

## 4Q14 Conference Call Guidelines

*[I-advise people begin talking]*

**Miguel Ángel Peirano:** *Good morning and welcome to Coca-Cola Andina's fourth quarter 2014 results' conference call.*

*At year end we are proud to see that after two years in which we focused on inorganic growth and on incorporating new operations, today Coca-Cola Andina is a completely different company, with a broader geographic footprint, with operations in four countries, more diversified and that looking to the future has great opportunities.*

*Our focus on quality, service level and market execution of our operations, **led us to gain market share in all our franchises**. Furthermore, the company's consolidated EBITDA grew 7.4% percent during the quarter and Net Income grew 15.6% in the same period, and net margin expanded 20 basis points.*

*Continuing with the most relevant aspects of each of our operations,*

***In Argentina,** we gained 110 basis points of market share this quarter. Thus, average market share in the fourth quarter reached 62.3%. Sales volume growth was driven by the categories of water, juices, and others, which grew at double digit rates, explained both by the good performance of the juice category, driven by the launch of Cepita in the hotfill bottle, as well as the growth of Bonaqua, in the territory of Andina Argentina South. **Our trade priorities continue to be the development of returnable formats and the optimization of the pricing architecture**. In addition, we have continued with plans that allow us to strengthen the bond with our consumers and enhance growth of the single-serve category in the operation.*

***In Brazil,** this quarter we gained 180 basis points in market share, reaching a historic 60.1% in the quarter, which is explained by the execution quality and the development of new packaging. Anyhow, and as we have said on other occasions, the environment continues to be challenging from the macroeconomic point of view. Weaker consumption, and high food inflation, have had a negative impact on the disposable income of consumers. This scenario, which already has lasted for more than one year and a half, led us to accelerate the roll-out of Coca-Cola in Ref Pet 2 liter bottles at the end of 2013, which has certainly proven to be a very successful strategy.*

*During the last 2 years we have worked on projects that aim to reduce costs and increase the efficiency of the operation. These include the internalization of the distribution fleet, the cogeneration project and various projects to reduce operating and administrative costs which helped boost the results of our operation in Brazil.*

***In Chile**, we continue moving according to our plans. This quarter closed with an average 68.5% market share, which is 110 basis points above the same quarter of last year. This share gain occurred in a context of price increases above local inflation, and transferring specific tax increases to sugared carbonated soft drinks that we have been facing since October 2014, in order to offset its impact on our profitability. Additionally we have worked in the deepening of the product portfolio, with launches such as Quatro Piña (pineapple), Frambuesa (raspberry), Papaya and Powerade Zero for Frozen Blast, Uva (grape) and Lima Limón (lemon lime) flavors and we have made investments that allow us to increase the versatility of our productive processes... an example of this is paper labeling, which gives us greater flexibility when it comes to filling of the bottles. Finally, we are working on structural changes within the company, seeking more efficient production and logistics processes and transformational projects that allow us to look towards 2015 with the conviction that it will be a good year.*

***In Paraguay**, we maintain leadership in all segments where we participate. Thanks to our market execution and customer service, as well as the successful implementation of the Route to Market model while servicing our customers, **we continue showing market share gains**. This quarter closed at average levels of 62.4%, 130 basis points higher compared with the same quarter of last year. Additionally, results were driven by the extraordinary cost management that our operation has been implementing and among others has allowed us to face a lower cost of sugar, resin and caps.*

***Finally, and with respect to Capex Guidance, we plan to invest approximately US\$270 million on a consolidated basis in 2015, of which 50% will be invested in Brazil, a country where we are starting the construction of a new plant, on a property located in Duque de Caxias, which was acquired in 2013. This amount should be very similar in 2016, i.e. approximately US\$270 million. These figures may have adjustments during the year, since our investment plan is under permanent review.***

***Our focus during 2015 will be to continue completing integrations and capture all the potential of our acquisitions and investments. We will continue searching to increase the productivity and efficiency of our operations, and our production and logistics processes, so as to have a comprehensive cost control, which is in line with our commitment to deliver value to our customers, consumers and shareholders.***

***Now Andres will comment on the Company's financial results.***

***Andrés Wainer:** Hello, good morning, now we will review the financial results for each of our operations. It is important to note that this quarter's results are already fully comparable with the previous quarter, since it was during 4Q13 that the results of Ipiranga were incorporated for the first time. In addition, and as well as in the previous quarters, all figures that we will review are in local currency.*

*This quarter we continue to see the negative effect that we have seen during the previous quarters resulting from the depreciation of the Argentine peso on the Chilean peso, upon consolidation of*

figures. Compared to the previous year the Argentine peso depreciated 17.5%, which generated negative financial impacts on the consolidation of figures. On the other hand, the Brazilian real and the Paraguayan Guaraní appreciated 3.6% and 12.0%, respectively against 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, the figures that we'll discuss in each case will be in local currency.**

**In Argentina** Net Sales increased 36.5% during the quarter, which was driven by the price increases we made. Volumes grew 0.2%, explained by the weak macroeconomic environment.

Operating costs grew 39.4% in the quarter, which is explained by:

1. the increase in revenues, which has a direct impact on the cost of concentrate,
2. increases in the cost of labor,
3. an increase in the mix of juices and waters, which carry a higher unit cost, and
4. the 40.4% devaluation of the Argentine Peso against the U.S. dollar during the period which impacts the cost of dollarized raw materials.

Selling and General Administration Expenses rose 51.1% in the quarter, which is mainly explained by:

1. the effect of local inflation over costs such as labor, freight and services provided by third parties,
2. increases in the rates of distribution and carrying freights, and
3. the positive impact of non-recurring sales in the fourth quarter of 2013. Excluding this effect, SG&A expenses would have increased 45.2%.

Finally, EBITDA fell 9.1% in the quarter, with which Argentina represented 17% of the EBITDA generated by the company. The "adjusted" EBITDA would have retreated by 1.0%.

**In Brazil** Net Sales increased 18.0%, which is mainly explained by increased prices. Volumes on the other hand, increased by 2.1%.

Operating costs increased 4.5% which is explained by:

1. change in the sales mix towards distributed products which carry a higher unit cost, and
2. increased sales, which has a direct impact on the cost of concentrate, and
3. the 11.8% devaluation of the Real against the U.S. dollar in the period, which impacts the cost of dollarized raw materials

*This was partially offset by a lower cost of sugar due to the decrease presented in international markets and a lower cost of PET and labels, resulting from the change in the mix towards returnable formats.*

*Selling and General Administration Expenses increased 28.9%, mainly due to:*

- 1. higher spending for marketing during the period,*
- 2. increased labor costs, and*
- 3. the positive impact of non-recurring sales during the fourth quarter of 2013. Excluding this effect, SG&A expenses would have increased 16.1%.*

*EBITDA increased 57.6% in the quarter, with which Brazil represented 42% of the EBITDA generated by the company.*

***In Chile** Net Sales grew 1.2% in the quarter, influenced by price increases in all the categories in which we participate, partially offset by a decrease in volumes, which fell by 5.2%.*

*Operating costs increased 4.6% in the quarter explained by:*

- 1. the effect of the 15.8% depreciation of the Chilean peso against the U.S. dollar, which has a negative effect on dollarized costs,*
- 2. an increase in the mix of distributed products (juices and waters), which have a higher unit cost, and*
- 3. a higher cost of concentrate, due to price increases implemented.*

*These effects were partially offset by lower spending in resin and caps, partially explained by the start-up of projects that use these supplies to a lesser extent.*

*Selling and General Administration Expenses increased 4.7% in the quarter, mainly explained by higher marketing expenses. This was partially offset by a lower cost of freight, resulting from lower sales volume and by capturing efficiencies in the logistics system.*

*EBITDA dropped 9.5% in the quarter. However, we believe that several non-recurring effects in this quarter's results would have had a negative impact at the level of EBITDA. Adjusting for these effects, EBITDA would have decreased 4.0%. The Chilean operation represented 31% of the EBITDA generated by the company.*

***Finally in Paraguay** Net Sales increased 4.9% in the quarter, which was explained by the growth in sales volume and price increases.*

*Operating costs dropped 0.2%, which is explained mainly by the lower cost of raw materials, including sugar, resin and caps.*

*Selling and General Administration Expenses increased 75.0%, which is mainly explained by the effect of other operating income which is classified under this item, and which was substantially higher in the fourth quarter of 2013. Isolating this effect, SG&A expenses would have increased 3.5% in local currency, which is mainly explained by:*

- 1. an increase in distribution freight, and*
- 2. higher rates and higher labor costs*

*EBITDA decreased 14.3% in the quarter, representing 10% of the EBITDA generated by the company. EBITDA "adjusted" by non-recurring sales, increased by 21.8%.*

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

*(Q&A Session begins)*

**Armando Pérez:** I have two questions, the first one is to know what is your exposure to the energy and water shortages which are occurring in Brazil, and the second is what should we expect this year regarding currency appreciations and appreciation of raw materials and expenses. Thank you.

**Miguel Ángel Peirano:** Regarding your first question on water and energy in Brazil, some years ago we invested in a co-generation project in Brazil, so, fortunately, we are far from the strong price increases on electricity in Brazil occurring today due to water scarcity. This is, that electric matrix in Brazil comes from hydroelectric energy, and given the drought, prices are increasing considerably. However, in our main operation in the city of Rio de Janeiro this is not affecting us directly given that we generate our own energy, and our value is more linked to the value of gas than energy. Regarding water, Duque de Caixas, the territory which we have purchased, has its own water springs and it will be a great solution should the droughts continue. However, water shortages have not affected Rio de Janeiro as much as it has Sao Paulo, and until now we have not had any problems due to water scarcity which may impact our production capacity. The rainy season is beginning in Brazil now, so we will have to see how intense it will be and how Brazil will be prepared in terms of water availability at its dams after this rainy season to know how the next season will be.

**Andrés Wainer:** Regarding currencies, as we have previously mentioned, approximately one-third of our direct costs over sales are linked to the U.S. dollar and it will obviously affect cost levels given the devaluations experienced by local currencies. However, we have hedged currencies, in the case of Chile, approximately 50% of our dollar needs have already been hedged; in Argentina practically 80% and in Brazil, approximately 25% of our needs for the first half. On the other hand, U.S. dollar raw material costs have decreased significantly, for example, sugar and resin, so these two effects, currency devaluation and the lower cost of raw materials tend to neutralize each other, so the total effect is not very relevant if the current currency levels remain.

**José de la Luz:** There were tax differences during the fourth quarter due to the liability of a reversal for deferred taxes in Brazil, I would like to have some guidance on what is expected for 2015 in terms of tax impacts, a range or something like that.

**Andres Wainer:** We do not give guidance with respect to taxes but I can tell you that this year there should not be anything out of the ordinary, so one should expect real tax rates for each country to be similar to the theoretic rates. There should not be any surprises during 2015.

**José de la Luz:** How do you view, in general terms, what are your feelings on the consumer environment, especially in Brazil and Chile?

**Miguel Ángel Peirano:** In the case of Brazil, they are beginning another period with Dilma in office, political parts are starting to accommodate, which still has not impacted the economy, so I would say that the consumer is somewhat expectant. The consumer remains cautious with some concerns about what can happen in the future, but I believe this has been happening during the last period, so I don't see any significant worsening or improvement in terms of the consumer's mood in Brazil. They are waiting to see what will happen in terms of politics and economics in the future, so somewhat conservative. And in the case of Chile, after the impact of the tax reforms here in Chile, I remain positive regarding the economy and the consumer's expectations in the sense that transformations have already occurred and now they are simply accommodating to the new scenario, so we are returning to a period of certainty.

**Mauricio Serna:** I would like to ask if you can elaborate a little regarding price strategy, mainly in Chile, you had to increase prices due to the tax reform, I would like you to comment a little bit more on how you have viewed volumes, and if so far this year you have thought about taking more pricing. Thanks.

**Miguel Ángel Peirano:** As you mentioned, last year in Chile we increased prices above inflation to recover the impact of the tax increase. This came hand in hand with a better service and double efforts in market execution, which has led to a market share increase of almost one point during the quarter despite having higher price levels. This means that execution has managed to make up for the impact of the price increase. However, the industry remains challenging and that is why volumes were not positive even though we gained market share. I would say that in terms of competitiveness we feel quite relieved in the sense that execution has made up for and has exceeded the impact that the price difference could have had due to the increase carried out. Looking forward, we expect a more vigorous growth in the economy and therefore the industry will begin growing and with that, not only gain market share but also increase volumes.

**Jerónimo De Guzman:** I would like to start with a follow-up on your price strategy, not only in Chile, but looking at Brazil, if my calculations are correct, there was over a 15% increase in prices in local currency year-over-year, so I would like to know what caused such a great increase and if you think it will remain given Brazil's situation and the country's more competitive environment.

**Miguel Ángel Peirano:** The same price strategy we applied in Chile was applied in Brazil. Actually when you compare year-over-year, given the impact we had basically because of the Wilson case, a complaint the system had in Brazil which impacted volumes, we had to accommodate prices downwards during the fourth quarter of 2013 and then recover them, and that is why there is such a great price increase difference. On the other hand at the beginning of the year we had to have better prices in order to face 2015 from a higher stage. These price increases, that in the last period were a little above inflation, were also accompanied by reinforced market execution which has had the same impact it had in Chile. For Brazil in particular, we have achieved the highest market share ever in Rio de Janeiro, above 60 points of market share. So, if I had to summarize our price strategy, it is to ensure profitability of our packaging, continue growing margins without affecting our market position, and this is why price strategy goes hand in hand with the go-to-market strategy we have been reinforcing during all of this period.

**Jerónimo De Guzman:** Thanks. And also a follow-up on this go-to-market strategy, what we saw was that despite prices, expenses have increased during the year and I wanted to know how you see expense levels as a percentage of sales if you have to continue investing in go-to-market.

**Andrés Wainer:** Regarding expenses, first cost of sales, we do not expect very relevant changes, because as I said, currency devaluation although strong, has been paired with a decrease in the cost of dollarized raw materials. Now, that is on the current level. The Brazilian real has continued depreciating. Today it was in the range of 2.90, so if it continues increasing it could start to impact margins, gross margin. Regarding SG&As, this year they should grow similar to inflation, maybe somewhat above inflation, but we do not see too much pressure on labor costs as we have seen during previous years. In general it has tended to diminish while economies are slowing down.

**Jerónimo De Guzman:** Okay, but what I wanted to understand was what caused them to be so high in 2014, were there much higher labor expenses than expected or is it changing now in 2015 regarding 2014?

**Andrés Wainer:** More than 2014, 2013 was quite influenced by non-recurring income which was accounted for as SG&As. Basically it corresponds to money we received from the Coca-Cola Company or Heineken. This is what lowered the comparison basis in 2013. It is not that 2014 presented higher than expected expenses or higher than the previous year. In general they are pretty much under control and they grow quite in line with inflation.

**Bárbara Angerstein:** My question follows the line of expenses and non-recurring income, especially in Chile where during the fourth quarter they seem to have strongly impacted expenses. I don't know if you can give us more detail as to what these expenses were, why they are non-recurring or why do you believe they won't be repeated in the future.

**Andrés Wainer:** Regarding Chile, non-recurring expenses are basically some asset write-offs realized during 2014. And yes, we clearly estimate they are non-recurring, that is also why we are reporting this figure of adjusted SG&As and adjusted EBITDA, because despite they were recognized during 2014 and mostly during the last quarter, they are one-time expenses and they will not be repeated.

**Bárbara Angerstein:** Andrés, can you comment on what type of asset it is? Is it some kind of packaging, machinery or something like that?

**Andrés Wainer:** Mainly current assets, basically accounts receivable.

**Luis Miranda:** Three questions, first what is your view on consolidation within the system? and the other two a little bit more specific on Brazil and Chile. In terms of trade initiatives ¿what should we be expecting? ¿Should it be another year where returnables and multi-serve will continue setting the pace for the market and how do you view the difference between Brazil and Chile?; and the third, just specify, you said 270 million in Capex, half is for Brazil and if there is any other significant project outside of Brazil for 2015?

**Miguel Ángel Peirano:** Regarding your first question on consolidation, it is a very complicated question because basically it is like asking when you are getting married, because there are always two parts that have to say "yes". Our strategy is to remain always prepared and analyze all existing possibilities that will add value to our Company, so clearly we are open and willing to think about consolidation as long as it adds value to the company, adds value to our shareholders and in the end to our consumers, in terms of integration, better practices and cross-learning. So, should the opportunity present itself we will analyze it. I do see any movements in the short term but that does not mean that they might suddenly occur. I don't see much activity at least in this part of the planet, during this period, after the tsunami which occurred a year and a half ago.

Regarding Brazil, returnability clearly continues to be one of our corner-stones, as we mentioned, we launched the REFPET 2 liter bottle two years ago which has been extremely successful in Brazil not only increasing our market share, increasing our volume, but also adding new consumers to the category, consumers who could not access this category because no format was available for their pockets, and the drive of the multi-serve as well as the single-serve concurrently. The single-serve clearly has an advantage of a higher returnability an generating a

trial that turns into consumption through the returnable multi-serve. So the packaging price strategy will continue exactly the same as what we have had until now.

Regarding relevant investments, basically we are at the start, we already began the modular plant at Duque de Caixas, which will permanently solve the mineral water supply, today we do not have mineral water in Rio de Janeiro and we have to purchase it from other bottlers. So it will give us that freedom and we will be able to have a constant growth in waters, whereas today we depend on what they sell us, or if there is product availability or not. And on the issue of a returnable line to continue growth, especially at Duque de Caixas, being able to supply the Espiritu Santo area and the north of Rio de Janeiro, that although we are supplying it today, it is being done at a much greater cost given the logistics involved from our Jacarepaguá plant.

**Alex Robarts:** First on soft drinks in Chile, we have the impact of the tax reform and if we take the Mexican experience, what we have seen there each quarter, after the tax increase, is that the decrease in volumes has lowered year-on-year in Mexico. Regarding Chile, can we think this curve of sequential improvement each quarter will also happen to you? How do you view the next quarters in terms of soft drink volumes?

**Miguel Ángel Peirano:** Clearly the impact of the price increase due to the tax increase and given all the fuss around the arguments which raised the tax, had an impact on volumes during the first months after the tax increase and it would be logical to think that going forward people will get used to the new prices and therefore consumption should increase again. Now, volume clearly entails other factors such as the economy, weather and others. It seems that the economy in Chile is improving, which makes us think and be positive, and on the other hand all of our price strategy, launches and others is aimed according. It is difficult to predict the future but we are definitely pushing not only through new packagings and market actions, but also naturally, as time goes by and after the impact of such a price increase due to taxes makes people less sensitive to the increase in prices because they have already gotten used to it and therefore consumption should start growing gradually.

**Alex Robarts:** In Brazil, your market share gain has been very impressive in Rio as well as Ipiranga and if you can comment a little on the sources of this market share gain. Your competitor said yesterday that their products are reaching record levels in terms of market share in Brazil in soft drinks, so we can conclude that the sources of the gains come from B-brands or if you can comment if they are coming from a new penetration you are seeing in some states of Brazil.

**Miguel Ángel Peirano:** The market share gain source we had in Brazil is a three-legged table. One leg is logistics, if you remember we commented two years ago we had began internalizing the logistics network in order to improve service level and service quality in addition to reducing costs. These two goals were reached broadly. We have achieved logistics costs that have remained stable compared to the increases in third-party provided services in general, and on the other hand we have reached places where we could not before given logistic execution deficiencies, since it did not depend 100% on us. Secondly, our packaging strategy. The fact of having and counting with the 2 liter returnable format has allowed us to generate an affordable product for the consumer, especially in the northern area of Rio de Janeiro and the lower areas of Espiritu Santo, this has enabled us to have a position and a purchasing experience that drives the rest of the products. Once the consumer leaves a B-brand or another type of product and drinks Coca-Cola, it is hard for the consumer to leave it and go back because of the flavor quality, and that is why the purchasing experience generated by the returnable format will also help us grow Pet formats. And third is our focus on execution. Keep in mind that two years ago we restructured the sales area incorporating a considerable amount of salespeople in order to ensure levels and quality during our client visit in the go-to-market project. These three factors together are clearly influencing the considerable gain in market share as you mentioned, reaching historic levels, by increasing prices at inflation levels



or slightly above, we have also been able to make a profit, without causing a competitive decrease in the markets of our products.

**José Yordan:** Your performance in Paraguay this year has been pretty flat. Obviously margin increased significantly due to the new sugar contract, but I imagine that will not occur this year. But, why does sales volume growth not match the economic performance in general? What are the dynamics leading to this difference and how do you view the economy during 2015, and therefore your sales performance in 2015?

**Miguel Ángel Peirano:** Regarding Paraguayan economy related to volumes in Paraguay, which are linked, basically the Paraguayan economy is influenced by the economies in Argentina and Brazil and the border relationship in Argentina as well as Brazil. Exchange rate difference have complicated exports from Paraguay to Argentina and Brazil and they have decreased significantly. Increased border controls in Brazil have also generated this impact. Reduction in remittances received by Paraguay, from Argentina or Spain, its main source of income, and the impacts this has had on these countries' economy, and in the case of Argentina particularly because of the difficulty people have in purchasing dollars and remitting them, has also been a factor in the decrease of remittances, and the delay of the Paraguayan government of beginning investing in infrastructure, which is a way to boost employment in Paraguay, has made available cash of the Paraguayan to be rendered powerless generating a reduction in consumption or that the industry has shrunk. It's so much so that, as you well said, our volumes dropped, however, our market share continued growing in all segments; therefore, it is clearly tied to an economic issue that drags the industry down, and until infrastructure investments start to reactivate, which is a way to distribute money in Paraguay, basically an agricultural country, this will generate more available cash and it will reactivate consumption. And finally regarding sugar, for this year we will probably continue having some benefits, not as much as we had, but it will still be a positive leverage for us.

**Miguel Ángel Peirano:** Thank you for your interest in Coca-Cola Andina's results. As always, our investor relations and management team are available to answer your questions and meet with you. Please do not hesitate to contact us. Have a good day.