COCA-COLA AMATIL 2016 FULL YEAR RESULT SPEECH

22 FEBRUARY 2017

David Akers Head of Investor Relations:

Good morning and welcome to the Coca-Cola Amatil 2016 full year results presentation. Thank you to those that are joining us here in North Sydney and also to those dialling in or watching via webcast. It's a busy day, so we thank you for making the time.

I am David Akers, Head of Investor Relations for Coca-Cola Amatil.

A copy of this presentation, media release and our accounts were lodged with the ASX this morning, along with some additional updates.

This presentation will be recorded and made available on our website later in the day.

Our presenters here today are Alison Watkins, our Group Managing Director and Martyn Roberts, our Group CFO.

I would like to draw your attention to the disclaimer…

And I will now hand over to Alison.

Alison Watkins Group Managing Director:

Good morning everyone. Before I move to the results I would like to comment on our announcement this morning that David Gonski's will be retiring as Chairman of Coca-Cola Amatil at our AGM in May this year with Ilana Atlas named as his successor. As Chairman David has led Amatil through a period of great change and value creation. It has been a tremendous privilege to work with David and I thank him for his counsel and guidance over our time working together.

I look forward working with our new Chairman Ilana Atlas, knowing that she brings great breadth and experience, as well as passion and enthusiasm for Amatil's future.

Moving on now to our results.

The agenda for our presentation is shown here on this slide.

I will provide a summary of the Group result and walk you through some of the updates announced this morning.

Martyn will then provide an outline of our Group and segment performance, and a summary of the business financials.

I will then provide the Strategy and Outlook, and a snapshot of our Sustainability Performance and Financial Targets, before we take some questions.

So, moving to the result highlights…

I am pleased to present to you today another solid result for the Coca-Cola Amatil Group.

We have again seen the strength of the diversity of Amatil's markets, products and categories, and how these can work together to generate strong cash flow and steady growth.

Our performance in 2016 reflects the steady progress we are making across the Group in implementing the plans detailed in our 2014 Strategic Review.

We are delivering against our shareholder value proposition with underlying mid-single digit earnings per share (EPS) growth of 6.2 per cent in 2016.

Once again we saw strong performances in our identified growth markets, particularly Indonesia, as well as Papua New Guinea, Fiji and Alcohol & Coffee, and another healthy performance in New Zealand.

We achieved 3.5 per cent growth in underlying earnings before interest and tax (EBIT) to $683.4 million for the year and underlying net profit after tax (NPAT) for the year was $417.9 million, an increase of 6.2 per cent.

We are making progress in modernising SPC and remain committed to securing the long-term future of the business. However, our assessment of the SPC's carrying value has resulted in a non-cash impairment charge of $171.8 million (after tax). I will talk in more detail on this shortly.

As a result of this impairment charge, Amatil achieved a statutory EBIT of $466.1 million and statutory NPAT of $257.3 million for 2016.

Our balance sheet and free cash flow remains strong with cash realisation of 110.9 per cent and reduction in net debt of $153.5 million to $992.8 million.

The outcome for shareholders is a final dividend declared of 25 cents per share, franked to 75 per cent representing a payout ratio of 84.1 per cent for the full year, with free cash flow positive after dividend payments.

A year ago we outlined our simple and compelling investment case for shareholders. This shareholder value proposition guides our approach to the management of our diverse markets and portfolio, and specifies the contribution each part of our business makes to the overall Group outcome.

Our targets are mid-single digit EPS growth, attractive dividends and a strong balance sheet and return on capital. These were achieved in todays' full year results for the Amatil Group. They remain our focus as we track our progress against each part of the portfolio.

As you can see, there are a number of areas where we are on track and performing well. We also recognise that there are still some parts where more work is required.

We continue to focus on costs across all of our markets. In most markets we are achieving our EBIT targets - with steady, stable cash flow in our core New Zealand market, complemented by the strong double-digit EBIT in our developing markets of Indonesia, Papua New Guinea and Fiji, and our Alcohol & Coffee business.

In Australia we are making good progress in rebalancing the portfolio, leveraging route-to-market and revenue growth management capability and driving cost optimisation. However, the overall market remains challenging and we have more work to do in stabilising the business and ensuring sustainable low single-digit EBIT growth.

SPC is making solid progress in modernising the business, however a return to profitability is taking longer than expected with a further modest loss this year.

We remain disciplined and tailored in our approach to capital planning, with modest investment in Australia and New Zealand and more significant investment in Indonesia to capture the medium to long term growth as, and when, it occurs.

We are confident in this approach, and while we recognise the challenges, we know it will result in a sustainable level of EPS growth, with strong dividends and a strong balance sheet for our shareholders.

I will now turn to the other updates we announced today.

First, our plans to remodel Australian Beverages' supply chain.

In October we announced a full review of our Australian Beverages' supply chain to make sure we are organised in a way that supports our long-term market strategy.

The review is complete, and has identified further investment and consolidation opportunities across the supply chain, which will allow us to maintain our market competitiveness.

The review found that further development of our facility at Thebarton in South Australia was constrained by its CBD location, site layout, dated infrastructure and expensive logistics. We will therefore be closing our South Australian manufacturing facilities, principally at Thebarton, in 2019. The closure will be accompanied by increases in production in Queensland and Western Australia.

Additional capacity will be developed at Richlands with a further $90 million investment to install a new glass production line, and new dairy and juice production capacity. This investment will optimise our national logistics network and modernise our supply chain with greater use of technology and automation across a range of products.

The decision to cease manufacturing in South Australia is not one we take lightly, however we know we must modernise and invest in new capability. The decision does not affect our South Australian warehousing, distribution, sales or recycling operations, which continue as normal.

I want to take the opportunity to acknowledge our committed and hardworking manufacturing team in South Australia. This announcement will be difficult for the team, some of whom have been with Coca-Cola Amatil for many years. We will work with each staff member individually, to assist with employment and financial support. To commence this process, Barry O'Connell and several of the Australian Beverages' leadership team are in South Australia today to talk directly with staff. Our team in South Australia are our priority as we work through this transition.

One-off costs from this initiative are approximately $50 million, which are expected to be offset by one-off gains. The closure of the South Australian manufacturing facilities will deliver a further $20 million in future cost savings from 2020.

We have also announced this morning that our Board has approved an on-market share buy-back program for shares up to the maximum aggregate amount of $350 million. The buy-back program will commence from the end of March 2017, and will remain in place for a period of 12 months or until all the funds have been utilised.

The buyback is a direct reflection of our strong balance sheet and the Board's confidence in our ability to continue generating strong cash flow. A share buy-back provides the most appropriate mechanism to return surplus capital to shareholders at this time.

I will now hand over to Martyn to provide an outline of our Group and segment performance, along with a summary of the financials for the business.

Martyn Roberts Group CFO
Thanks Alison and good morning everyone.

It's a pleasure to be here and have the opportunity to share with you each of our Business' Performance and take you through some of the key financial information for the year.

As Alison stated, our underlying EBIT growth was 3.5 per cent for the year. The results by Business demonstrate the strength of the diversity of our portfolio and the strong contribution our growth markets have made to the group result.

Whilst Australian Beverages EBIT declined 1.8 per cent for the year, this was mostly offset by an almost 7% increase in our New Zealand & Fiji business which now represents 15 per cent of our group earnings.

Our growth businesses of Indonesia & Papua New Guinea and Alcohol & Coffee delivered very strong results of 43 per cent and 31 per cent EBIT growth respectively – a combined $32 million of growth between them.

Earnings for Australian Beverages, as I said before, declined 1.8 per cent for the year as we continue to rebalance the portfolio, improve our competitive position and address ongoing structural adjustments in the market.

Revenue declined 3.4 per cent with volume declining 2.1 per cent for the year.

Our performance was adversely impacted by ongoing competitive pressure in the water and cola categories together with channel mix away from operational accounts.

Revenue per unit case was 1.3 per cent lower than the prior year reflecting price competitiveness, particularly in the water category.

During the year, the $100 million cost optimisation program set in 2014 was delivered ahead of schedule and 2017 will benefit from the full year effect of this.

Savings from this program are being reinvested in rebalancing the portfolio through innovation, additional marketing, our salesforce and price investment.

The Australian Beverages business continues to deliver a strong EBIT margin and return on capital employed.

In terms of categories, the rebalancing of our portfolio is reflected in evolving volume composition.

Progress has been made in Still beverages from 2015 with volumes increasing 3.1 per cent for the year, driven by water, energy and dairy.

The addition of Monster Energy to the portfolio contributed to this Still beverages growth.

That being said, Still beverages performance was weaker in the second half due to challenges in sports, juice and tea and in water due to the cycling of the relaunch of Mount Franklin in the second half of 2015.

Further progress has been made in the Sparkling beverages portfolio with negative volume growth tempering in the second half. We have been focussing on shaping choice through additional reformulations and introducing smaller pack sizes for example the 250ml PET bottle.

In terms of channels, we have seen an increasing proportion of revenue and volume from grocery as we continue to experience a shift in demand from state operational accounts to national chains and quick service restaurants

In line with our strategy, we increased our adoption of online ordering to over 50% of orders at year end.

Our New Zealand & Fiji businesses delivered a strong revenue, volume and profit result with EBIT up 6.9 per cent on the prior year.

New Zealand is delivering on its strategy, underpinned by volume based growth plans.

Revenue, volume and EBIT all benefitted from the new Restaurant Brands partnership however it did also lead to reduced revenue per case overall.

We performed well in the on-the-go channel - focussing on outlet growth and execution.

In terms of categories, Still beverages performance was strong, especially water and energy, and the launch of dairy also assisted.

Sparkling beverages also saw positive revenue and volume growth over the period.

Fiji delivered revenue and volume growth and double digit EBIT growth thanks to robust economic conditions and great local execution. This was despite a 200 per cent increase in excise on 1st July 2016.

The Indonesia & Papua New Guinea businesses made a significant contribution to Group growth with an EBIT increase of $20.9 million on the prior year.

Our Indonesian business delivered this strong overall performance despite soft economic conditions.

After a very strong performance in the lead up to and during the Ramadan festive period, revenue growth slowed in the second half reflective of the overall economy and trends in the consumer sector

Progress continued in Sparkling beverages with market share gains during the year.

The business also had a good performance with its cost out program and investing into the development of capabilities across the team.

We continued to invest in manufacturing facilities, cold drink equipment and the roll out of our route-to-market model across Java.

In Papua New Guinea, the business delivered double digit EBIT growth despite economic headwinds.

Our Alcohol & Coffee business delivered EBIT growth above 30 per cent for the second consecutive year together with revenue above $500 million for the first time.

Alcohol achieved double digit revenue, volume and profit growth for the year.

Growth in the Beam Suntory portfolio of products supported strong performances in bourbon and new age whiskey categories.

The second half benefitted from the addition of Molson Coors International's Miller Genuine Draft and Miller Chill brands in Australia, extending our range in the international premium beer category.

Our Coffee business delivered a solid contribution to the segment result with the successful relaunch of the Grinders brand.

Underlying EBIT in this segment decreased by $7 million. Over half of this decline was as a result of costs associated with the restructuring and sale of our Quirks services business in the second half.

SPC recorded a modest underlying loss for the year.

An increase in promotional activity assisted in reducing the rate of share decline, however this was not sufficient to offset the continued price competition from imported products. Having said that, we did have some encouraging signs in snacking fruit and tomato product performances.

As Alison stated earlier, a $171.8 million after tax non-cash impairment charge has been recognised, reducing SPC's carrying value to $156.3 million.

Now onto the financials.

Starting with the Income Statement, there are a few points of note here…

As highlighted earlier, Amatil recorded an increase in underlying EBIT for the year of 3.5 per cent as a result of strong growth outside of our Australian Beverages business.

Net finance costs reduced by 15 per cent due to the full year benefit of The Coca-Cola Company's equity injection in 2015, strong cash flow and lower average interest rates in Australia.

Our effective tax rate was at a normal level of 29.7 per cent.

Non-controlling interests grew due to growth in our Indonesian business.

Underlying net profit attributable to Coca-Cola Amatil shareholders was up 6.2% as was underlying EPS for the period – consistent with our Shareholder Value Proposition.

Statutory net profit decreased by $147.3 million due to the non-cash impairment charge in SPC.

Our final dividend of 25 cent will be 75 per cent franked, however it should be noted that from 2017 it is anticipated that franking will be lower than current levels. This is due to, amongst other things, the proportion of our earnings originating from offshore.

Capital employed was impacted as a result of the non-cash impairment of SPC.

The underlying movement in capital employed was a small increase of $18.8 million resulting from the following:

- Working Capital was reduced by $22.3 million despite an increase in Alcohol & Coffee working capital to support growth
- Property, Plant & Equipment increased $43.7 million reflecting the increased capital spend in Indonesia in the first half of 2016 and the completion of the hotfill production facility in New Zealand
- Current and deferred tax liabilities increased $53.4 million due to reduced current tax instalments and the deferred tax impact of movements in provisions and non-debt derivatives
- Those non-debt derivative increased $49.6 million due to unrealised gains on commodity hedging contracts

Our Return on Capital Employed would have increased by 60 basis points before the impact of the SPC impairment. The final Return on Capital Employed for the year was 19.6 per cent - well above our cost of capital.

Capital expenditure was in line with expectations at just under $300 million – equivalent to 1.1 times depreciation and amortisation.

Australian Beverages capex includes initial spending on our Richlands warehouse automation project, equipment for new sports closures, technology to support sales and customer service programs and further automation of support services.

Capex increased in New Zealand due to the investment in our new hotfill production facility.

Indonesia continued investment in manufacturing capability and the rollout of coolers across the country.

Free cash flow of $490.5 million was a highlight of the year and the highest free cash flow Amatil has reported in over a decade. This was $100 million higher than last year and substantially larger than our dividend payments for the year.

Operating cash flow was strong with cash realisation increasing 17.8 points to 110.9 per cent for the year.

Lower net finance costs resulted from a full year benefit of TCCC's investment in Indonesia, beneficial timing of interest receipts and lower interest rates in Australia all helped.

Tax paid was slightly lower than FY15 due to lower tax instalments on Australian earnings.

Capital spend increased by $39.7 million.

Thanks to the great free cash flow result, our balance sheet is in a very strong position. Net debt decreased by $153.5 million to just under $1 billion.

Due to this strong position, our strong cash flow and our confidence in our future trajectory, today we have announced a $350 million on market share buy-back which will commence in late March 2017.

So, in summary:

- Underlying EPS has grown by 6.2%
- Our Return on Capital Employed has increased to 19.6%

- Capex was in line with expectations at just under $300 million
- Strong operational cash flow and free cash flow of $490 million
- With net debt under $1 billion we will be commencing a $350 million on market share buy back

Thank you... and I will now hand back to Alison

Alison Watkins Group Managing Director:
Thank you Martyn.

For the last two years our focus has been building a platform upon which Coca-Cola Amatil could generate attractive, sustainable returns for our shareholders. At the centre of this are our strategic themes of Lead, Execute and Partner.

We are confident in this strategy. We know that while our markets continue to evolve our medium to long term plans are on track. In October we provided a detailed update on the strong, sustainable progress we are making in each of our Businesses against this strategy. For those who weren't able to join us at the Investor Day the materials are available on our website and I will provide you with a short update on progress.

Since 2014, Australian Beverages has progressed plans to build additional capability, rebalance our portfolio, leverage our route-to-market and revenue growth management capability, and drive cost optimisation. Market conditions remain challenging as structural adjustments continue, but we are cautiously optimistic about the future.

We have refreshed and strengthened our category growth plans with The Coca-Cola Company. In Sparkling Beverages our plans focus on shaping choice and evolving with the consumer, with several reformulations in the pipeline for 2017, alongside further expansion of our smaller packs and portion sizes and evolution of The Coca-Cola Company's One Brand campaign. Our pipeline of innovation in Stills gives us confidence in our ability to maintain our leadership position and accelerate growth.

In October we outlined progress in reconfiguring our route-to-market, with a focus on improving our execution metrics and the customer experience.

You also heard earlier about our significant cost optimisation program. These savings will be reinvested in our "Sales Force of the Future" program, in continued rebalancing of our portfolio, and in marketing and price.

The improved alignment we have achieved with The Coca-Cola Company in water has allowed us to take a portfolio perspective in this category. We are also on track to introduce incidence pricing from the middle of this year. This model will achieve a more aligned economic approach both Amatil and The Coca-Cola Company by enabling us to link the amount paid for concentrate to revenue.

Last October we announced that Australian Beverages was well ahead of schedule in delivering the $100 million cost optimisation target set in 2014, with the full year effect to benefit in 2017.

We also announced that we'd identified a further $100 million in cost savings to be delivered over the next three years resulting from supply chain improvements, outsourcing initiatives, and procurement and support services optimisation.

The supply chain improvements included a $75 million investment in consolidating our sites in Brisbane, with a new warehouse facility at our existing Richlands plant. This investment will deliver a new, expanded and automated facility, which will generate greater capacity, comparatively lower operating costs and reduced materials handling and truck movements.

The one-off costs associated with delivering the cost savings will be funded by proceeds from the sale and leaseback of the Richlands site.

Today we have announced a further $20 million to be delivered from 2020 as a result of the improvements to our national supply chain and closure of our South Australian manufacturing facilities. This is accompanied by a further $90 million invested in our Richlands facility to install a new glass production line and new dairy and juice production capacity.

The majority of the one-off costs resulting from these initiatives will be recognised in 2017 and will be funded by the profit from sale of our Thebarton site and surplus profit from the Richlands sale and leaseback.

The outcome is an ambitious, but achievable, cost optimisation and reinvestment program that will continue to remodel and modernise our Australian Beverages business. The Australian Beverages team has proven their ability to deliver against these kind of targets with the first $100 million cost optimisation achieved ahead of schedule. We are confident in the plans they have defined for the next two phases.

I want to recognise the efforts of everyone in Australian Beverages for their contribution to date and their commitment to delivering against our future targets. These initiatives are essential to maintaining our competitiveness in the market and I know they will be delivered by the team with the same determination that we have already seen.

Over the last two years we have delivered on our strategy of volume based growth in New Zealand. We are now firmly focussed on maintaining our leadership position in Sparkling and Still Beverages, further improving our relationships with brand partners and driving the fundamentals for sustainable and profitable growth in the market.

We are adding to our manufacturing and distribution capability, building our sales and marketing execution capability, and we expect continued growth in 2017.

Fiji will remain an important growth market, with ongoing expansion of our distribution network through the rollout of cool drink equipment and more outlets ranging our products. While growth was marginally impacted by excise increases from 1 July 2016, we expect to see benefits in 2017 from our investment in an additional production line.

While economic factors continue to impact consumer demand, Indonesia remains an exciting growth market for Amatil and The Coca-Cola Company, and we know our plans are the right ones for the medium to long-term.

Since 2014 we have made solid progress across all of our strategic priorities, with improvements in product availability, affordability, brand strength and channel relevance. We are confident that these initiatives will maintain our leadership position in Sparkling Beverages and improve our position in the juice, tea and dairy categories where significant investment is being made.

These initiatives are supported by the continuing transformation of our route-to-market model, and productivity initiatives in manufacturing and logistics. Together these will further improve product availability and our overall cost to serve.

PNG is also an important growth market. Despite current economic challenges, expansion of our distribution network along with productivity and efficiency improvements in manufacturing and logistics will deliver strong returns.

We are very pleased with the progress we have made in our Alcohol & Coffee business in the last two years. We expect further growth across all categories and in each of our operating geographies in 2017.

Our partnership with Beam Suntory is strong. With an established leadership position in bourbon in both Australia and New Zealand, we are working with Beam Suntory to bring even more innovation into this category.

Across Beer, Bitters and Cider we will work with our partners to develop brands and realise the significant opportunities across all of our categories. Work will also continue in Coffee as our Grinders brand grows its retail presence.

We see a strong future for SPC as it continues to expand its range of products and explore new markets. Our joint investment program with the Victorian Government is expected to be completed this year and we remain committed to securing SPC's long-term future.

Before closing I would like to take a moment to outline some progress we have made this year in relation to Sustainability.

Our Sustainability Framework focuses on delivering real outcomes for our people, consumer wellbeing, the environment and communities.

Last year we released our 2015 Sustainability Report, detailing our performance in each of our sustainability pillars for 2012-2015 period. In that report we committed to a strengthened approach to sustainability reporting with more data and analysis on the performance of all our businesses. The 2015 report establishes a new baseline and commits us to continuous improvement in performance, and reporting, on an annual basis.

We expect to deliver the 2016 Sustainability Report in May. While we recognise we have more work to do, there are several highlights, including:

- A 74 per cent reduction in total injuries over the 2012-2016 period
- Continued focus on increased packaging innovation and improved recycling rates
- Expansion of our small pack range in Australia, with small packs now offered in 86 per cent of grocery stores, and 69 per cent of convenience stores and petrol stations; and
- Meaningful contributions in the communities within which we operate, including support for their economic and social development

The regulatory landscape is shifting, particularly in environmental protection and consumer wellbeing. We want to demonstrate our willingness to address community and regulator concerns in these areas, rather than be the subject of onerous regulatory imposts.

We are engaged with each of the governments who have announced plans to introduce a container deposit scheme with a view to ensuring any new CDS is operated efficiently and consistently across all states in Australia, with minimal financial impact for consumers and manufacturers. We are a member of the industry consortium, "Exchange for Change", which has submitted a proposal to be both Scheme Coordinator and one of the Network Operators in NSW.

We welcome the NSW Government's decision last week to delay CDS implementation until 1 December 2017. The additional time will allow government, industry and all participants to better prepare for its introduction, and where possible reduce the impact on consumers and industry.

As we have previously stated, much of the detail of the NSW CDS framework is still be finalised, including the regulations and contractual arrangements.

In relation to consumer wellbeing, we recognise we have a role to play in addressing the issue of obesity in the community and know this must be done in collaboration with the government, community leaders and other businesses.

Consumer preferences are changing in response to these concerns and this presents great opportunities for us to further develop our portfolio of products. We are actively reformulating our products, increasing our range of low and no kilojoule options, reducing pack sizes, and promoting a level of consumption that is right for individual lifestyles.

We believe these measures will work, without a negative impact on manufacturing workers, farmers and ultimately the community, that the introduction of new taxes on sugar or sparkling beverages would ultimately have.

We welcome the recent comments from both the Australian and New Zealand Governments confirming that they have no plans to introduce such a tax on beverages, consistent with our view that soft drink taxes don't work, but they do hurt.

Today's result speaks directly to the strength of our shareholder value proposition.

We remain confident that our October 2014 strategy and plans are consistent with the Group continuing to achieve our target of sustainable mid-single digit EPS growth.

We expect Group capex of around $375 million for 2017 and a similar level in 2018 as we progress the initiatives in Australian Beverages to remodel its supply chain and set the business up for the future.

We also expect to maintain a conservative balance sheet position, providing the flexibility to fund future growth opportunities with sufficient free cash flow to allow continued targeting of a medium term dividend payout ratio of over 80%. It is anticipated that from 2017 franking will be lower than current levels.

Our level of performance will depend on the success of revenue initiatives in Australia, Indonesian economic factors and regulatory conditions in each of our markets.

That said, our 2014 Group Strategy continues to set our direction and focus. Two years ago we defined our plans and we have stuck to them. These 2016 results are further confirmation that we are delivering a strong and sustainable business for today and tomorrow.

Thank you.

I will now hand you back to David, ahead of our Q&A.

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