TRANSCRIPT

CULTIBA

Fourth 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

Sambuddah Ray – JP Morgan
Antonio Gonzalez – Credit Suisse
Armando Perez – Credit Suisse
Karla Miranda – GBM
Isabella Simonato – BAML
James Watson – HSBC
Mauricio Santos – GBM Equity Funds

Operator: Good morning and welcome to Cultiba's Fiscal Fourth Quarter 2013 Earnings conference call. Today's call is being recorded. At this time, I'd like to turn the conference over to Ms. Kathleen Heaney from Breakstone Group. Please proceed.

Kathleen Heaney: Thank you and good morning, everyone. Cultiba's fourth quarter 2013 financial results were released on Friday after the market close. A copy of the earnings release can be found on the Company's website at www.cultiba.mx.

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 plan. 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, February 3rd, 2014. You should not place undue reliance on these forward-looking statements and we do not take any duty to update forward-looking statements, whether as a result of new information, future events or otherwise.

Presenting on the call this morning 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 fourth quarter and full year financial results, and then Mr. Gallardo will have some closing comments before we open the call for your questions.

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

Juan Gallardo: Thank you, Kathleen. Good morning, everyone, and thank you all for joining us, particularly our Mexican colleagues, as today is a holiday. Before touching on our fourth quarter highlights, I would like to begin with a recap of Cultiba's performance in 2013, a year in which we achieved a number of key organizational, financial and market accomplishments. There were, as you are all well familiarized with, macroeconomic and weather challenges but we worked our way through them.

In 2013, we enhanced the consumer appeal of our portfolio, renewed price package architecture and achieved synergies according to our original plan. These accomplishments drove our above industry average growth and confirmed the merits of our strong business model to ensure continued margin expansion and our flexibility to adapt to changing market dynamics moving forward.

Strengthening our balance sheet was a key goal. We started the year on a positive note with our successful public equity offering, which significantly strengthened our balance sheet and enhanced our profile among members of the international investment community.

Then throughout the year, we completed a number of bank and debt transactions, restructuring the debt at both the subsidiary and holding company levels. Of note, we placed a 1.4 billion long-term debt certificate in the local Mexican market with an AA rating which will be amortized in a five-year bullet payment. Proceeds were used to refinance amortizing existing debt and further enhancing our financial profile and significantly reducing our costs.

We made steady progress capturing synergies, which was reflected in improved margins, effectively integrating and streamlining the three bottling organizations that make up our nationwide beverage business. Also as a result of this integration, our increased purchasing power has fueled significant efficiencies in raw materials costs. I am pleased to report that by year end, we have captured, as planned, 50% of the 900 million pesos of originally identified synergies, with more still to come.

Through these synergies, we have set the basis for a sustained, efficient operation at the beverage division.

In addition to streamlining our corporate cost structure and organizational processes to eliminate redundancies, we optimized our manufacturing capacity, while achieving significant production efficiencies. As an example, during 2013, we closed our largest plant without losing a single bottle of production by redeploying our production capacity – no easy task.

Going forward, projects such as shared service center, the streamlined administrative costs, in addition to several initiatives in raw material savings, are some examples of the types of initiatives that we will pursue to continue delivering the margin expansion we have done to date.

Portfolio progress. We successfully realigned our product portfolio to focus on strong brands with national relevance. Early in the year, we launched Jarritos, a multi-flavor carbonated drink, and established our presence in the juice drink category with Jumex Fresh brand. In a very timely manner, today, E-pura, our own bottled brand, has become a national brand, present in both the jug and bottled water business segments and is now very well positioned to continue delivering growth. Meanwhile, we implemented a full innovation agenda, including new presentations and packaging in support of several soft drink brands. We also leveraged our nationwide distribution network to advance product sales, including core brands and penetration in the very important traditional channel. Finally, we continued to grow our jug water business, adding new direct-to-home distribution routes and increasing client coverage. Above industry growth is simply a reflection of all these initiatives.

There were some challenges, as you are well aware. Economic growth and consumer spending last year came in below expectations, unusually adverse weather took a toll on industry volumes in the third quarter and the implementation of the excise tax for beverages in the fourth quarter created a strong, strong industry headwind. In a timely way, we have prepared for its impact on two fronts. Number one, innovative price packaging and architecture is now fully in place. In particular, our E-pura brand consolidation in jug and bottled water continues showing very good performance and market acceptance. As you will recall, water has always been a very, very important part of our volume mix and a relevant source of growth for our Company.

Additionally, for bottled beverages, we continue focusing on portfolio innovation through non-caloric alternatives and sweetener reformulation in order to provide product choices that appeal to the new needs that might emerge from the changing consumer behavior.

Importantly, beyond the numbers, we have created a unified corporate culture that encourages innovation and teamwork from our people. Our biggest strength is our people. They are unified, they are knowledgeable and they are committed.

Before I turn it over to Carlos, I will briefly touch on our fourth quarter and full year financial highlights. We concluded 2013 as we started it, outperforming the industry with 2.4% volume growth in the fourth quarter, while registering a significant increase in our EBITDA margin to 7.3% from the corresponding figure of 2.3% in the fourth quarter of 2012. As a result, year-over-year EBITDA almost tripled in this quarter.

For the full year as a result of the initiatives I just discussed and despite the challenges later in the year, we grew our overall case volume by 3.1%, above the industry average performance. We achieved higher revenue per case and lowered our cost structure, significantly lowered our cost structure. In turn, our EBITDA margin expanded from 7.5% to 9.1%, resulting in a year-over-year EBITDA growth of 160 basis points.

We have now passed along close to 13% overall price impact in our portfolio. We started with some presentations in mid-December, and as of today, our entire portfolio has been revised.

Going forward, we believe it is still too early to anticipate both how fast the Mexican economy will recover its growth and within the beverage industry, it is also early to predict the speed at which consumers in Mexico will absorb price increases derived from the excise tax. Nevertheless, by the end of the first quarter, we should have a much better grasp of volume trends for the year.

With that, I will now turn it over to Carlos, who will discuss Cultiba's fourth quarter and full year results in much more detail. Thank you. Carlos.

Carlos Orozco: Thank you, Mr. Gallardo, and thank you all for joining us this morning. As Mr. Gallardo already stated, we are executing our original strategy of delivering above industry growth and capturing synergies. Margin improvement has continued in both the beverages division and on a consolidated basis. As mentioned, our balance sheet has been strengthened with recent debt restructurings, both at the holding company and at the subsidiaries.

Cultiba's total revenue grew by 3.8% in the fourth quarter of 2013, driven mainly by beverage revenue growth of 3.8% as a result of year-over-year increases in bottled beverages and jug water volume, in addition to higher unit prices. The revenue per eight-ounce case increased by 1.3% to 19.7 pesos in the fourth quarter from 19.4 pesos in the same period last year. Similar to the past quarter, the primary driver for this increase was bottled beverages, with an average price increase of 4% as we continued to find pricing opportunities across our portfolio.

Our total beverage volume increased 2.4% in the quarter to 384 million cases, up from 375 million cases in the same period of 2012. Bottled beverages and water were the primary drivers, with case volume sales up 2.6% in the quarter. Jug water sales also contributed, with volume growth of 2.2%.

Moving on to costs and expenses. Consolidated cost of goods sold, which mainly includes product raw materials and labor, decreased 8.2% in the quarter due to synergies achieved in the beverages operations and continued efficiencies in the sugar division. As a result, our gross margin in the quarter increased to 40.5% from 32.7% in the same period of 2012. Our unit costs per case were 12.4% lower than in the fourth quarter of 2012. When combined with improved pricing, we reported a 30.3% year-over-year increase in gross profit per case.

Our total SG&A expense was 3.3 billion pesos in the fourth quarter of 2013, up from 2.8 billion pesos in the same period of 2012. SG&A as a percent of revenue increased to 41.7% in the quarter, primarily due to channel focused marketing and new routes deployment that contemplated higher volumes than the ones achieved throughout the quarter. Despite lower volumes and in line with our focused portfolio strategy, these expenses contributed to core brands repositioning in several channels and should continue to do so moving forward.

Our consolidated adjusted EBITDA in the quarter more than doubled to 577 million pesos compared to 178 million pesos in the same period of 2012. Our consolidated EBITDA margin in the fourth quarter was 7.3%, up from 2.3% in the same period of 2012. As we continue to track synergies and improve operating leverage throughout the businesses, we expect further margin improvement. During the fourth quarter of 2013, our beverages division incurred one-time expenses associated with modern trade rationalization and manufacturing footprint optimization as part of a plan to increase production efficiencies without losing capacity, as Mr. Gallardo mentioned earlier. Adjusted for these one-time expenses of 101 million pesos, the beverages division EBITDA was 637 million pesos. It is worth mentioning that margin expansion was 370 basis points, driving EBITDA margin as a percentage of revenues to 8.4%, up from 4.7% in the comparable period of 2012, again, this in the beverage division.

Now let me talk about the business segments. First, in the beverages business, synergies are driving improvements in operating income and EBITDA. Channel-specific SG&A expenses, including marketing and route to market initiatives, however, were planned for higher volumes than the ones achieved, resulting in lower operating margins than expected. Bear in mind that the additional SG&A has provided the Company with an incremental brand presence of its products and portfolio. On top of this, we were still able to deliver strong margin expansion of 240 basis points, with adjusted EBITDA growth of 84.5% to 637 million pesos during the quarter. The real impact of additional fiscal reforms in time will be determined once secondary regulation is communicated by the tax authorities.

The fourth quarter is typically a not significant quarter for the sugar division. This year, however, we did hold back some inventory to pursue higher than spot market prices in 2014.

Our financing cost in the fourth quarter of 2013 was a net expense of 72 million pesos compared to a net expense of 52 million pesos in the same period last year. After Cultiba's recent refinancing activities, cash interest payments during the fourth quarter of 2013 were 44% lower compared to the same period of 2012.

During the quarter, our beverages division net income had a non-cash expense of 372 million pesos associated with fiscal reforms on consolidation and IETU elimination. Adjusted for this impact, net income was 161 million pesos during the quarter, increasing more than five times compared to the same period of 2012. Finally, we reported an accounting loss of 322 million pesos in the fourth quarter of 2013. Net profit adjusted for tax non-cash charges was 50 million pesos compared to a net loss of 179 million pesos in the same period of last year.

Now let me walk you through some of our full year 2013 results. In 2013, our soft drink and bottled water volume was up 3.1%. Despite the deceleration in Mexico's GDP growth, weakened consumer spending and the unprecedented rainy weather in the third quarter, we delivered above industry growth in our beverages business. Consolidated revenue in 2013 grew by 4.6%, driven mainly by beverage revenue growth of 5% as a result of higher beverage volumes and improved pricing. Our sugar division was impacted in the first half of the year by significantly lower pricing, both domestically and abroad. Consolidated adjusted EBITDA in 2013 increased 26.6% to approximately 3 billion pesos compared to 2.4 billion pesos in the same period last year. We had a margin expansion of 160 basis points in 2013 EBITDA margin compared to 2012.

Our sugar division continues to be a positive contributor to consolidated EBITDA margin, even in this year of lower prices and higher exports. For 2013, our sugar division contributed more than 100 basis points to our consolidated EBITDA.

Adjusted for one-time expenses of 101 million pesos incurred during 2013, EBITDA from beverage operations reached 2.7 billion pesos, up from 2 billion pesos in 2012. EBITDA margins expanded by 240 basis points through 2013, reaching 8.6% of revenues.

Financing costs in 2013 were a net expense of 405 million pesos compared to a net expense of 137 million pesos in 2012. As a reminder, the increase in the financing cost this year was primarily a result of not having the non-cash benefit of close to 210 million pesos in foreign exchange gains that we had in 2012, when we had a 190 million of dollar-denominated debt and the Mexican peso revaluated approximately 7% against the dollar.

Throughout the year, we had lower cash interest payments as a result of a stronger capital structure in the Company. Net income for the Company was 239 million pesos versus net income of 649 million pesos in 2012. Remember that net income in 2013 had a non-cash charge of 372 million pesos from recently issued fiscal reforms in Mexico. Adjusted for this impact, 2013 net income was 611 million pesos, which reflects a more than doubling from 2012 in our beverages division net income.

Moving to the balance sheet and cash flow, during the fourth quarter of 2013, we completed the placement of 1.4 billion pesos of debt certificates in the local market. The placement was part of our revolving program for the total authorized amount of 2 billion pesos. These certificates are a bullet payment in five years, with a yield of 89 basis points over TIIE. The proceeds were used to refinance existing debt and improve our debt profile significantly.

The beverages division also restructured its long-term debt, renegotiating terms to achieve a 200 basis point reduction in its weighted cost of debt. Also, by the end of the year and utilizing its strong balance sheet position, our beverages division advanced raw material purchases to capture attractive volume and pre-ordering discounts that will contribute to cost efficiencies in 2014. These purchases were financed through a bank loan of 2.75 million pesos. Adjusting for this loan, Cultiba's net debt as of December 2013 was 3.5 billion pesos, which implies a net debt to EBITDA ratio of 1.2 times compared to 2.5 times at year end 2012.

Capital expenditures were approximately 2.8 billion pesos in 2013. Funds were expended on continued synergy achievement initiatives, increasing and strengthening the beverage distribution network through additional coolers, refurbished trucks and expanded routes. Funds were also deployed to increase production capacity, relocate plants and incorporate new processes required for innovations in our portfolio. In conclusion, our financial position continues to improve, providing us with the necessary funds to support our operations.

Before we open up the call for questions, I am going to turn the call back to Mr. Gallardo.

Juan Gallardo: Gracias Carlos. Our new price packaging and portfolio innovation initiatives are now much more relevant to ensure competitiveness in the new market environment. Although I cannot go into all of the specific details at this time for obvious competitive reasons, we plan to maintain the original strategy we have already laid out for you, as we believe it is the right one to drive longer-term growth for our business. Our strategy continues to focus on price packaging architecture, ensuring that the array of products and presentations that we take to market balances both affordability for consumers and profitability for our beverages division. Rest assured that we are using this early time in the year to fully understand how consumers, companies and distribution channels react and adapt accordingly to this new environment.

We have set in place strong fundamentals, very strong fundamentals in a timely manner. You are well aware of our history. We are not strangers to challenges. Today, our industry is facing a new one which I am sure we will weather successfully, strongly banking on future growth. Thank you all for your long-term support.

Kathleen Heaney: Operator, we're ready for questions.

Operator: Thank you, and if anyone on the line would like to signal for a question at this time, please press the star key, followed by the digit one. Once again, that is star, one to signal. Please be sure that your mute function is off to allow your signal to reach our equipment. We'll pause just a moment to assemble our roster.

And we'll take our first question from Antonio Gonzalez with Credit Suisse.

Antonio Gonzalez: Hi. Good morning, Juan and Carlos. Thanks for taking my question. I have two questions, if I may. The first one is on your view or your prospects for the profitability of the beverages business or the consolidated company for 2014. Is there any guidance that you can share at this point with respect to the expected EBITDA margin or EBITDA growth that you foresee for 2014? I understand that, obviously, the volume outlook has changed significantly given the excise tax implementation, but then on the other hand, you still have 50% of the synergies to be captured. So could you probably give us—if you have a number that you can give us with respect to the profitability that you're expecting for 2014, and also just qualitatively maybe tell us how these—how different parts are moving maybe in terms of, again, A, synergies; B, the potential impact on profitability that the excise tax could have; and C, any additional ways of finding cost savings in light of this excise tax implementation. Thank you so much.

Carlos Orozco: Morning, Antonio. Well, as you may imagine, it's very difficult at this point in time to give out that number; however, you are right in the sense that we have been achieving synergies and there is still possible to achieve additional synergies on top of the 900 million that we have already planned. So we've taken a lot of steps in order to achieve those synergies. There is a transaction that we just mentioned in which we were able to purchase our key raw materials for almost—a little bit more than the first quarter of next year at a significant discount, so we should see some additional margin coming out of that and out of synergies. As you mention, volume will play a key role and I would say that, at this point in time, it's too early to anticipate any trends that could point out to volume. So we will be very watchful of how these trends evolve, but what you can be sure is that what is on our control, which is all the cost structure, we not only have already done what we had to do to have the right cost structure in place but we will be actively seeking additional opportunities as they come by.

Juan Gallardo: Antonio, if I may just add to what Carlos just said. Right now, I think it's very important, it's only 30 days into the excise tax and you look all around the country and you have enormous distortion still and changes in motion in terms of price structure and volumes, so it would be a big mistake to try to read into that anything of any real permanence at this point. I think we are—we've rolled out everything we had to roll out, but we certainly are prepared to make any corrections along the way as these market conditions become more and more clear to all of us during the quarter. As I mentioned earlier, Antonio, I think that within the first quarter, we should have a better grasp of how it's going to look towards the end of the year, and we will certainly share that with you as soon as we have it.

Antonio Gonzalez: Okay, thanks. Just a quick follow-up and then a separate question. On this issue about synergies, could you help us probably quantify a little bit of the kind of three big buckets that you had established, which I think were manufacturing and logistics, organizational synergies and procurement. Do you think the 450 that is left to capture, is it more skewed towards any one of these three particular buckets? And then just finally, can you just clarify, please, what's the origin of the non-cash tax charges that you needed to recognize in the quarter, and whether you expect anything else during 2014?

Carlos Orozco: Sure. Well, the first part of your question with respect to synergies, the 900 million that we had laid out at the beginning of the year, we have already reached 50% of that, as mentioned. The other 50% we feel confident that we will achieve in 2014. Most of it comes now from logistics and management. In fact, in January, we already took the steps necessary to adjust our workforce at one of the biggest plants without losing any single bottle of capacity, and also, we made adjustments at the corporate offices – close to 20% of the workforce there has been adjusted – all this in an efficient manner and in order to gain the synergies. It's not that we're retrenching at any point, but we feel comfortable that we will be able to capture this remaining 50% of synergies, as I mentioned. The closure of the plant that I mentioned will bring a lot of benefits related to freight and rent, which we expect to be on top of the synergies already expected. Now at this point in time, it is difficult to lay out the numbers. There will be additional synergies but we will be very focused on capturing them if they are.

Now with respect to the non-cash tax charges, let me talk about—there are two charges I would like to mention. First of all, if you see our net income, it's impacted by 372 million pesos in the quarter. This is recognizing a deferred tax and the elimination of IETU, which was not incorporated in the books. Now, it is very important for us all to understand why we consider it at this point a non-cash event. As you know, with deconsolidation for tax purposes in Mexico, what you had as a deferred tax today becomes an operating loss going forward for tax purposes, so there is yet—there hasn't been—the secondary regulation has not been published yet. We have to wait and see the different avenues that we have in order to amortize our tax losses carry forward going into the future, so it will be a function of the profits we have going forward. There are different strategies. There could be between five and 10 years to amortize those deferred taxes, but again, please do not lose sight that what was in the past a liability in our books is, today, an asset, and as we are able to use that asset going forward, we may be able to avoid any incremental tax impact that we could have in the future. However, at this point in time, there was a piece that we had to recognize in our books and that you see impacting our net income without being an outflow of cash flow for the Company at this point in time.

Antonio Gonzalez: Perfect. Thank you so much. I guess I'll follow up on that tax question offline, but thanks so much for your answers.

Operator: Next we go to Karla Miranda with GBM.

Karla Miranda: Hi, good morning, everyone. Thank you for taking my question. Juan, Carlos, I had a couple of questions. First of all, I had a follow-on on the tax question. I just wanted to know if you could give us some color regarding the tax rate for the year for 2014, with all the changes that we are going to see coming from the fiscal reform? Then I wanted to know if you could tell us how many routes—with how many routes for home delivery did you close a year? And if you can give us your estimated market share for the beverage division at the close of the year? Thank you.

Carlos Orozco: Well, with respect to tax rate, Karla, as you know – and this is a reality for all of the companies in Mexico with the tax reform – there's a lot of deductions, many of them associated with labor cost, that are not in place anymore, so the effective tax rate for everyone should be adjusting. In our case, we're expecting our effective tax rate to be between 30 and 32% going forward. We are very, very diligent in trying to use as much efficiency as we can; however, well, that is a reality that we will have to face an incremental effective tax rate going forward.

Juan Gallardo: Karla, I'm glad you're on the call in spite of the fact that it is holiday in Mexico. On the question of market share —you know, we've been asked this question of market share virtually in every one of our conference calls, and our answer has always been the same. We really—we're more driven by our bottom line than we are by the market share. There's public information in terms of market share, which I'm sure you and your colleagues have, and I'd prefer not to comment on that, except to the extent that I think we are making, in different fronts, some progress in different ways.

In the other one, in the case of the new routes, let me just say, without giving you the number of new routes, that we are aggressively pursuing our distribution system, expanding our distribution system, and we have been doing so since the very beginning, and I think it's part of what allows us to be growing more than the market at this point, Karla.

Karla Miranda: Great. Thank you very much for your answers.

Operator: And we'll go next to Mauricio Santos with GBM Equity Funds.

Mauricio Santos: Good morning, gentlemen. Thanks for the call. I just wanted to get more insight on the increase in the SG&A. Are there any one-timers for the increase in this quarter, or are we—should we expect to see an increased level of SG&A going forward? Could you elaborate on that, please?

Carlos Orozco: Sure, Mauricio. Well, SG&A, you can see it in the marketplace, as we've been quite visible, so there's a lot of money flowing and that money is attached to programs that are not out there throughout the year. So the fact that we did not have the volume as expected, well it makes the percentage look higher than what we would have liked it to be. However, bear in mind that all this expense is out there in the marketplace and will help us with our volumes in the future, so it's not like something that is simply out there and disappears. It's out there in the market and will help us continue positioning our brands. We obviously have some one-timers. At this point in time, we have already mentioned 101 million pesos of one-timers that we have associated with the closure of a plant and also taking some charges in the modern trade in order to make all of our channels profitable. So in the future, we should be having one-timers as we continue to capture synergies and expand in capturing those synergies; however, we expect them to line up a little bit more than what we saw in the fourth quarter.

Juan Gallardo: Mauricio, let me add just to what Carlos just said right now because I think your question ties into a very key strategic question. We are banking on growth. We are investing for growth. We are deploying all of our capabilities for growth, and we believe strongly, that both the Mexican economy and our industry will continue to grow in the years to come, and that is not something which—about that you can sort of turn on and off at will. It's a key strategic decision which we are strongly investing in and will continue to invest in. When, as happened in the second quarter of last year, the growth is not commensurate with the actual investment that we made – and Carlos mentioned this – that does not mean that all of that went down the drain. Quite the contrary; it's all solid investment into the market, which will eventually translate itself into future growth. That is our strong belief and that is very key part of our whole strategic plan.

Mauricio Santos: Okay, thank you. And just, adding on that, is there any seasonality on the marketing expense you're doing since the increase was significant in the quarter; however, when you see the year-over-year—the whole year results, increase was not that much. So is there any seasonality of how does that work?

Juan Gallardo: Not so much seasonality. It has to do with the re-launching of the different brands that I was mentioning. For example...The whole Jumex launch, the launch, Jarritos launch and whole E-pura launch come attached with a whole marketing redeployment effort that coincides with a the launch. It's not so much hot and cold weather; it's the re-launch—it's these launches that we were talking about.

Mauricio Santos: Okay. Thank you very much.

Operator: And we'll go next to Isabella Simonato with Bank of America Merrill Lynch.

Isabella Simonato: Thank you for the call. Good afternoon, everyone. My question is related to the sugar business. I think we saw some big margins in this quarter given the seasonality, and also, we understand that you guys are exporting part of those sugar volumes in the international market. I want to understand for 2014 if that should continue, and what is the outlook for margins that you see for the year? Thank you.

Juan Gallardo: Yes, it's—yes, I'm sure you're aware and have seen, we significantly invested in the years before in our sugar business and its modernization, in the growth of our own cane, in the co-gen plant, et cetera. All of that gives us, for a commodity, a low, breakeven cost. That is fundamental. That's not something we could improvise right now, and that's something that's already in place. So in spite of the fact that we have to export, in spite of the fact that prices are lower, we continue to see for this year at least 100 basis points of contribution from our sugar segment into the overall business. And also, the sugar business has a strong balance sheet. The business fully transformed and modernized so it is and will continue to be a net contributor despite these fluctuations.

Isabella Simonato: Okay. Thank you.

Operator: And we'll go next to Sambuddha Ray with JP Morgan.

Sambuddha Ray: Hi, thank you very much. Good morning, everyone. Thanks for taking the question. We just have two questions, if we may, the first one on working capital trends and cap ex expectations in 2014. Could you give us a little bit more details on the advanced purchases you made and what you just mentioned in your prepared remarks, and on that same line, if you could just extend your views in terms of cash conversion cycle trends in 2014? And the second question is regarding dividends in 2014. Could you remind us your dividend policy and what should we expect this year? Thanks so much.

Carlos Orozco: Good morning, Sambuddha. Well, with respect to the advanced purchases, let me elaborate a little bit more on that because I think it was a very important move that the Company was able to make. First of all, we were able to leverage that operation, which talks about the strength of the balance sheet at the beverage company, and basically what we did is that we pre-ordered and prepaid our key raw materials, and by that I mean concentrate, high fructose, resin and sugar, which doesn't appear in the balance sheet because it's an intra-company operation, but we were able to gain some important discounts on top of the financial cost that this operation had for us. So we will be consuming these advances within the first four months of the year so you will be seeing our balance sheet deleverage in that sense and the benefits of those purchases reflected all in the first quarter and probably part of them in the second quarter, depending on how volumes evolve.

Now, with respect to cash conversion cycles, this year was very important, in particular at the beverage division. We were able to improve all the cycles for working capital. Basically, we were able to gain something—approximately 10 days with suppliers, and we have been able to collect in a much more timely fashion that we have been able in the past, so we should continue to see that trend being sustained.

Juan Gallardo: With regards to the dividend policy, as you are aware in the beverage side, we have, in our joint venture agreements with Pepsi-Co and Polar, the distribution of the 33% of net income on a yearly basis. We will, of course, continue to flow that through the holding company, and that should be our dividend policy moving forward.

Sambuddha Ray: Crystal clear. Thank you so much.

Operator: And as a reminder to our participants, if you'd like to signal, please press star, one at this time to ask a question. Again, it is star, one to signal for questions.

And we will go next to Armando Perez with Credit Suisse.

Armando Perez: Good morning, everyone. Thanks for the call, and I have just a few questions. The first one is regarding your pricing strategy in the fourth quarter. It seems you increased your prices in carbonated at least below inflation, so I just wanted to know what was the cost inflation for 2014? Are you increasing prices by only the excise taxes, or are you also adjusting for inflation? And the second one is just another tax question, I'm sorry, but I see a non-current tax liability of, like, 2.5 billion pesos, which I think you expensed from last quarter, so I just wanted to know if this is this because the tax reform changes, and is it amount we should expect you to defer in the next year in case you have to defer it? Thanks.

Carlos Orozco: Good morning, Armando. Well, with respect to the pricing strategy, bear in mind that when we make the price adjustments, it takes time for those prices to be finally reflected in the market, so in the fourth quarter, you really do not see a material impact of the price adjustments that we have made. Mr. Gallardo mentioned an average price across the portfolio was an increase of 13%. That's net of VAT, so that's the way that we will be communicating price increases.

Juan Gallardo: Let me add something here. What I think is very important here is that, as I mentioned earlier, the market is still in a state of flux, so whatever price increases we're doing at this point we're going to be watching very carefully, because, as again I mentioned, we need to balance attractiveness of our products with profitability, and we will be seeing that happen, literally week by week. So don't take this as something locked in cement—it's in a state of motion, so to speak. And also, I think that if you look at last year in terms of last year's achievement, basically, very simply put, we sold more and at a better price, and certainly that continues to be our target.

Carlos Orozco: Armando, and going back to your question with respect to taxes on the balance sheet, yes, there was a re-expression and we could continue that explanation offline if you wish, but basically, what I would like to remind is that deferred taxes now disappear and they become an asset. Now we are somehow using our deferred taxes as tax losses carry forward, so I would gladly have a follow-on conversation on the subject and how these have been, to date, reflected in the balance sheet and we're not expecting to make any additional charges on our balance sheet going forward.

Armando Perez: Okay, thanks, Juan and Carlos.

Operator: Again, star, one to signal. We have a question from James Watson with HSBC.

James Watson: Hi, good morning. Thank you for taking my question. I wanted to ask a little bit more about the strategy, just continuing on the same theme of pricing and, more importantly, packages with respect to the tax in Mexico this year. Do you guys have new packages, specific price points you're going for that you think will best meet the affordability needs of consumers? And also, do you see a switch, potentially, to a greater focus on bottled water versus soft drinks in 2014?

Juan Gallardo: Let me take the second one, James, first. This is Juan Gallardo. Yes, obviously, we see a switch of more towards bottled water, yes, and I think that part of—one of our strengths, which is water in general, is coming into play and it should come into play importantly throughout the year.

In terms of our packaging and pricing, again, it's—we have come up with new presentations. We have come up with new innovative structures. We are coming up with reformulations, and this is going on as we speak, and little by little, we'll get a better sense of what the consumer is expecting from us and where we will finally—where it'll finally play out. As you know – and this is, I think, is important – there was—at the same time, the excise tax on the beverage occurred, there was a tax on food. The tax on food had a percentage and it had a graduation in terms of caloric content. In our case, it's all or nothing, so it changes the dynamics of what we can present to the consumer and just creates that much more of a challenge. But yes, the answer to your question is, yes, we have new packaging; yes, we have new price points; yes, we have different offerings that balance this change in demand very importantly.

James Watson: And these new packages and prices are already in the marketplace right now?

Juan Gallardo: Yes.

James Watson: Okay. Thank you.

Operator: And we do have another question from Karla Miranda with GBM.

Karla Miranda: Hi. Thanks for taking my question again. I just have a question regarding cap ex. I just wanted to know if you are going to maintain your 7% of revenues cap ex guidance for 2014, or should it be reduced given the fiscal reform? Thank you very much.

Carlos Orozco: Not giving it out as guidance at this point, Karla, but we're maintaining cap ex as a percentage of sales, and we're very watchful on volume evolution. If adjustments need to be made, they will be made and communicated timely. But as of today, bear in mind that we are continuing with the cap ex program.

Karla Miranda: Great. Thank you, Juan. Thank you very much.

Operator: And with no additional questions, I'd like to turn the call back to Mr. Gallardo for any additional or closing comments.

Juan Gallardo: Thank you for joining us in this call. It's obvious that many of the things you would like to know we would like to know also, and when we know we will be sharing with you. I would like to very much encourage you to keep a very close contact with Carlos during the weeks and months to come because as this evolves, we want to make absolutely certain that you and your investors are fully, fully informed of what we're doing. Thank you again very much for your trust and confidence.

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.

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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