TRANSCRIPT

CULTIBA

Fourth Quarter 2014

Earnings Conference Call

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Company Participants

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Mr. Carlos Orozco, CFO

Ms. Diana Gonzalez, Investor Relations

Analyst and Investor Participants

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Armando Perez, *Credit Suisse*

Mauricio Serna, *JP Morgan*

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Diana Gonzalez:

Thank you and good afternoon everyone. Cultiba's Fourth Quarter and Full-Year 2014 Preliminary Financial Results were released yesterday after market close. A copy of the earnings release can be found on the Company's website. As a matter of formality, I would like 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.

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 such forward-looking statements. In addition, any projections to the Company's future performance represent Management's estimate as of today, February 13th, 2015. 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.

Presenting on the call today will be Cultiba's Chairman & CEO, Mr. Juan Gallardo; and Cultiba's 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 12 months preliminary financial results. Finally, Mr. Gallardo will share some closing remarks before opening the call for questions.

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

Juan Gallardo:

Thank you, Diana, And good afternoon and thank you all for joining us in our fourth quarter and full earnings year call. Two thousand fourteen was possibly one of the most challenging years that our Company has experienced, not only because of macroeconomic hurdles well known to all of you, and the sluggish consumer environment, but also because of several industry-specific challenges that we experienced in both of our businesses. A slower than expected recovery in consumption, and the new excise tax on caloric beverages impacted volume growth nationwide for the soft drinks industry, as you well know.

In addition, a disproportionate price hike that the excise tax brought to caloric soft drinks at the beginning of 2014, prevented our Beverages Division to keep up with competitive prices at the pace of industry's real inflation, in impacted categories.

In our Sugar Division, the excise tax on food with high-caloric content also took a significant toll on sugar consumption from industrial clients in Mexico. Additionally, a historic low price environment impacted top-line growth and the anti-dumping and subsidies investigation, initiated by the US-based Department of Commerce, brought instability and delays to sugar exports through the second half of the year. This subject has now been fundamentally settled between both countries, creating for the future, a much more stable market environment.

Also, in the closing months of the year, both businesses were impacted by high volatility of the exchange rate that so far has resulted in the Mexican peso devaluation against the dollar, very much in line with other currency.

In anticipation of these challenges, both of our businesses took timely and proactive measures beginning in 2013, in order to operate in the new reality. By diligently executing such measures, we were able to endure the drawbacks that characterized 2014, mitigating negative impacts to our top-line growth, and improving our cost structure to sustain profitability. Such measures have placed our businesses competitively to continue delivering profitable growth as the macro-environment continues to recover.

The cost efficiencies program that we began implementing in late 2013 in our Beverages Division, offset most of the impact of lower volumes and pricing, resulting in a leaner fixed-cost structure and continuous profitability improvements throughout the year that Carlos will be commenting further on.

Our Shared Services Center which was just inaugurated, literally 48 hours ago in Guadalajara, is truly a state-of-the-art facility, is now fully operating and very successful. Through this initiative, we have been able to centralize back office functions and reduce administrative redundancies. In addition, the Logistics Excellence Program that we are implementing in our Beverages Division, will continue to bring warehousing and transportation efficiencies, optimizing utilization of our assets' capacity.

As we have mentioned before, our savings plan has come at a cost, not only financially, but also socially. We have had to make the difficult decision which resulted in the reduction of more than 20% of our corporate and administrative headcount. Moreover, total expenses in our cost savings plan have exceeded Ps. $400 million. These one-time charges include all transformational initiatives deployed since late 2013 and all throughout 2014.

In spite of having to allocate material resources to our savings program, we were able to stay-the-course of our business strategy throughout the year. We continued to deploy our innovation pipeline, launch line extensions in four categories, such as bottled waters and flavored soft drinks. New products such as Epura Bebe and Jarritos complemented our portfolio by tapping into high potential market segments and consumption locations while keeping a very laser-focus in our core categories and winning brands. Also, by reformulating our price packaging architecture, we were able to provide our consumers with attractive alternatives to adjust to the new pricing reality brought about by the excise tax.

We stayed committed to our full cap ex plan. Even though we had to adjust certain expenditures for the challenges of 2014, we stayed close to all of our modernization goals, and locked in different synergies that we have been mentioning over the past two years. We focused our resources in bringing state-of-the-art technologies, process optimization, and efficient infrastructure in order to position our business competitively to deliver profitable growth in the years to come.

Our Sugar Division also transitioned effectively through a year of enormous price challenges and instability. By keeping up with its timely investment plan, and deploying process improvements, our Sugar Division has been able to position the mills we operate as very competitive, low-cost producers in the market thus, keeping our profitability at reasonable levels. The fact is, that through careful research, and exchange of information, we were able to identify the fact that our sugar cost structure is within the top five in efficiency throughout all the world. This has been the process of a 10-year sustained investment program, which you've heard about in the past and which is now very efficient and giving us the capability to overcome hardships and difficulties. In addition, the Sugar Division improved its financial ratios according to plan during 2014.

Now, back to our quarterly results. Volumes in our Beverages Division continued to mirror the economic environment. Although general macroeconomic conditions in Mexico continue to show signs of improvement, particularly throughout the month of January, real consumption still lagged the greater macro recovery. As an example, same-store sales reported by ANTAD once again, showed an unexpected drop towards the end of the quarter, remaining almost flat year-over-year.

With this slower than expected consumption recovery, our Beverages Division was able to sustain volumes by implementing the different initiatives we've already mentioned and by a very, very focused execution. For the 12 months ended December 31, our combined portfolio grew 0.4% year-over-year; bottled beverages and jug water contributing equally to such performance.

The difficulties that we have faced to pass inflation through prices in sugary categories have prevented our revenue per case to reach the desired level. But, even with lower price increases, we were able to improve marginal contributions through the year by means of an enhanced volume mix with more profitable presentation and leveraging cost savings at the beginning of the year.

Exchange rate volatility impacted the cost of some raw materials in the last part of the year, but still we were able to see improvements in gross profit per unit case compared to 2013. The cost efficiencies implemented on the operational front, resulted in a leaner cost structure that partially compensated for lower volume and price challenges. However, the cost associated to our Savings program, materially impacted profitability. With Ps. $397 million in expenses directly related to our Savings plan during 2014. Our EBITDA for the year was Ps. $2.6 billion or 11.2% lower than the year before. Our EBITDA margins therefore contracted from 8.7% to 7.5%.

As several of these initiatives in our Savings Plan reached conclusion, we begin to see now notable improvements in our cost structure. Proof of it is the 20% year-over-year decrease in SG&A that the Beverages Division showed in the fourth quarter of 2014. As non-recurring expenses come to an end, SG&A should remain steady, sustaining profitability improvements.

I will now turn the call over to Carlos, to take you through our financial results and I'll return to discuss some of our plans.

Carlos Orozco:

Thank you, Mr. Gallardo. Good afternoon and thank you all for joining us today. The quarter continued to mirror the sluggish consumer environment as Mr. Gallardo just mentioned. Our total Beverage volume in the fourth quarter of 2014 was 383.9 million unit cases, 0.1% below the same period in the prior year. Soft drinks and bottled water increased 0.2% year-over-year to 199.3 million unit cases, while jug water decreased 0.5% year-over-year to 184.6 million unit cases.

The average revenue per 8-ounce case was Ps. $19.9 in the fourth quarter, up 1.3% year-over-year. Our Beverages prices have fully reflected the new excise tax on impacted categories since the beginning of the year, as well as inflation in non-affected categories such as water and non-caloric drinks. However, on caloric beverages, our price increases lagged inflation throughout the year in response to a slower consumption recovery.

Going to our P&L, total net sales in the fourth quarter of 2014 were Ps. $8.1 billion, 2.4% higher than the comparable period in 2013, reflecting a slight volume recovery in soft drinks and higher revenue in both the Beverages and Sugar Divisions.

Moving on to costs and expenses, Consolidated cost of goods sold was 11.9% higher in the fourth quarter of 2014, compared to the same period of 2013, mainly reflecting the impacts of the US dollar appreciation against the Mexican peso through the end of the quarter. Thus, raising the cost of raw materials such as resins for PET, high fructose, and some forms of concentrate that are priced in US dollars. As a result, our gross margin in the quarter decreased to 39.2%, from 44.3% in the same period in 2013.

Our total SG&A expense was Ps. $3.1 billion in the fourth quarter of 2014, 16.4% below the Ps. $3.7 billion in the same period of 2013. Hence, SG&A as a percentage of revenue decreased 38.8% in the quarter, compared to 47.5% in the same period of 2013, primarily due to the leaner cost structure that resulted from our Savings Program in the Beverages Division and to continued operating efficiencies implemented in the Sugar Division.

As part of our cost savings program, we incurred non-recurring expenses of Ps. $90 million in the quarter, specifically related to severance and relocation costs from moving back office operations into a new Shared Services Center and to the implementations of our Logistics Excellence program to optimize the utilization of the distribution facilities.

Operating income in the quarter was Ps. $32 million, compared to a loss of Ps. $254 million in the same period of the prior year. Consolidated EBITDA in the fourth quarter 2014 was Ps. $638 million, compared to Ps. $465 million in the same period of the previous year. Lower SG&A expenses were able to compensate for the impacts of slow consumption recovery, from the excise tax on our volumes and prices.

As a result, our consolidated EBITDA increased 37.2% year-over-year and our consolidated EBITDA margin was 7.8% in the quarter, increasing 200 basis points year-over-year. On an adjusted basis, for one-time and non-recurring expenses, EBITDA margin was 9% for the quarter.

Moving down the P&L, as we continued to pay down debt in both subsidiaries, our cash interest expenses are improving when compared to the prior year. For the fourth quarter of 2014, our cash interest expense was 15% below the same period of 2013. The benefits of lower debt levels have been partially offset by Ps. $224 million in non-cash exchange rate losses registered during the fourth quarter of 2014, and which were significantly larger than the non-cash losses from the comparable period in the prior year. Of note, long-term dollar denominated debt is fully hedged with future dollar denominated cash inflows in both divisions.

Net income reported for the fourth quarter of 2014 is not representative of our normalized operations due to distortions resulting from material non-cash charges that the Company applied after adjusting the value of goodwill in its balance sheet. Goodwill associated with the value of the Sugar Division has been reduced by Ps. $1.6 billion, in order to reflect the challenges of a changing market environment from the last two years, after which, pricing is seen with high probability to remain soft, for the greater part of 2015. Without considering this non-cash charge, we had a net loss of Ps. $70 million, compared to a net loss of Ps. $356 million in the comparable period of last year.

Let me now briefly focus the quarterly discussion on GEPP, our Beverage business. Beverage revenue in the quarter was Ps. $7.6 billion, a 1.2% increase over the same period in 2013, reflecting higher revenue per case and enhanced volume mix of soft drinks. We continue to make investments in marketing, portfolio innovations, and infrastructure to increase brand equity and distribution reach. Solid marketing campaigns, in addition to recent portfolio launches, have somewhat compensated for the lower volumes and prices.

On the cost side, our unit costs per case were 3.1% higher than in the fourth quarter of 2013, resulting in a 1.3% year-over-year decrease in gross profit per case. This performance reflects the impact of high prices from US dollar denominated raw materials as a result of the Mexican peso depreciation.

SG&A expenses in the Beverages Division for the fourth quarter of 2014, were 20% lower than the same period of the prior year. As a result, operating income for the quarter was Ps. $73 million, compared to a net loss of Ps. $29 million in the same period of the prior year. This result includes non-recurring expenses of Ps. $90 million for the quarter, associated with initiatives from our Savings Program as Mr. Gallardo mentioned earlier.

EBITDA for GEPP was Ps. $627 million for the quarter, 27% higher than in the fourth quarter of 2013. As a result, EBITDA margin was 8.2%, compared to 6.5% in the prior year. Adjusting for non-recurring expenses, the Beverages Division showed EBITDA margin expansion of approximately 150 basis points, when compared to the same period of the prior year.

Now, let's discuss accumulated results for the year 2014. Two thousand and fourteen was characterized by slow recovery in the Beverages Group and a deliberate lag in domestic sugar volumes through the first half of the year to manage inventories and improve average pricing. In GEPP, total beverages volume in 2014 was up a mere 0.4%, reflecting a 0.4% increase in soft drinks, bottled water, and a 0.4% increase in jug water volume cases.

In our Sugar Division, we had a total sales volume increase of 12% when compared to 2013. Total Company revenue in 2014 increased 2.6% year-over-year. Both the Sugar and Beverages Division contributed to this growth. In the Sugar Division, 2014 revenues increased 20%, compared to 2013. In the Beverages Division, 2014 revenues were up 0.8%. Average revenue per case increased 0.4% year-over-year, reflecting sluggish volume recovery and lower than expected, pricing increases in sugary beverages categories.

As a result of ongoing cost efficiencies and portfolio mix enhancements as already discussed, gross profit per case in 2014 was 3.9% higher than the same period of the prior year and our cost per case was down 2%.

We also made improvements on the SG&A front, keeping fixed costs stable after deploying several initiatives to improve operating efficiencies. Consolidated SG&A were Ps. $3.6 billion in 2014, basically flat with 2013. This figure includes non-recurring expenses related to cost savings initiatives in the Beverages Division, which totaled 397 million in 2014.

By the end of 2014, we have spent Ps. $408 million in our Savings Program since its initial deployment in late 2013. We will continue to implement cost efficient initiatives in our Beverages Division through the beginning of 2015, in order to further improve our cost structure. However, since almost all cost saving initiatives have been deployed by the end of 2014, one-time charges should be significantly lower during 2015; not exceeding Ps. $90 million and ending by the first quarter of 2015. With the right cost structure in place, our operations and EBITDA margins have greater upside leverage as volumes in the Beverages Division resume its growth.

Operating income for 2014 was Ps. 229 million, compared to Ps. 409 million in 2013. In the Beverages Division, operating income was Ps. $301 million, compared to Ps. $467 million in the prior year. Adjusting for non-material and non-recurring expenses, operating income in the Beverages Division reached Ps. $698 million, and operating margins saw an expansion of 40 basis points year-over-year.

Also, in the Beverages Division, EBITDA decreased 5% to Ps. $2.4 billion in 2014 and EBITDA margin was 7.8% in the period. However, when adjusted for extraordinary charges, EBITDA in fact improved 6.2% year-over-year, expanding 46 basis points when compared to 2013. Consolidated EBITDA was Ps. 2.6 billion for Cultiba in 2014, compared to Ps. 2.9 billion in the same period of 2013. As a result, EBITDA margin for the period was 7.5%, compared to 8.7% in 2013. Adjusting for non-recurring expenses, consolidated EBITDA was almost flat when compared to EBITDA in 2013, and Adjusted EBITDA margin was 8.7%, compared to 9% in 2013.

Finally, and as previously mentioned, in 2014 we had a net loss that is not representative of our operating results, due to goodwill adjustments in our balance sheet, which reflected a non-cash impact in the financial statement. Without considering such adjustment, net income in 2014 was a loss of Ps. $297 million, compared to Ps. $204 million of net income in the comparable period last year. Practically all of this net loss comes from non-cash exchange rate impacts in our long-term dollar denominated debt..

Moving on to the balance sheet and cash flow. A strong balance sheet at both of our divisions continues to be a priority. Net debt at the end of the period was Ps. $4.3 billion, compared to Ps. $6.3 billion at year-end 2013, primarily reflecting both subsidiaries' amortization of financial obligations.

As of December 31st, 2014, Cultiba's consolidated net debt to EBITDA ratio was 1.7 times, compared to 2.2 times in the same period of the previous year. Working capital during 2014 showed continuous improvements as a result of some reductions in prepayments incurred in December 2013, at the beverages division. Improved operating cash cycles also contributed towards working capital enhanced performance.

Capital expenditures through December 2014 totaled Ps. $1.8 billion. Funds were utilized for maintenance purposes at the sugar mills and at the Beverages Division, to continue improving infrastructure and technology, as part of our modernization plan to thrive in the beverages industry, as a competitive bottler and distributor. Some funds were also deployed to support portfolio and channel initiatives to drive top-line growth and cost efficiencies.

I will now turn the call back to Mr. Gallardo, for some further comments before we open the line for your questions.

Juan Gallardo:

Thank you, Carlos. As mentioned, 2014 was a challenging year, but we acted promptly to adapt to the new reality. As we operated in this new environment, we emerged stronger and ready to retake the path towards profitability that we envisioned for our Company from the beginning. We expect consumption to continue its gradual recovery in 2015. This should have and will have a positive impact in our Beverages performance, placing our volume growth in low to mid-single digit range above industry. In addition, we expect to increase prices of our beverages portfolio, fundamentally in line with inflation through 2015, which means going back to our regular pricing strategy after last year's setback.

Further contributing to profitability, our fixed costs should remain steady, as one-time expenses from our Savings Program come to an end soon. And, as mentioned by Carlos, of non-recurring items, we only have the final payment this quarter, approximately Ps. $80 to Ps. $90 million.

In our Sugar Division, we expect to maintain operating and financial improvements and remain a competitive, low-cost, producer within a commodity driven industry.

As we have mentioned before, our original strategy continues to be unchanged, despite the headwinds we have faced this year. We remain committed to our innovation, we remain committed to our cap ex plans and we remain committed to our overall strategy.

Further product launches are yet to come in core beverages categories, leveraging further our winning brand. We will also sustain investments in our engines for growth, so that Cultiba continues to emerge as a stronger Company, fully modernized, fully innovative, well streamlined, and well positioned to succeed in our industry's dynamics. We are expecting no less than Ps. $3 billion in EBITDA this year, as we see continuity in our margin expansion, as proven throughout the fourth quarter.

This ends our prepared remarks and we'll be very happy to take your questions. Thank you.

Operator:

Thank you. The question-and-answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key, followed by the digit one on your touchtone telephone. If you're using a speakerphone, please make sure your mute function is turned off, to allow you signal to reach our equipment. Again, that is star, one on your touchtone telephone.

We'll first go to Miguel Mayorga from GBM.

Miguel Mayorga:

Hello, Juan and Carlos. Thank you for taking my questions. I would like to get more color regarding the 1.6 billion impairment paid this quarter? How much was related to GAM and if you think that this impairment will be enough, going forward? Lastly, could you share with us the breakdown of the remaining goodwill? Thank you very much.

Carlos Orozco:

Hello, Miguel. Thank you for your question. First of all, let me remind everyone that under IFRS accounting, goodwill is not amortized anymore. So, we took the prudent decision of making this adjustment. This is just at the holding company and it pertains 100% to the sugar assets. Today, if you see our balance sheet, we still have Ps. $1.4 billion of goodwill. So, we believe that the impairment we took is enough to reflect the actual reality of the business going-forward.

Miguel Mayorga:

Okay, thank you. Regarding the Ps. $1.4 billion of goodwill remaining. How much would be for GAM, and how much would be for GEPP?

Carlos Orozco:

It's approximately 50% for GAM and 50% for GEPP.

Miguel Mayorga:

Okay, perfect.

Carlos Orozco:

The one for GEPP, it's not at the holding company, but at the GEPP level.

Miguel Mayorga:

Okay, perfect. Thank you, Carlos.

Operator:

We'll now go to Armando Perez from Credit Suisse.

Armando Perez:

Hello, Juan and Carlos. Thanks for the call. I have two questions, if I may. The first one is the price increase you mentioned, Juan, should we expect it by the first quarter of this year? My second question is, if you could share with us some color on the execution of the OXXO expansion in Mexico City? How many points-of-sale have you increased there? If you have any timelines? Also, do you see any other opportunity in the convenience store channel in Mexico? Thanks.

Juan Gallardo:

Well, first of all, the price increase that I mentioned is going to occur, I would say within the first semester of the year. This has to do with different windows in different parts of the country and it occurs gradually, but we see it happening. So, I would say it would be within the first semester to be.

On the execution side, let me very much emphasize what we're doing with our distribution centers. I think that what we have done, specifically, is identify those that have the greatest potential and we are rolling out systematically, as we speak. We now have, I think, 20 or 30 of them in place and we should have another 70 or 80 throughout the year, in which enhanced execution capabilities are being established. I think that the process, I would welcome you to visit one day because it's really something, it's very exciting to see as many of these different models of distribution get improved, get the support of systems of information, training and of course, of new products.

It's not so much the points-of-sale, it's more how you service them and with what, and I think that we're very much trying to keep ourselves at the forefront of that transformation. There is something that is very interesting, both within the markets and that let's expand a little bit further on that. As you know, the traditional market in Mexico is one of enormous importance to us. There's close to a million what you would call, "mom and pop" shops throughout the country, which account for roughly 70% of what is called, "canasta básica", selling our basic products. So, this is something that is not transformative, but it's evolving slowly as these stores marches towards formality and occurs throughout the country and certain kinds of chains like OXXO et cetera, continue to expand their operation.

But managing these mom and pop shops is always a very, very important challenge and we have to strive to make sure we're there at the right time, with the right products, and to do so throughout the country, everyday. That's probably one of the most challenging aspects that we've been able to prove. As you know from the past, we increased a number of distribution centers, roughly by 15 to 20%, trying to optimize the routes. We're installing a whole series of systems of information feedback, so that our sales people are able to better service.

It's an ongoing very intense and very, I think, very useful exercise that we're carrying through and we welcome you and any others, who would like to visit, to take a real look and come and kick the tires.

Armando Perez:

Perfect, Juan. That was very insightful. Thanks.

Mauricio Serna:

Hi, thanks for taking my question. I just wanted to ask, since last quarter, you have seen volume decelerating once again. I just wanted to know if you could give more color on that since pricing was, again, below inflation? Maybe you could tell us if this quarter—if going-forward, we could expect more—also more lower SG&A expenses as a percentage of sales, given your restructuring in the Beverages Division?

Juan Gallardo:

I would say yes to all of the above. Let me be a little more specific. The fourth quarter was pretty much flat and as you saw in the numbers that we already said, but we begin to see signs of recovery starting this quarter. We have an old saying in Mexico, which is “una golondrina no hace verano” and it's only one month to be able to base predictions on. But it certainly is encouraging to see an uptick in many different sectors within the month of January.

I'm sure many of you saw the results of ANTAD published a couple of days ago, and for the first time, I think in two years, for the first time we have a positive net number in that figure. So, yes, there is, Mauricio, encouraging signs of that happening. It's not a big jump, but it’s a kick and it's encouraging.

The second thing, in terms of how we see the flow through of our savings, I would say very definitely we're seeing the proof of everything that we've talked about, in terms of investments beginning to flow through our system. I think that we—all we can say at this point is that we did the right thing at the right time.

Mauricio Serna:

Thank you.

Operator:

We'll now go to Antonio Gonzalez from Credit Suisse.

Antonio Gonzalez:

Hello, Juan. Thank you so much for taking my questions. Just two quick questions. The first one is, after the write off you took on the sugar subsidiary, are you rethinking whether the sugar subsidiary should be part of Cultiba? Do you think it's still optimal to have it there, or is there any new consideration, whether you can spin it off or partially or fully divest from it?

Juan Gallardo:

Antonio, you always come up with very incisive questions. Let me see, let me try and answer it in several ways. First of all, even through the deepest moments of this very difficult year, and they have been very deep on the sugar side and I'm sure you have further information of that, not only the uncertainty of the market, but also the uncertainty of the pricing and the volumes and the exports, et cetera, et cetera, GAM has never stopped being a positive contributor to the Cultiba EBITDA, and I think that's a very strong point because being consistently a low cost producer, gives it a staying power and a contribution that meets the expectations of what we said from day-one, we're going to be doing.

Now, having said that, Antonio, it is very clear, therefore, that GAM has a capability of being a very strong and very successful stand-alone company. We believe it makes sense, not only because sweetener is and will continue to be a very important part of our cost structure. So, at the end of the day, that argument continues to be valid. But not only that, GAM has done something else, which I think I'd like to share with you, which is, as sugar turns into sweetener, the whole concept of this stevia becomes something very important, and between health and wellness, and cost structure, obesity battles, et cetera, GAM has a very strong weaponry, which it has developed over the last two or three years, in terms of its stevia capability.

GAM purchased the plant in Chile and the technology is building one also here. So, we are trying to go from being simply a seller of a commodity, to being part of a solution of a sweetener solution, and not only within Mexico, but within North America. That is our overall strategy. We have to start, logically, by turning the mills around and having nothing, but low cost, efficient capability where we have to complete the investment program within Benito Juarez, which as you know, is a joint venture with the Fila Group, which is now into its fourth or fifth year and where we have invested close to $200 million in turning this mill into another very, very attractive state-of-the-art capability, for both Mexican and US products, having the rules of the game of the North American market now in place, which was no minor assignment.

The question of where, Antonio, GAM makes the most sense does not have an easy, ready answer. What I can tell you is that we are and will continue to make sure that it is placed wherever it makes the more value to shareholders in every sense. But it is not a handicap despite this adjustment in goodwill that you see, far from it, it is a very critical strategic asset that I think brings value to the overall corporation.

I don't know if that answers your question?

Antonio Gonzalez:

Yes, that's extremely helpful. If I may, I hope—this is not also an uncomfortable question, but I also wanted to ask if there's anything you can share, at this point. Obviously, last year delayed your plans for the beverage business for one year, or year and a half or whatever. That delay is significant because in 2016, you have the expiration of option from the partners, the other partners other than Cultiba at GEPP Is there anything that you're thinking ahead of that date, other than the sugar business that you just asked? Any other restructuring that could happen at Cultiba ahead of that expiration date? Specifically, do you think it would make sense to merge the beverage business or GEPP in Mexico with a beer assets like AmBevs, with food assets like Sabritas or that is completely off the table?

Juan Gallardo:

You brought up all the flavors of the month, Antonio, eh?

Antonio Gonzalez:

I'm sorry.

Juan Gallardo:

No, that's fine. On the contrary, I appreciate the opportunity. You're absolutely right. The excise tax put a big wrench into our original strategy, and I think you also will agree with me that we have done everything to put us back on-track. My feeling today, Antonio, is very simple, I feel very positive that we're back on-track, in terms of what we said we were going to be able to achieve and with possibly that one and a half to two year delay, in terms of what happened because of the excise tax.

We are a leaner, stronger, well prepared, fully driven, very strong financial corporation, who knows exactly what it has to do and how it has to go about it, and has faced a very difficult, difficult challenging moment. So, what that will do and when it will do what to the pricing of the option and what that represents or not in the decision of our partners 24 months from now, I really do not want to speculate on. I have no idea.

They have this consideration plus others, to take into context, but what I can say is that I can see clearly our value getting back on the right track, after some very difficult times. So, when what happens is difficult to say. But ours is an association and a joint venture, Antonio, as you can see from the results that has developed a Company with a culture and a capability, and a positioning that is here to stay. If there is a change of some proportion in the shareholder mix or not, it's not going to change anything, in terms of what we are planning on doing and on how we're planning on carrying it out.

So, I feel confident towards the future. We will see what it does to the pricing or not of the options in the months ahead, and even in the decision of the partners to exercise. But that will not move in any way or shift in any way, our capability and this is the most important part, to stay the course. That's what we're committed to do in both of the companies.

Now, having said that, on the terms of the beer, the beer synergies are capable of doing. Well, we have all sorts of experiences all over the map on that. It is true that at the sourcing level, let's say at the plant level and at the distribution level, some synergies can be expected. But, it is also true that the experience of consumption and list of consumers of beer versus soft drinks are dramatically different, both in their timing and in their patterns and so there's mixed reviews of whether it makes sense or not.

If you see, for example, the AmBev experience in Brazil or the CabCorp experience in Guatemala, you find very different changes and very different results in both and its quite unclear what that represents. I can tell you that we will be, of course, very focused on our business as it stands right now, but that does certainly not mean that in years to come, if things prove to be profitable and worthwhile to analyze, we're certainly open to doing it. I would add also, that between all of us, all of these players that we're talking, exists a very respectful, but very warm relationship and acknowledge that I think mean to all of us trying to find the best solutions possible in the years to come.

So, I know that sounds like a very vague answer, but when we did our first analysis, years ago for example, in the case of Guadalajara—this is going a little deeper into the question, we analyzed, in fact with AmBev at the time, how many points-of-sale were common to both of us and what were the hours and qualities and margins that would make it drive something that would create a plus-plus. Our results, at the time, you know was that it did not make sense to blend the companies from an operational point of consumption point and others, the two operations.

There also with, as you know, in the case of Mexico enormously complex local regulations, in terms of the authorization for sale and timing of sale of any alcoholic drink. So, that puts one more twist into the engine, which doesn't mean that all your trucks can do things as efficiently as they should. So, it's a very complex study. It should be ongoing; it should prove to be something that we should analyze, we'll certainly take a good strong look.

Operator:

We'll now go to Mauricio Santos from GBM Funds.

Mauricio Santos:

Hello, Juan. Thanks for the call. Most of my questions have been answered, however, I would like to know, if it is possible for you to—what is behind this impairment of goodwill? Did you reduce—did you write off assets for those inventories or what's behind the goodwill on detail? A follow-up on this would be appreciated.

Juan Gallardo:

Glad to give you a break. Carlos, would you be kind enough?

Carlos Orozco:

Mauricio, basically what you do, is you need to do a set of projections under Bulletin C15 as all companies have to do. Within those projections, practically all of the variables; price, volume, margins within the income statement are reviewed and are contrasted with those of your auditor. So, basically, it's a brand new set of projections that we delivered to them and based on those projections, which is—happy to go deeper off the line, if you would like, is that we did this adjustment, and once again, the adjustment was all non-cash. It's just an adjustment to the goodwill account at the holding company and it does not have any impact on the GAMs balance sheet.

Mauricio Santos:

Okay. Well, maybe I'll give you a call. Maybe we can touch on that out of line? Thank you.

Operator:

We'll now go to Andrea Teixeira from JP Morgan.

Andrea Teixeira:

Hi, thank you for taking my question. Hi, Juan. Just a follow-up on OXXO, if you can comment on the potential, the potential benefits. I mean, what have you seen so far besides, you know the distribution centers, what is the potential there for penetrating this channel? You know what are your ambitions, in terms of getting into this point-of-sales?

Since you mentioned AmBev, anything that you've learned that can be applied to Mexico, I would appreciate it. Thank you.

Juan Gallardo:

Okay. I'd be delighted, Andrea. First of all, one big item in our—in our strategy of last year was the roll out into all of the OXXO stores. I think we went into another, 8,000 additional stores, and the execution of that was done jointly between OXXO and ourselves in a very timely, very successful, very well accepted way, very—really, jointly harmonious fashion, I would say. We are now in all of their stores and we'll continue to be and in the ones to come. I think that it's—it was a very important step of a closer relationship with what is a, as you know, a very, very successful, growing outlet in Mexico, and one for which we have enormous respect. So, I think it's, it was a great step in every direction, no?

Now, in the terms of the—what we expect, well obviously, we expect that to be a contributor to our volume. We don't have a preset figure to it and it will depend on how we execute. Now it's up to us to make sure that what we put on those shelves is something attractive to our consumers, and that's exactly what we're doing. But, I think that we'll have a much better feel for that by the end of this first quarter and we'll be glad to give you further color on that, Andrea, okay at that time?

Andrea Teixeira:

Yes, okay.

Juan Gallardo:

We only just finished our roll-out. We're there right now, there's no significant impact yet on our volumes to speak of, but there will be over—in the course of this year, a contribution I'm sure.

Now, in terms of the AmBev, the numbers I'm mentioning in terms of how many points-of-sale coincide or not, go back to literally six or seven years ago of a study we did in Guadalajara. So, I'm not—I would be completely remiss if I give you the impression that we have a completely updated state-of-the-art sense of what it makes sense or not to do beer or not beer and how. Our circumstances are somewhat different from others.

We have a very clear mission, which is this integration of a new beverage company with a nationwide footprint, where there are still many, many, many points throughout the country that have not been serviced in the way that we need to service them. That's our—that is and will continue to be our first commitment and our first opportunity for some time to come.

So, we have not updated this AmBev capability. We have the greatest respect for them as a company, in fact, even a personal friendship, and I know they are being extremely active with their Corona acquisition in the Mexican market. We will—I don’t think there's much more that I can add.

We are very focused on our own business, Andrea, and there's plenty on our plate. Fortunately, the Company was born strong. As Carlos mentioned earlier, the fact of the matter is that we—you know, we started with a very strong Company, that we've made it even stronger despite these hardships, and still maintaining our cap ex course and our execution course.

So, we know what we have to do and we will continue to do it and I can only add that both the team at GEPP and the team at GAM have really made an outstanding effort throughout the year, to as I say, execute on all of these very, very timely plans.

Andrea Teixeira:

Thank you very much. Appreciate it, Juan.

Juan Gallardo:

Thank you, Andrea.

Operator:

There are no further questions. I'll turn the conference back over to you, Juan, for any additional or closing remarks.

Juan Gallardo:

I don't think there's much more I can add. I can just say on behalf of all of us, we deeply appreciate your trust, your interest in our Company, and your support. We welcome any and all questions during—from quarter-to-quarter and even more welcome any visits that you may wish to do to any of our installations or further knowledge on any of our points.

We look forward to being back with you for the next quarterly results and thank you very much for your presence. Thank you.

Operator:

This concludes today's presentation. 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 beverages division's 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 first one in the western region of Mexico. The

Company is listed on the Bolsa Mexicana de Valores, where it trades under the symbol CULTIBA. For more information, please visit www.cultiba.mx.

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