TRANSCRIPT

CULTIBA

Second Quarter 2013

Earnings Conference Call

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Company Participants

Mr. Juan Gallardo, Chairman & CEO

Mr. Carlos Orozco, CFO

Ms. Kathleen Heaney, Breakstone Group

Analyst and Investor Participants

Alan Alanis – JP Morgan

Alex Robarts – Citi Research

Karla Miranda – GBM

Herminio Padruno - GBM

Mauricio Santos – GBM Equity Funds

Jose Maria Flores – Ve Por Mas

Fernando Ferreira – BAML

Operator: Good afternoon, and welcome to the Cultiba's Fiscal Second Quarter 2013 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Kathleen Heaney. Please proceed.

Kathleen Heaney: Thank you and good afternoon, everyone. Cultiba's Second Quarter 2013 Financial Results were released last evening. A copy of the earnings release can be found on the Company's at website at www.cultiba.mx. Presenting on the call today will be Cultiba's Chairman and CEO, Mr. Juan Gallardo and Chief Financial Officer, Carlos Orozco. Mr. Gallardo will begin with some opening remarks, after which Carlos will present a discussion of the Company's second quarter and first half financial results, and then Mr. Gallardo will discuss the Company's outlook before we open the call for your questions.

As a matter of formality, I need to remind participants that remarks made by Management during the course of this call may contain forward-looking statements about the Company's results and plans. Such statements are subject to risks and uncertainties that could cause the actual results and implementation of the Company's plan to vary materially. The words believe, expect, plan, intend, estimate, or anticipate, and similar expressions, as well as future or conditional verbs such as should, would, and could identify forward-looking statements. In addition, any projections as to the Company's future performance represent Management's estimates as of today, July 25th, 2013. You should not place undue reliance on these forward-looking statements and we expressly do not undertake any duty to update forward-looking statements, whether as a result of new information, future events, or otherwise.

Now, it is my pleasure to turn over the call to Mr. Gallardo.

Juan Gallardo: Thank you, Kathleen. Good afternoon and thank you all for joining us for our second quarter earnings call. Simply put, our results to date keep us on target to beat our full-year operational and financial objectives. Cultiba's second quarter results demonstrate that we continue to execute our plans as outlined in previous conference calls. Volume is increasing due to multiple initiatives we have underway. Revenue is growing and profitability is improving.

Before I turn the call over to Carlos, I would like to review with you our financial results and discuss a few of this quarter's highlights and comment on some operations and strategy.

First, in the quarter highlights; as we have discussed previously, we believe Cultiba is well positioned to consistently achieve growth above the industry average, and we did so again this quarter. I am pleased that our beverage business is performing in line with our expectations. While industry-wide beverage volumes in the second quarter were somewhat dampened, as you know, by a deceleration in the Mexican economy and weakened consumer spending, we achieved year-over-year beverage volume growth of 3.2%. Higher volume for jug water reflecting the combination of improved point-of-sale execution and new direct-to-home routes helped drive this quarter's performance. Also, our focus on more profitable channels is reflected in the improved and higher quality EBITDA margins we are reporting. As I look back on all that we have accomplished over the past 18 months, our focus on delivering a profitable sustainable growth is, simply put, what we are all about.

Our marketing strategy continues to emphasize a product portfolio that includes many of the most consumer relevant, faster growing categories and some of the strongest brands with national reach and profitable channels. New product introductions are consistent with our portfolio strategy, which involves balancing profitability and growth by focusing on the right product mix, capturing price opportunities, and developing strong national brands to leverage effectively our very unique national distribution level. Because of these actions, we are positioned to continue to deliver consistent profitable volume growth.

We are very focused on capturing synergies. This is an ongoing process for us and I am pleased with the progress we are making, as we are now more than half way towards achieving the original 900 million pesos of previously identified synergies. One of the areas where we have achieved these significant synergies has been in the sourcing of strategic raw materials, as we are able to leverage our increased soft drinks volume. As a reminder, our vertical integration into sugar enhances these margins.

We have also achieved important synergies in optimizing our distribution network and streamlining our operational process. We accomplished this through strategically relocating bottling lines at some of our plants, improving distribution capacity, and by increasing the fleet as well as restructuring some routes, and improving execution at the point-of-sale.

Previously we have spoken about back office and personnel cost savings already achieved. We still have work to do, but we are delivering according to plan.

Capital expenditures for our bottling operations continue to be deployed into projects related to logistics, infrastructure, packaging and others, and we see further benefits from these investments in the second half of the year. These expenditures are at historically high levels and self-funded. By strategically positioning our portfolio, capturing the synergies as commented, and investing heavily in our operations, we are successfully executing on the business model we have laid out for you, And we are growing,

- growing volume,
- growing revenue, and
- most importantly, growing profitability.

We are encouraged by the significant progress we continue to make in transforming Cultiba into a nimble, world class, integrated beverage company. Today we are confirming previously communicated guidance, which I will summarize at the end of Carlos' remarks.

I'll now turn it over to Carlos, who will discuss the second quarter and first half results in much, much greater detail. Thank you. Carlos?

Carlos Orozco: Thank you, Mr. Gallardo, and thank you, all, for joining us this afternoon. I am likewise pleased for the progress of the Company as we continue to grow the top line and deliver improved profitability.

Now, on to a review of the second quarter results of 2013. Mr. Gallardo just spoke about how we have realigned the product portfolio to focus on fast growing categories and brands with strong national reach. That process is basically complete and we are seeing the benefits of that strategy. Cultiba's total revenue grew by 4.8% in the second quarter of 2013, driven mainly by beverage revenue growth of 5.6% as a result of good year-over-year increases in beverage volumes and price improvements. Particular to the first quarter of this year, our Sugar division was impacted by significantly lower pricing both domestically and abroad. As a reminder, prices for sugar cane were adjusted according to present regulations and reflect prevailing market conditions.

Despite the challenging economic environment, our total beverage volume increased 3.2% in the second quarter of the year to reach 448 million cases, up from 435 million cases in the same period of last year. Jug water was the driver of this performance as sales increased 6.5% in this quarter. We were also able to realize higher revenue per case. The average sales price per eight ounce case increased by 3.9% from 19.3 pesos in the second quarter, up from 18.7 pesos in the same period last year, primarily reflecting the next opportunity across our product portfolio.

Despite the deceleration in Mexico's GDP growth and weakened consumer spending during the second quarter of this year, our soft drink and bottled water volume remained essentially flat at 221 million cases, and basically reflects

1. Increased distribution in both the modern and traditional profitable channels for all of our beverages,
2. the incorporation of new categories and product re-launches such as Jumex Fresh and E-pura,
3. a greater penetration of Gatorade and bottled water in the traditional channels.

Moving on to costs and expenses; The Company's consolidated cost of goods sold, which mainly includes product raw materials and direct labor, was flat with the same period in the prior year. As a result, our gross margin in the second quarter of 2013 increased to 41.8% from 39.2% in the same period of last year. However, it is worth noting that unit costs per case improved by 1.6% in comparable terms over the same period in the prior year and, when combined with improved pricing, resulted in a 6.3% year-over-year increase in our gross profit per case.

Our total SG&A expense was 3.4 billion pesos during the second quarter, up from 3.2 billion pesos in the same period of last year. SG&A as a percent of revenue increased roughly 70 basis points to 37.5% in the quarter, primarily due to expanded marketing programs related to higher expected volumes in the second half of 2013. We expect this percentage to drop in the second half of the year.

Consolidated EBITDA in the second quarter increased 35.4% to 978 million pesos, compared to 780 million pesos in the same period last year, driven largely by significant operational improvements at the Beverage division. Our consolidated EBITDA margin in the quarter was 20.6%, up approximately 170 basis points from the same period last year. We see significant opportunities to further improve margins as we continue to achieve synergies throughout the businesses.

Focusing on the Beverage divisions results, the operating income increased during the second quarter by 105% reaching 370 million pesos, up from 155 million pesos in the same period last year. This, in turn, led to a 24.6% increase in EBITDA to 828 million pesos during the quarter. The synergies we're capturing as well as volume growth are driving the improvement in operating income and EBITDA. As Mr. Gallardo mentioned, our Beverage division is clearly on plan for capturing synergies toward our 900 million pesos goal by the end of 2014. To date we have already surpassed our current new target, which is 50% of the identified synergies. We are already seeing these benefits reflected in our margin expansion. As a reminder, our Sugar division will be a positive contributor to our EBITDA this year, providing roughly 100 basis points of margin expansion in line with our expectations, and will account for approximately 10% of consolidated Company revenue and EBITDA.

Our financing costs in the second quarter of this year were a net expense of 183 million pesos, compared to a net expense of 153 million pesos during the same period last year. During this quarter, the Mexican peso depreciated 5.4%. However, as all of our dollar denominated debt is fully hedged, the peso devaluation did not have a negative impact in our cash flow. In fact, subsequent to the quarter's end, the peso has appreciated; practically reversing the impact of the second quarter's financing costs.

Our tax provision for the quarter reflects the positive impact of 133 million pesos, primarily as a result of a reduction in the tax loss carry-forward reserve. The effective and cash flow consolidated tax rate continues to be approximately 28% (ph).

Finally, our Beverage division achieved a net income of 369 million pesos for this quarter, an increase of 40.3%, compared to 263 million pesos in the same period of last year. As a result, our consolidated net income in the second quarter was 395 million pesos, compared to a net income of 133 million pesos in the same period of last year.

Now, let me walk you through the results for the first half of the year. Total revenue in the first half of 2013 grew by 4%, driven mainly by Beverage revenue growth of 5.4%, which was comprised of volume and price continuous improvements. Our Sugar division was impacted in the first half of the year by significantly lower pricing, both domestically and abroad, which we have already discussed earlier.

As you have heard, other consumer companies discuss, Mexico has faced a more challenging economic environment this year. We have spent the past year refocusing the portfolio on products that consumers want, while also expanding and improving our points of distribution. As mentioned, we are seeing the benefits of these changes as our total Beverage volume in the first half of 2013 increased 3.8% to reach 814 million cases, up from 784 million cases in the same period of last year. Our volume gains in all segments were driven by Jug Water unit sales, which increased to 6.2% in the first half of 2013, compared to the same period of last year.

We were also able to realize high revenue per case. The average sales price for an eight ounce case for the first half of the year increased 2.4%, again reflecting select opportunities across our product portfolio, as well as an enhanced portfolio mix.

Moving onto costs, the product changes we have been implementing, along with the synergies we are capturing, are improving our cost structure. Consolidated cost of goods sold increased 2.7% to 10 billion pesos in the first half of the year, in line with beverage growth. Our gross margin in the first half of 2013 increased to 41.2% from 40.4% through the same period last year.

Our total SG&A expense was approximately 6.5 million pesos in the first half of the year, up from 6.2 million pesos in the same period last year. SG&A as a percent of revenue increased roughly 70 basis points to 38.4% in the first half of 2013, primarily due to higher marketing expenses that, as mentioned, we expect to leverage over higher volume in the second half of 2013.

Consolidated EBITDA in the first half of 2013 increased at 5.1% to approximately 1.6 billion pesos, compared to 1.5 billion pesos in the same period of last year. Our consolidated EBITDA margin for the first half of 2013 was 9.4%, up 10 basis points from the same period of the prior year. At the segment level, the first half of 2013 our Beverage division performed pretty well, more than doubling its operating income to reach 279 million pesos and growing EBITDA by 19.6% to reach 1.3 billion pesos.

Financing costs in the first half of 2013 were a net expense of 190 million pesos, compared to a net expense of 28 million pesos in the same period last year. As a reminder, because of significant increase in the financing costs this year was primarily a result of not having the non-cash benefit of 132 million pesos in foreign exchange gains that we had last year, when we had outstanding 190 million of dollar denominated debt and the peso devaluated 2.3% against the U.S. dollar.

Finally, our Beverage division achieved a net income of 254 million pesos in the first half of 2013, compared to 70 million pesos in the same period of last year. This led to a first half consolidated net income of 372 million pesos versus a net income of 433 million pesos in the same period last year. Net income last year included the foreign exchange gains I just mentioned. This year there was no material for exchange gains included in new income for the accumulated first half of the year.

On to the balance sheet. As you know, strengthening the balance sheet has been a key focus for us this year. By the end of the quarter we had cash and cash equivalents of 545 million pesos. Our total outstanding consolidated net debt stood at 5.2 million pesos. Our long-term debt totaled 2.6 million pesos, down from 4.8 million pesos at year-end 2012. We expect our working capital debt to drop significantly over the next six months as both of our business segments unwind their business natural cycles in the second half of the year.

Capital expenditures were approximately 1.4 billion pesos for the first half of 2013. Funds were expended on continued synergy achievement initiatives, increasing and strengthening the Beverage distribution network, increase and optimizing production capacity, as well as the enhancement of commercial routes to better serve our clients. In the Sugar division capital expenditures deployed pertained mainly to maintenance at the sugar factories.

Reflecting our solid financial position, strong cash flow, and positive outlook. The Board authorized a dividend payment of 128 million pesos.

Now, before we open the call for questions, we're going to turn the call back to Mr. Gallardo to discuss the progress, challenges, and outlook.

Juan Gallardo: Thank you, Carlos. Looking forward now; we have completed our portfolio alignment. Our principles are very simple:

1. number one, relentless execution of our well thought out strategy;
2. two, pursuing our profitability catch-up with steady sustained steps;
3. three, all of this recognizing and rewarding our outstanding team who have now built a new energized culture.

Our businesses are performing as expected and we are well positioned for further top and bottom line growth this year.

Our guidance, which is unchanged from what we discussed in April, is as follows:

1. we are targeting Beverage volume growth in the high single-digits;
2. we expect prices to be in line with inflation or slightly above;

3. we expect capital expenditures to approximate 7% of revenues, with funds spent in the Beverage division, as explained by Carlos, or expanding and strengthening our logistics and distribution, increasing production, packaging, enhancing commercial tools, and maintenance at different factories.
4. As programmed, we expect to realize between 250 to 350 million pesos of additional synergies in 2013, while fully capturing all remaining identified synergies by 2014. We will, of course, continue to look relentlessly for other cost improvements beyond what we have pinpointed thus far, striving to maximize our operating efficiency and achieve one of the industry's lowest cost structures.
5. Finally, we expect an increase this year in consolidated EBITDA in the range of the 40%.

This ends our prepared remarks. We'd be glad to take some questions now and if you would be kind enough, Operator, to please open up the channels for questions. Thank you.

Operator: Yes, thank you. If you would like to ask a question, please signal by pressing star, one, on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, press star, one, to ask a question, and we'll pause for just a moment to assemble the question queue.

And, we'll go first to Alan Alanis with J. P. Morgan.

Alan Alanis: Thank you so much for taking my questions. Congratulations on the results, Mr. Gallardo and Carlos. A couple of questions; the first one has to do with pricing in soft drinks in Mexico. If we exclude Jug Water, it seems that you're increasing prices around 4% year-over-year in the second quarter. That seems to be way above what your—what the Red system, your main competitor, is increasing prices across the board. Could you comment if what would be the trend going forward of this? Should we expect—I know you gave guidance in terms of going—moving with—in line with inflation, but I'm a bit surprised that you're being able to manage your price per unit case at a such a high level, and if you could comment a little bit on market share trends which, if you mentioned and I missed them during the prepared remarks, that would be highly appreciated. That would be my first question, then I have another question regarding quantifying the working capital trends that you mentioned for the second half of the year. Thank you.

Carlos Orozco: Thank you, Alan. Well, first of all, I compared what you mentioned about pricing. Indeed when you focus on the segment of just the bottled volumes that we have, yes we have prices increasing a little bit above 4%, which is basically the guidance that we are reaffirming, which we will keep increasing of prices in line with inflation. Now, when you mix that with other categories such as Jug Water, then you see that figure being adjusted.

As for market share trends, well basically what I can tell you is that in practically all of our categories we continue to keep and expand the value of the market share, so each and every one of the products now.

So, we continue to grow with a direct focus in all of the channels and in all of the brands that we are managing up to now.

Alan Alanis: Good; that's very clear. Now, in terms of working capital, the question is—the way I want to frame it is, you're still seeing an increase in that through EBITDA quarter-over-quarter. I think you're around 2.1 times net to EBITDA and the reason for this is, despite the remarkably strong increase in EBITDA, you were consuming a lot of working capital and you mentioned in the prepared remarks that these working capital trends would reverse in the second half of this year. Could you tell us how much you expect net debt to EBITDA to finish for the full year, please?

Carlos Orozco: Sure. Well, first of all, let me just remind you that the natural cycle in both of our businesses tends to have a very high working capital ratio in the first half of the year, so in the second half of the year we normally tend to pick up more on volumes and likewise we tend to unwind the sugar inventory of the Sugar division. So, for the second half we're expecting to bring that down to the tune of $100 million as a combined figure for both divisions.

Alan Alanis: Got it. Any intelligence for net debt to EBITDA towards the end of the year?

Carlos Orozco: Yes, we should be approaching the ratio of 1 times EBITDA. You know that's our target and has been for quite a while.

Alan Alanis: Okay. Thank you so much. Congrats again.

Carlos Orozco: Thank you.

Juan Gallardo: Thank you.

Operator: We'll go next to Fernando Ferreira with Bank of America Merrill Lynch.

Fernando Ferreira: Good afternoon. Thanks for taking my questions. I had a couple of questions. The first one; what in your view drove—what was the most important factor behind the margin expansion this quarter? Was it improving the water jug business, or some specific reduction in costs, or sales mix? I just wanted to understand your perspective a little bit more and if you could also comment on what do you make up of the comments from your competitors that the price gap between Pepsi and Coca-Cola now is the widest that it's—it has every been? Thank you.

Carlos Orozco: Okay. Hello, Fernando. Well, first of all, margin expansion I would like to summarize basically to two different concepts. First of all, basically all of the key raw materials are down from what we saw last year, and I'm talking about fructose, sugar, resin, and labeling. Together with that, obviously we have a significant volume pickup that helps us dilute much more of our unit costs, so that's the key driver of marketing expansion up to now besides what we have just mentioned about prices.

Now, to your second question, well basically what I would like to reaffirm is if you see our numbers with respect to price increases, well, you know, I think it's an isolated event. Again, that was mentioned, and

I'm sure there are isolated events in both ways. So, what I can tell you is that we are very focused on having a price pickup in line with inflation. We will be very rational on pricing as we go forward, basically in all of our channels, and we're very focused on having all of our channels being profitable.

Fernando Ferreira: Thank you, Carlos. And then, I had a question on your guidance for volumes is to maintain the high single-digit guidance, right, for volumes, but in the first half of the year you grew less than 4%, right, so you're probably expecting a major pickup in the second half of the year. So, what's—what makes you confident that you'll see that big expansion in the second half of the year?

Carlos Orozco: So basically, you know, we cannot take the eye off of the first half of the year being quite challenging, and we're not expecting the second half to be as challenging as this was. In fact, you know, the start of the second half, or the third quarter, has been promising. The insights on that were—that they gave me was of the month, so yes, indeed, we're expecting much more volume pickup in the second half of the year and that we keep our guidance throughout the year.

Juan Gallardo: Let me, if I may, I'd like to add, Fernando—this is Juan Gallardo. There is also outside elements, which I'm sure you're well aware of and all are. There were a number of items that—in the change of government that made the economy slow down somewhat; the investments made by government, the mood, the election. A lot of effects on consumer mood, I would say, have occurred during especially the second quarter as we sort of geared up for the election process, and so on, and the structural reforms, and everything you're all, you know, familiar with. I think those concerns are mostly behind us right now and the mood change, of course, tied into the further structure changing of the different reforms that we're talking of, taxes and energy, and otherwise, I think are going to generate further enthusiasm and confidence in the economy in general, and I think we're seeing that happen in several indicators already, and that's one of the things also that makes us more confident toward the second semester.

I would also add that we continue to roll out and execute a number of initiatives that have been clearly spelled out for us—spelled out by our teams during this period and we, you know, will not hold back on anything that we need to do. A lot of the investments that we did in many of these areas, especially marketing and otherwise, we're barely beginning to see the fruits of right now. So, I think that all in all, we can, without, you know, being overly optimistic, I think the fact of the matter is that we should expect the second half of the year is very much in line with what the guidance we've talked about, you know.

Fernando Ferreira: Perfect. Thank you very much. And, if I may, just a follow-up to one of Alan's questions on cash flows. This increasing working capital, was it related to GAM or GEPP, or both businesses increased their working capital needs this quarter?

Carlos Orozco: It's both businesses, Fernando. You know the beverage side, as you see it, there's an important inventory pickup which, by the way, it's in line with the volume growth that we have been observing and on the sugar side, well this is the time of the year when we have our harvest ended and we have the highest part of our inventory. So, again, that should be sold throughout the second half of the year, but it's basically in both of our businesses.

Fernando Ferreira: Okay, great. Thank you.

Operator: And, we'll go next to Karla Miranda with GBM

Karla Miranda: Hi. Good afternoon, everyone, and thank you for the call. Hi, Juan. Hi, Carlos. I had two questions. One is a follow-on on the pricing and during the past couple of quarters the improvement in pricing came mainly on the back of a better mix and a healthier product mix. Can you tell us how much is this quarter coming from price increases and how much is coming from a healthier mix? And, in addition, I was wondering if you can give us some color on how the—your recently launched product with Jumex is performing in the market? Thank you.

Carlos Orozco: Thank you, Karla. I will start answering your second question. Well, the performance of Jumex products up to now has been according to our plan, so we're very happy with that, and with respect to pricing, you know it's quite balanced on the both—on both mix that you mentioned. Our product mix is changing as you can see, so we do have the benefits of that. It's difficult to quantify at this point in time how much it is, but we continue to adjust prices where we see opportunity to adjust them, and we will continue to do that in—you know, in the different channels and presentations that we participate in.

Karla Miranda: Great. Thank you, Carlos. And, going back to the Jumex question, what is the strategy going forward on developing more non-CSB categories?

Carlos Orozco: I couldn't hear you on the second part of your question. You got a little bit cut off. Could you please repeat?

Karla Miranda: Yes, of course, Carlos. I was wondering if you could share with us the strategy going forward in order to develop more non-carbonated soft drinks products?

Carlos Orozco: Well, as you know, our non-carbonated portfolio is pretty strong, so we have presence—we are present in many of the categories, so we will continue to try to balance that out and we do expect significant growth from non-carbonated going forward as we continue to penetrate both traditional and modern trade routes.

Karla Miranda: Okay, great. Thank you very much and congratulations on your results.

Juan Gallardo: Thank you.

Operator: And, we'll go next to Alex Robarts of Citi.

Alex Robarts: Thanks. Hi, everybody. You know, just two questions. I mean clearly, first of all on the Jug volume, it seems quite impressive this growth, the 6.5% in the second quarter for volumes, and I think you're referring to—in the press release you talked about above industry average, but it wasn't quite clear whether it was jug or the soft drinks. So, if you could confirm like—I mean, it sounds like 6.5% was indeed above the industry growth. If you could kind of give us a sense, you know nationally, you know what was jug volume growth in the second quarter and where you might—assuming that you did grow above that number, where do you see yourself sourcing market share? Do you feel like some is coming from the Red system, some from the non-Red system, so to speak? Do you also see any kind of differences in geographies, kind of North, South, where that share could be sourced? And, to the extent that, you know, we have a direct home delivery concept here, have you developed that and is that something that's helping your very strong growth? So, that's the first question around the jug.

Secondly, you know we're coming into the end of the year and there's a lot of tax reform ideas swirling around, and I appreciate there's not a lot of visibility here, but it'd be interesting to hear any thoughts that you have at this juncture about whether this notion of a kind of a special tax, you know, beyond softs, that the current VAT on soft drinks is likely, or not, and to the extent that there—you know, we've heard some discussions about a tax on non-carbs, as well. Any thoughts about that would also be helpful. Thanks very much.

Carlos Orozco: Thank you, Alex. That was a long question. I hope I don't miss any of your points. Starting with jug volume increase and these are increases more than 6% and basically that is the result of increasing the different routes that we are basically launching throughout the country. When we mentioned growth above industry average, well, by now, I mean, you can see the growth on those known companies and you can see that our growth is a bit ahead of that, so overall I think our growth is above industry average in basically two categories that we segment our business into, but I can tell you about the way that the growth in the jug water business is developing. It's basically across the board. There is no focus on any region in particular. Obviously you know in Mexico the regions are quite centered population wise in certain parts of the country, so that drives high growth in certain areas, but as far as the way that we follow our growth is basically across the board geographically and across the board with the two different brands we participate. We have continued to readjust the jug water brand (inaudible) basically eliminating local brands and launching our own national brand.

With respect to direct-to-home, again, you know, yes, we are increasing that. As you know, we have always been very successful in the direct-to-home model and we were leveraging on that. There are some additional product initiatives. I wouldn't like to comment at this point on them, but basically the result is just having additional points of sales and recurrence with the same type.

And, I will leave the tax question to Mr. Gallardo.

Juan Gallardo: I think that you all are—you've heard a lot about what the tax reform may be. I think that mostly the tax reform seeks to broaden the base of contributors, simplify how people pay their taxes, there'll be more people paying in the competitive space and allows for something that gives a steady income to the government as it releases slowly, but hopefully shortly, its hold on the oil income. So, that's the overall strategy. I'm sure you've all heard that very—many times. The actual details of this, I don't think there's any one of us who hasn't tried to get a better sense of what it's going to be and when it's going to be. The principles are those that I just mentioned. I do not think that the—a personal opinion and I think—and I frankly believe that that'll be the case. I do not believe there will be a direct tax on beverages simply because it's a penalizing tax to—for a consumption within the country where the beverages are a part and parcel of the natural diet of the people and where it would be, I think, certainly something that would not be in any way—would be, I think, very punitive literally, nationally. So, I don't believe that that tax will occur, but I do believe that there will be other tax effects across the board for all the industry that we will all have to be able to deal with it and be competitive with.

Alex Robarts: Okay, thank you.

Operator: And, we'll go next to Jose Maria Flores of Ve Por Mas.

Jose Maria Flores: Yes, good morning, everyone. Juan and Carlos, congratulations on a good quarter and especially on much, higher operating margins. My question is, where we can expect continued improvement in the margins and where we will see it? Thank you.

Carlos Orozco: Hello, Jose Maria. You got a little bit cut off, but if it's my understanding, you want to see where should we expect margin improvement to come from.

Jose Maria Flores: Yes.

Carlos Orozco: Basically it's three different sources where we see our margin expansion coming out. First of all, the synergies that we continue to capture and we still have a way to go in that sense this year and the next year. Obviously there will be additional operating efficiencies that we may capture and that will contribute to the margin expansion, as well.

Secondly, as we continue to be able to grow prices and, you know hopefully we can have a little bit of inroads above inflation, that will also contribute to margin expansion.

And lastly, the operating leverage that comes with the additional sustained volume growth will also continue to dilute fixed and unit costs going forward.

Jose Maria Flores: Thank you very much.

Operator: We'll go next to Herminio Padruno with GBM.

Herminio Padruno: Hi. Good afternoon, Juan, Carlos. Congratulations on the quarter results. I have two quick questions, if I may. My first question would be related to taxes. I was wondering if you could give us more color of what would your effective tax rate would be for this year and for the next one, and if you could comment on any fiscal losses you have you could amortize going forward? That would be my first question. And, the second one would be regarding accounts receivable, and my question is, if this level of receivables could be considered as a new normal for the Company? Those would be them. Thank you very much.

Carlos Orozco: Thank you, Herminio. On your first question with respect to taxes, currently our effective tax rate—and, by that I mean the—you know, our cash flow rate with respect to the results that we're seeing in this year is around 28% on that consolidated basis. We expect that to stay in that level going into next year. Basically yes, if we are offsetting old some tax losses carried forward in both businesses. It's not material at this point, but we continue to offset them into 2014.

Now, with respect to your accounts receivable questions, yes, they have gone up when we do a competitive—comparative analysis, but it's worth mentioning that if you see them by date of collection, there is no pickup. We continue to—we monitor very closely our cash cycles and we have been maintaining around 20 something days in this year and it's in line with what we have seen last year.

Next year, you know, we'll see the competitive environment and if there's an opportunity to optimize working capital in that sense, we will do so.

Herminio Padruno: Perfect. Thank you very much. Congratulations again.

Carlos Orozco: Yes, thank you.

Operator: We'll go next to Armando Perez with Credit Suisse.

Armando Perez: Good afternoon Juan, Carlos, and thanks for the call, and congratulations on your results. I have two questions, if I may, and the first one; I was wondering if you could give us more color in which channels did you grow more than competition and what were your strategies? I think you said that in your water you're growing above and I just wanted to know what is happening in the other products. Are there more points of sales, more or its direct-to-home? And, the second question is; would you give us a breakdown of your improvement in gross margin in Cultiba and perhaps already how much came from lower commodities and how much came from synergies? Thanks.

Carlos Orozco: Thank you, Armando. Well, on your first question of how we are growing the channels, I don't want to sound blase, but we're growing across the board. I mean, the focus and the strategy of the Company is to grow across the board in channels and across the board geographically. As we saw the economy contract a bit, yes we did see this first half a little bit more growth in the traditional trade. I could not anticipate if that's going to continue to be that way, no.

Now, with respect to gross margin and knowing where the benefit is coming from, either synergies or basically the—you know, the lower raw material costs, so basically we have seen the price of all of our raw materials down from last year between 10 and 20%, so that's a significant improvement and we have the intention of keeping that under our belt going forward. Synergies, we are according to plan, so today, you know, of the 900 million, we have a little bit more than half of that already reflected in the numbers and that's where you start to see the unit costs come down. So, for now, what I can tell you is that it's really coming from both ends. I couldn't be specific on how much exactly, as a percentage, comes from both, but what's important is that both of the initiatives are performing according to the plans that we have called for this year.

Juan Gallardo: Okay, and if I may add just on the raw materials side, if you look at resin and you look at sweeteners, I think that—which are two very important ingredients, I don't think we will be expecting any significant increases in those costs in the months to come. We'll see further out, but right now—so that cost structure pretty much is in place.

Armando Perez: Okay, thanks.

Operator: As a reminder to our phone audience, if you have a question on today's call, that is star, one. And, we'll go next to Mauricio Sanchez of GPM Equity Funds.

Mauricio Sanchez: Good morning—well, good afternoon, gentlemen, actually. I had a question on the distributor side of the business. According to my numbers, during the first quarter of the year you saw a 50% decline in the EBITDA of GAM, which is—really contrasts with the results we've seen this quarter for you. You roughly see a 30% increase in EBITDA, so I was wondering what's the reason behind this and if you could give us more color on that? Thank you.

Carlos Orozco: Overall, you know, sugar prices for this year when we compared them to last year and depending on the segment, are down 30 to 40%, so our EBITDA has, on an accumulated basis, been adjusted in that. And, however, it's very important for you to keep in mind is that, despite lower prices, you know current regulations basically reduces the cost of sugar cane, as we recently announced, and reflects in the cost of sugar cane current market conditions. So, that way our margin is somehow preserved and that's what we are seeing this year that we continue to be a contributor. Now, if you compared this quarter to the last one, that's—it may be a biased comparison, that our volumes throughout the different years varied depending on how those exports are categorized throughout the year, so I wouldn't take this to be significant for you to see or estimate what the cost of the sugar difference was from one quarter to another, but basically to see it as an accumulated business.

Mauricio Sanchez: Okay. So the—this—you're referring to the number five contract, right, which was re-established during the second quarter of the year. Is that correct?

Carlos Orozco: No, I'm not referring to the number five contract. We do not operate under the number five contract. We're basically operate our sugar under NAFTA and that's basically a bit related to contract number 16 in the U.S., which is reflective of the raw sugar market in the U.S. and so that somehow gets translated into prices in Mexico, as well.

Mauricio Sanchez: Okay, thank you for that.

Operator: It appears there are no further questions. Mr. Gallardo, I'd like to turn the conference back over to you for any additional or closing remarks.

Juan Gallardo: Thank you very much. Just in conclusion here, you can see we are really are truly very privileged to participate in what is a large, diverse, growing, resilient market; a market you all know very well. We are working closely with our competitors also to clearly establish that, with relation to the health and lifestyle issues that have been raised, we as an industry are clearly part of the solution and not part of the problem. You will be hearing more about this in the weeks to come as a very well thought out committed campaign to—that has to do with exercise, and lifestyle, and so on. It has high industry support, and products will be coming out in terms of—all over the country and it's the same basis. I just wanted to give you a heads up on that because we do believe it's very important that this industry, which plays such a significant role in the economy of our country and many, many regions, and when you think of it through its total supply base, it affects literally the lives of millions, should be held in the proper esteem and in that sense, we will make sure that that message comes across and we're doing so with all of our—as an industry and with all of our competitors.

Once again, I just want to thank you for support and your trust and, as we continue together, this exciting path that we're involved in. This would conclude our remarks today. Thank you all, again.

Operator: That does conclude today's call. We thank you for your participation.

ABOUT CULTIBA

Organización Cultiba, S.A.B. de C.V. is a holding company with a majority interest in one of Mexico's largest bottlers of soft drinks and jug water, and the exclusive bottler of PepsiCo beverage products in Mexico. Carbonated, non-carbonated soft drinks and jug water are marketed under its own brands as well as third party brands. Its beverages division has 44 bottling facilities in Mexico and is the only bottler with nationwide distribution. As a holding company, Cultiba also owns and operates 3 sugar mills and has a 49% interest in a fourth one in the western region of Mexico. The Company is listed on the Bolsa Mexicana de Valores, where it trades under the symbol CULTIBAB. For more information, please visit www.cultiba.mx.

FORWARD LOOKING STATEMENTS

This press release may contain forward-looking statements. All statements other than statements of historical fact included in this press release, including, without limitation, those regarding our prospective financial position, business strategy, management plans and objectives, future operations and synergies are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to be materially different from those expressed or implied by these forward-looking statements. These forward-looking statements are based on numerous assumptions regarding present and future business operations and strategies and the environment in which the Company expects to operate in the future. Forward-looking statements speak only as of the date of this press release and the Company expressly disclaims any obligation or undertaking to release any update of or revisions to any forward-looking statements in this press release, any change in expectations or any change in events, conditions or circumstances on which these forward-looking statements are based.

Investor Contacts

Mexico
Organización Cultiba
Diana González, Investor Relations
011-52 (55)-5201-1947
dgonzalez@gamsa.com.mx

United States
Breakstone Group
Kalle Ahl / Kathleen Heaney
646-452-2330 / 646-912-3844
kahl@breakstone-group.com
kheaney@breakstone-group.com