that when leverage almost doubled, and according to what you mentioned in your presentations, it would improve in time with the synergies in Brazil and elsewhere like Chile. I don't know if you could give us your view regarding what we should expect in the future, although not a figure, perhaps some direction.

**Andrés Wainer:** Yes, our EBITDA net debt is approximately 2.2 times, and this year we should close at a slightly lower figure between 2 and 2.1 times. We want to achieve a figure close to 1.5 times in a 4-5 year period.

**Ignacio Ochoa:** Regarding the synergies that you originally mentioned for Brazil at 10 million reais, they will probably higher, should we understand that these synergies will be mostly captured in 2015? Or also something in 2014? And also if you can give us some insight regarding the strategies that you are implementing or plan to implement in Chile to continue recovering market share. Thanks a lot.

**Andrés Wainer:** Regarding synergies in Brazil, indeed they will be higher than what we have been communicating, but when we have a more developed number we are going to make it public. An important part will be in 2014 but the full year will be in 2015, which is when we will see the greatest number.

**Miguel Ángel Peirano:** Ignacio, regarding strategies in Chile to continue on the path we started recovering market share, they are all aligned to improve our customer service. For example, through a better customer service, in some cases, though restructuring the go-to-market, and clearly better logistics, which was the main element, along with the change of the plant, which made us lose some market share points, but that we are once again recovering. The goal is not to win them or buy the points through prices, but on the contrary, through service level and execution at the point of sale.

**Ignacio Ochoa:** Perfect, and the EBITDA target, right now it is at 2.2 times, and later, what do you want to achieve, 1.5?

**Andrés Wainer:** Yes, we want to bring it closer to 1.5 times in a 4-5 years period. A number close to that.

**Miguel Ángel Peirano:** Simply once again thank you for your interest in Coca-Cola Andina's results, and as always, our investor relations and management team are available to answer questions and meet with you at any time you consider appropriate. Please do not hesitate to contact us for any reason. Thank you very much, and have a very good day.