COCA-COLA EUROPEAN PARTNERS
FORTH-QUARTER & FULL YEAR 2018 EARNINGS CONFERENCE CALL

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EARNINGS ANNOUNCEMENT REMARKS

Sarah Willett, VP Investor Relations

Thank you, and good afternoon in Europe, or good morning in the U.S.

Thank you all for joining us today.

Before we begin discussing our fourth quarter and full year results of 2018, I would like to remind you of our cautionary statements. This call will contain forward-looking management comments and other statements reflecting our outlook. These comments should be considered in conjunction with the cautionary language contained in this morning's release as well as the detailed cautionary statements found in reports filed with the U.K., U.S., Dutch and Spanish authorities. A copy of this information is available on our website, at www.ccep.com. Today's prepared remarks will be made by Damian Gammell, our CEO; followed by Nik Jhangiani, our CFO, alongside from accompanying slides on webcast for the first time, which are also available on our website for download.

Following those remarks, we will open the call for your questions. As regards to questions, and in the spirit of sharing the love on Valentine's Day, we will be stricter than time on 1 question per person, we will only answer your first question. So make sure it's a good one. Then you will need to rejoin the queue to give everyone else a chance. Following the webcast, a full transcript will be made available as soon as possible on our website.

So I will now turn the call over to our CEO, Damian.

Damian Gammell, Chief Executive Officer

Thank you, Sarah. And many thanks to everyone joining us today to discuss our full year fourth quarter 2018 results, as well as our 2019 outlook.

Let me start by saying that we were really encouraged by the progress we've made in our second full year as Coca-Cola European Partners. We've continued to build a strong platform for long-term profitable growth, focused on delivering value for our shareholders. The results that Nik and I will share with you today reflect the ongoing commitment and talent of more than 24,000 employees at CCEP. We're fortunate to operate in a great category and the good news is that it is growing 2% to 3% per year. We expect this to continue, and we expect CCEP to lead and participate in that growth.

We have made great progress in our journey to meet our sustainability targets as laid out in our distant forward plan through innovation and reformulation, we've successfully reduced the amount of sugar in our portfolio, with 45% of our 2018 volume coming from low or no sugar products. But the momentum has now switched to packaging, where we know we need to do more.

So let's look at the 2018 summary. We saw a solid revenue growth of 4.5% on an FX-neutral basis or 2% excluding the impact of incremental soft drinks taxes. This was driven by solid growth in revenue per unit case as we continue to drive price and mix. Aligned with the Coca-Cola Company, we will continue to diversify to become a total beverage company. We've had some great successes with portfolio and packaging innovations this year, particularly with our Fuze Tea brands. As well as investing behind innovation, we continue to make the right strategic investments in areas such as our field sales teams, coolers, digital, and across our supply chain.

We delivered a further EUR 120 million of merger synergies, resulting in a run rate of 100% in 2018. These factors helped drive solid operating profit growth of 7.5% on a comparable and FX-neutral basis. We also continue to do what is right for all our stakeholders, and we remain committed to our bold sustainability targets. On the packaging side, we continue to work towards the goal that 50% of the material we use for our PET bottles comes from recycled plastic by 2025. I am pleased to say we are on track to achieve 50% in Great Britain, Sweden, and the Netherlands in 2020, 5 years earlier than planned. And finally, we continue to remain focused on our ultimate objective of driving shareholder value. This is evidenced by a 26% increase in our annual dividend and our share buyback program.

So let's look at 2018 revenue in a little bit more detail. As I said, full year revenue increased by 4.5%, or 2% excluding the impact of soft drinks taxes, both on an FX-neutral basis.

We saw a solid growth of 3% in revenue per unit case, excluding the incremental soft drinks taxes, as we continue to benefit from our efforts to improve price and mix with growth in small packs, and critically, the outperformance of our way from Home Channel. Volume declined by 1% when adjusting for the selling day shift, with strong in-market execution and fantastic weather across Great Britain, Germany and Northern Europe, offset by some softer trading in France and Spain. The volume decline reflects some good strategic decisions we've been making to secure long-term profitable growth for our business. We deliberately downsized packs of Coke Classic in Great Britain, and completely reset our pack and pricing architecture, including downsizing for Coke trademark in France ahead of the soft drinks tax changes.

In addition, we've made some bold portfolio changes within our water and tea portfolios, and while we resolve the customer dispute in France, this did take longer than we would have liked or expected. Although, I am pleased to say that we are nearly back at full supply with that particular customer.

We also did not foresee the summer weather and tourism changes in Spain, that said, we expect and are seeing both France and Spain return to revenue growth in 2019. Despite these volume impacts, the good news is that our transaction still grew overall by 1% during 2018, a very important indicator for the health of our business. This was outpacing volume, and in particular, Coke trademark transactions grew 0.5%.

Elsewhere, we saw a strong volume growth in Portugal, driven by new wins in the away-from-home channel, while Germany continued to benefit from more efficient promotions as well as positive pack mix.

Great Britain performed well with revenue growth of 5%, excluding the soft drinks tax on an FX-neutral basis. Volume was helped by strong execution during the industry-wide shortage of CO_2, which is a credit to our supply chain colleagues and all those that helped us minimize any disruption.

Let me now share with you some additional revenue highlights for 2018.

Importantly, we remain a large value creator for all of our customers, particularly in the retail channel. If we look across the whole FMCG category, we were the #1 value creator across our territories in 2018. This is a testimony to our strategy around value creation for our customers, and our overall brand and pack/price strategy.

Fuze Tea has been a huge success story this year. We launched this brand in January in all territories aside from Iberia, and just 1 year on, we've overtaken Nestea to become the #2 ready-to-drink tea brand across our markets. This was a great result and highlights the potential success we can have through our joint investment with the Coca-Cola company on innovation and new products. But we are only at the beginning.

We're also pleased with the performance of our Coke trademark portfolio, while volume did decline during 2018, overall transactions grew, which is a great achievement in the face of soft drinks tax changes in a number of our markets.

Within light colas, we saw solid volume growth of 11% in Coca-Cola Zero Sugar. Diet Coke flavors also performed well, and we will completely reinvigorate the Diet Coke brand in 2019 with new packaging, new flavors and more marketing.

Fanta also had a great year and was the #1 flavors brand for absolute value growth for our customers. We held our biggest-ever Halloween campaign, featuring limited-edition bottles and cans as well as 2 new Halloween-inspired flavors. Although not on the slide, energy also had a strong year, with continued volume growth of 13% supported by innovation and additional distribution.

I'm pleased that our away-from-home channel continued to outperform our home business. This highlights the investments we've been making on our sales teams, our route-to-market changes, and the digital journey we have started to drive results as we continue to see a huge growth opportunity for us in the away-from-home channel.

From a package perspective, we continue to focus on driving smaller and more premium packages and for one example, we saw a volume growth of 20% in small cans, which contributed positively to mix and gross margins.

Importantly, the revenue momentum in the business provides the license to build for the future. We are continuing to make the right investments now to support long-term sustainable growth. As mentioned earlier, we have had some great successes with some of our innovation, but this has required investment and partnership with the Coca-Cola Company. We're also making the right strategic investments in areas such as digital, our route-to-market, and our field sales teams. We will soon launch a next-generation digital sales tool, which will not only improve the customer experience, but also increase the productivity and optimize the sales time of our great sales force.

Our sales force has been a huge investment priority for us. We've started taking a more segmented approach when engaging with our customers, as we aim to provide even higher levels of service. This requires investment, and we onboarded around 100 new sales reps in 2018, with more hires planned for 2019 as we continue to build our coverage and diversify our revenues.

We've added around 65,000 coolers into our markets as we aim to improve the availability of our cold products, in addition to supporting the broadening of our portfolio.

Over half of our CapEx went into our supply chain in 2018. As we continue to make investments today to support our total beverage strategy. We invested in new canning and glass lines as well as a new aseptic line in the Netherlands to support the growth in products such as the Fuze Tea, as I mentioned earlier.

These supply chain investments will support our pipeline of new products and packs in 2019 and beyond, and we pulled out a few examples of our upcoming launches on this slide.

And finally, as you well know, sustainable packaging is a key priority for our business. In November, we announced a new supply agreement to purchase a supply of 100% recycled PET from Loop Industries. This will help us on our journey to reach the 50% recycled PET in our bottles by 2025. We're also proud to have recently been awarded a position on the CDP A-list for climate change and water security for the third consecutive year.

Our operating profit benefited from a further EUR 120 million of synergies in 2018, taking the cumulative total to EUR 275 million since the merger. We remain on track to deliver between EUR 315 million and EUR 340 million of synergies by mid-2019. These efficiencies have been delivered through a combination of initiatives, including procurement, supply chain, and improving essential operating functions.

So taking into account our revenue growth, the investments we are making to support future success, and our synergy delivery, our operating profit grew by 7.5% during 2018 on a comparable and FX-neutral basis.

Excluding synergies, our operating profit declined by approximately 0.5%, owing to 3 key factors. Firstly, we have hugely stepped up our investments we are making in product development such as Honest, AdeZ and Fuze. Secondly, we made some bold strategic decisions in the tea and water categories, and faced some challenging customer negotiations in France. And finally, the underperformance of Spain impacted our leverage from a margin mix perspective as this is a key market for us.

Our ultimate goal is to drive sustainable shareholder returns. In 2018, we returned EUR 500 million to shareholders through our share buyback program, reflected in total earnings per share growth of 8.5%. We also increased our Q4 annualized dividend payout ratio to approximately 50%.

So now let me turn the call over to Nik for more detail on our 2018 financial results and our 2019 outlook. Nik?

Nik Jhangiani Coca-Cola European Partners plc - CFO & Senior VP

Thank you, Damian, and thank you all for taking the time to be with us today.

Here you will see our 2018 financial summary, much of which Damian has commented on already, so I want to focus on COGS, free cash flow and ROIC.

Our COGS per unit case increased 5 ½ percent on a comparable and fx-neutral basis, or approximately 1 ½ percent excluding incremental soft drinks taxes. This was driven by mix, higher co-packing costs due to innovation, and also concentrate which is in line with our incidence agreement.

As a reminder revenue per unit case was up 5 ½ percent on a comparable and fx-neutral basis as well, and this resulted in us driving gross margin improvement of 80 basis points when excluding the impact of soft drinks taxes.

We continue to focus on making the right investments in the business, and with that, our operating margins improved by approximately 65 basis points.

We generated free cash flow of €1.1 billion which I'll come back to in a moment and increased our ROIC by 90 basis points to 9.9 percent. This translates into an increase of approximately 190 basis points over the last two years on a comparable basis and continues to be a strong area of focus for us as well.

So let me turn back to free cash flow in a bit more detail.

We delivered over €1.1 billion of free cash flow in 2018 and this slide lays out the key components.

Firstly, we continue to be disciplined around our investments to ensure we have the right portfolio and distribution capabilities to sell our products to our customers. We spent approximately €600 million on capex including new canning and glass lines as well as a new aseptic line in the Netherlands.

We retained our focus on driving working capital improvements and delivered over €300 million of benefits. This was driven by an improvement of six payable days and five receivable days, taking our cumulative improvements to nearly €600 million across 2017 and 2018. Over the past two years we have improved collection terms with more than 100 customers, negotiated payment terms with more than 1,400 strategic suppliers and harmonized our standard payment term framework across CCEP touching approximately 20,000 suppliers. This has all been driven through strong cross-functional collaboration, as well as solid routines to track and drive results.

Free cash flow generation remains at the very core of our business and this is evidenced by our medium term annual objective of delivering at least €1 billion of free cash flow each year.

Now turning to our 2019 outlook.

We expect revenue growth in the low single-digit range, excluding the impact of incremental soft drinks taxes which will add approximately 1 percent to growth and we will cycle out of this adjustment post H1 results.

We expect operating profit growth between 6 and 7 percent reflecting the tail end of our synergy programme. Earnings per share growth between 10 and 11 percent reflects the accretion from our €500 million share buyback programme in 2018 as well as the impact of the full €1 billion share buyback in 2019. We currently do expect to buy back up to the €1 billion of shares in 2019 although this is subject to market conditions and any potential M&A.

We also intend to maintain our dividend payout ratio of 50 percent.

Capital expenditures are expected to be within the range of €525 million to €575 million.

Now, as I'm sure you are aware, IFRS 16, the new leasing standard, came into effect on 1 January this year and will require us to recognise our operating leases on the balance sheet from 2019 onwards. The overall balance sheet impact will be a gross up of between €300 to €350 million in both fixed assets and debt.

Importantly this is a non-cash adjustment and the overall P&L impact is limited to a small increase in interest expense which is factored into our guidance

And finally for 2019, we anticipate an improvement in ROIC of approximately 40 basis points.

All of these factors should drive free cash flow in the range of €1 to 1.1 billion.

Now to the 2019 outlook for COGS

Firstly on commodities, which account for around 25 percent of our total COGS. We continue to anticipate an increase of approximately 2 to 3 percent on a per unit case basis. This is mainly driven by year-over-year increases in aluminium and PET. Please bear in mind that our commodities exposure is largely hedged for 2019 with the main exception being PET.

Secondly, we expect our focus on driving revenue per unit case to increase our 2019 concentrate costs given our incidence model. As you can see, concentrate and finished goods make up approximately 50 percent of our cost of goods, with about 85 percent of that being concentrate.

And finally on taxes which will be higher year on year reflecting the full year impact of the soft drinks tax changes in Great Britain and France last year.

These factors are combined with a mix effect from our ongoing focus on driving price/mix and smaller packages, both of which are positive for revenue per unit case and gross margin.

So in total, we anticipate an increase in COGS per unit case of approximately 2 ½ percent in 2019 on a comparable and fx-neutral basis. This excludes the impact of incremental soft drinks taxes which will add a further 1 ½ percent.

I also wanted to briefly touch on how we are positioning ourselves ahead of Brexit although clearly the impact will ultimately depend on the form Brexit takes which at this stage is not clear. As a reminder, more than 97 percent of what we sell in Great Britain is manufactured within the country. Therefore the largest risk for our business is the potential for tariffs or delays in the transportation of our raw materials that come from outside of the UK, including our concentrate. We are proactively trying to minimise any potential impact and have recently started to build inventories of key raw materials. There are still many unknowns though at this stage and we will of course update you as soon as we have more clarity.

Before we open to Q&A, we wanted to share with you some changes that will come into effect in 2019.

Firstly on reporting. We will be moving to trading updates for Q1 and Q3 in 2019 instead of publishing full financial results. We will continue to publish full results semi-annually. We consulted widely about this change and received strong positive feedback particularly as this approach is already adopted by many of our European peers.

Secondly, dividends. Today we have announced that from 2019 onwards we will be moving to semi-annual dividends rather than quarterly. This aligns with our reporting changes and will be administratively more efficient. The first-half dividend will be announced with our first-quarter trading update on 30 April, with payment in June. Full details and timings can now be found on our website and also in an appendix slide of this presentation.

Thirdly – we are today announcing our intention to seek admission to trading on the London Stock Exchange and to delist from Euronext London. This will be a standard LSE listing and it is expected that the shares will be admitted to trading on 28th March. This will not impact the listing of our shares on any other exchanges and is an effort to enhance liquidity and enable easier access in Europe.

And finally – we wanted to take this opportunity to remind you that we will be presenting at CAGNY next Tuesday at 10am Eastern time. The presentation will be webcast through our website and we will provide more details on the growth opportunities we see ahead.

QUESTIONS AND ANSWERS

Bonnie Lee Herzog ***Wells Fargo Securities, LLC, Research Division - MD and Senior Beverage & Tobacco Analyst***
I actually wanted to ask a question on your net revenue per case and your price/pack architecture. Damian, you touched on this, but what do you see as your biggest opportunities to drive further improvements this year? And then separately, could you highlight some of the bigger steps you took last year on your price/pack architecture? And then maybe, what some of those effects will be and will they continue to drive improvements in 2019?

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
So yes, I suppose, it's been a multiyear journey, I think, since we created CCEP, we've taken some good steps around the pack/price architecture. Specifically in 2018, both in France and GB, we had significant changes and downsizing on our Coke brand and our Coke trademark brand in France. That will remain all the way through now that we're seeing that resulting in actually higher transaction. So we're quite pleased with the changes we've made on the back of the taxation agenda. And we continue to see really strong growth in the small packs we've introduced. So mini cans, small glass packaging, again, that will continue through 2019. And we broadly landed all of our pricing for 2019 already.

So as we look forward to 2019, absolute pricing is now broadly in the market. I suppose the one area that we would see moving beyond and playing a little bigger role would be the volume element within revenue. So -- and we've made a lot of choices around delisting of some unprofitable SKUs, exiting the Nestea brand and stopping unprofitable promotions. And over the last couple of years, volume has been -- the 3 elements of revenue, the one that's been behind the price mix performance. We'd expect volume to be at probably over -- multi-years, Bonnie, we'd expect 1/3 from price, 1/3 from mix, and probably going forward now, 1/3 from volume in our revenue structure. As you can also imagine, the NPD we're doing contributes to the volume agenda as well because we're launching a lot of new brands in a lot of categories.

That will give us a bit more leverage and productivity on our supply chain. So we're quite happy with that. So broadly speaking, that would -- that's the way I see it going forward. And we're very conscious on making sure we get the balance right, market by market.

Operator
And your next question comes from the line of Dara Mohsenian.

Dara Warren Mohsenian ***Morgan Stanley, Research Division - MD***
So clearly a pretty big dichotomy in your top line results, both in Q4 and the full year by country. And a lot of those countries have some unique circumstances.

So on a positive side, we're just hoping to get an update on the U.K. and on the negative side, France. So specifically in the U.K., in 2019, should we expect continued solid growth there as pricing trails off? And in light of the difficult comparisons and Brexit risk, any thoughts on the pace of growth in the U.K.?

And how dependent your corporate outlook is on that? And then on the other side in France, not a strong result in 2018, it sounds like you expect to return to growth in 2019? Do you have good visibility on that? Can you give us some sense of how much the retailer relisting will benefit you? And any general thoughts on France?

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
So on the U.K., I mean, last year was an extremely strong year for us within the U.K., particularly when we take into account the introduction of the sugar tax and then balancing that obviously, we had a fantastic summer.

So we've seen the market perform well in the G.B. We'd expect the market to continue to perform well in G.B. through 2019. And I'd probably put a caveat subject to Brexit, but if we -- Nik articulated how we're prepared for Brexit, but at the moment, if we look at the market momentum coming out of 2018, we'd that to continue into 2019. A lot of the changes we made in terms of packaging and NPD will continue to drive growth in 2019 in GB. So we feel pretty good about that.

I think, France, and I'm also feeling good about, I have to say. I think, Nik and myself called out in our prepared remarks that we were the #1 value generator for our customers in Europe last year. And that's a significant achievement, and that's not just in beverages, that's across all suppliers. And in France, we saw the opportunity in 2019 to reshape the categories pack/price architecture. And by and large, that went extremely well, we did have one particular customer that took longer to get to an agreement than we would've liked and that certainly impacted our volumes and revenue in Q4. As I mentioned though, that is now behind us, and we're actually looking forward to a strong year with that customer on the back of a new plan, and clearly, we'll be cycling some of the negatives from '18 as we go through '19. So I feel good about France. I particularly feel good because I think the value creation story is now part of our story in France. And I think we provided an opportunity for our customers to enjoy good margins on our products, but also we're introducing a lot more choice for our consumers. For example, with the acquisition of the Tropico brand. So was a challenging a year in France, but certainly, I think, like we did in some markets in 2017, if you recall, I think we've taken the right long-term decisions despite some of the short-term challenges abroad and we're now through that. So we feel pretty good about GB and France as I look into 2019.

Operator
And your next question is from the line of Ali Dibadj.

Ali Dibadj ***Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst***
So the quarter, we saw gross margins down a little bit, obviously, offset by pretty good OpEx control. And so to think about that in the context of 2019, I'm just trying to get a little bit more detail on the gap between the low single digit top line exc the taxes versus a 6% or 7% on OI growth? Clearly, I think, Nik, you mentioned the tail end of the synergies, but I'm trying to get a better sense of quantifying that, is it higher than you expected perhaps in 2019? And then obviously on the flip side as well, you mentioned a lot of investments. So I'm trying to kind of square it into the level of investments, are there other things in there? Perhaps the beverage tax will help a little bit on the OI number as well.

But in particular, are you finding more cost savings really to go after here and that allowed that gap to happen in 2019?

Nik H. Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
Yes. So Ali, I think as we've said, the synergy program, and then obviously, we've got the tail coming in, which obviously, is reflected in that 6% or 7%. But we don't stop as a business continuing to look at future competitiveness. And what that means in terms of our operating models, our route-to-market, our admin structures, our leveraging of shared services or a broader GBS type of solution.

So clearly, we are continuing to make the right decisions on that vein as well. Now clearly, I think, some of that is still being worked through, but some of that we will start seeing the benefits of in 2019. So you'll see that coming through and reflected in what we have indicated as our guidance today.

When we look at the taxes piece, I think, Damian has highlighted that. Clearly, GB benefited, keep in mind from some very good weather in 2018, as well as us doing very well out of the CO2 crisis by actually being able to position ourselves very well with our customer. So you need to keep that in mind. But hopefully, we've got just 1 quarter and that the sugar tax pricing increases have kind of now been absorbed by the market. And in fact, we've seen some very positive impacts on transactions coming through on both those markets. Damian was referring to France, where, obviously, the change has happened through in the second half of the year, so post that noise, if we actually look at the tail part of the year, our volumes were down in the low to mid-single digits, but our transactions were actually up in the high single digits.

So that's a solid indication of the fact that hopefully, this is being well absorbed into the market. And to support Damian's point, it is creating more value for our customers when we've looked at how we've positioned these new packages, as well as what it's doing for our business. So it's a win-win for both sides. But hopefully that gives you some color.

Operator
Next question comes from the line of Judy Hong.

Judy Eunjoo Hong ***Goldman Sachs Group Inc., Research Division - MD, Senior Analyst & Co-Head of the GIR Asian Professionals Network***
I guess, I wanted to go back to the revenue guidance for 2019. And Damian, you made a comment that volume is probably going to be a bigger contributor going forward, which just the -- by virtue of that comment, it seems like that implies maybe the price mix portion of it slows down. So in the context of continued focus on more profitable pack sizes and channels, I'm just wondering why if this is what you're referring to, you would expect a bit of a slow down in terms of price mix? Or you think that actually continues and helps the products like Fuze Tea and Smartwater kind of plays into that algorithm in '19?

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes. Thanks, Judy. Yes, I think, you've summarized it well yourself actually. I think obviously, a lot of the innovation we're bringing contributes to the volume element of our revenue.

So all of the NPD work, another full year of Fuze Tea, the rollout of the Honest brand, a lot of innovations in sparkling, particularly around Coke Lite, Diet Coke flavors. So all of those in their own right contribute to volume growth in the business. And clearly, we've also had some headwinds on volume in 2018 that we've already talked about it. So I think both of those will see volume play more of a role, that doesn't take away our passion for price and mix. And think we've demonstrated over a number of years that we want to continue to drive the price and mix element in our revenue. And that's obviously, helping us support our margins, et cetera. So it won't be instead of, it will be in addition to. And again, I say that not just looking at 2019, but that comment I believe will serve us well over multi-years as we continue to look at competitive situations by markets, how the consumer is feeling? How our retailers are operating? And of the 3 elements of price mix and volume, which in that market at that time, we feel best serves our shareholder value creation strategy.

So it's not a substitute of either of them, it's just an acknowledgment that you will see based on actions we're taking that volume will start to become more of our story going forward, which again, we're quite pleased with. We think managing revenue across 3 parameters gives us more opportunity for growth than just 2. And we've seen in markets last year where we've had a really good year like Germany, we've seen that working. We've seen great pricing, really good mix, and then obviously, on the back of a great summer, some really good volume growth. And that's a nice place to be, to be honest.

Nik H. Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
Yes. And the only other piece I would add to that Judy is, keep in mind, our revenue per unit case increases that we've seen in the last couple of years has come a lot from us resetting our base, right? And clearly, that's been a lot more on the promo efficiency perspective that we've been driving, which clearly, you're never done done with that, but we've taken a lot of those low-hanging fruits.

So the pure rate element is one we're focused on that's going to come more from the mix aspect of it as opposed to just headline pricing. So I think that's an important piece to keep in mind as well. And then, as Damian said, we're clearly focused on supporting that with volume growth, which also supports our P&L from a leverage perspective given our capacity that we had built out.

Stephen Robert R. Powers ***Deutsche Bank AG, Research Division - Research Analyst***
So I guess I was just curious drilling down to what extent you have assumed contributions, if at all from Costa and Coke Energy? And what your approach to those 2 initiatives are in general from here? And related, just given Monster's ongoing arbitration with Coke, I'm just curious to what extent that's had any impact on your relationship with either Monster or Coke?

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
So we enjoy a great relationship with the Coke Company and with Monster. And recent events haven't changed that, and I think the results that we've delivered for both of our key franchise partners have ensured that is the case as we move into 2019. We had a great year again with Monster last year.

On Costa and on Coke Energy, we're really excited about the potential opportunities for CCEP. And both of those are emerging opportunities. Obviously, the Costa deal has recently just been concluded. So looking with the Coke Company on potential opportunities for CCEP in that space going forward. And likewise, with the Coke Company, we're looking at the right time for them and for us, the potential for Coke Energy in Western Europe. But both of those, I think, have very strong consumer credentials.

Obviously, Costa is a proven brand with strong brand equity that we believe could play a role in our portfolio going forward. Probably in the particular in ready-to-drink and Coke Energy, I think is a really interesting proposition for the world's best beverage to look at getting into a category that we already participate in, but is growing really double-digit year-on-year. So both of them are on the table for us at the moment. And as I mentioned, at the beginning, our relationships with both parties remain strong and positive.

Nik H. Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
And I would just say on the Coke Energy one, we've built that into our plan subject to obviously how the arbitration plays out.

Robert Edward Ottenstein ***Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Global Beverages Research***
Two questions. One, just so we can kind of better understand the 2018 results and the base for 2019, and I know, it's difficult, but on a net basis, can you give us a sense of the impact of the weather? I know tough in Spain, much better in the U.K. So how did that net out? And then bigger picture, in the U.S. at least, there is just a flood of innovation changes in consumer trends, in tastes, the emergence of a functional energy drink sector. People moving away fast from carbs, moving to organic. Can you kind of touch on what you're seeing in Europe in general in terms of changes in consumer tastes, and trends for beverages?

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***

So I'll cover the second question first, Robert.

Nik H. Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
And the one-question spirit rule, we're not going to answer the first one. I'm kidding.

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes, we will let you away with two. You broke the rules.

But anyway. So yes, as I mentioned in my comments, the great thing about Europe at the moment is, we're seeing the beverage category grow. And it's quite dynamic, similar to your comments on North America with a lot of emerging trends and categories getting momentum like tea, energy, and the organic platform is growing as well. And I think we're well positioned with the brands we have to participate in that innovation. And clearly, we're continuing to look with the Coca-Cola Company on other brands that we can bring in to either lead the trend or at least participate in another example that would be added.

So we are seeing consumers looking for differentiation, certainly a trend to more health and wellness, and a trend to more premium packaging solutions. So I think, that all plays well to our Beverages for Life strategy. I think the one caveat for us is, we still see sparkling growing.

So as we formulated our products as we've taken some decisions on pack sizes, and in particularly as we've launched a full range of zero sugar products, we've seen the sparkling category grow. And we see that continuing. So as people look for more choice, they also look for choice within sparkling, and at the moment, that's in the area of packaging and a sugar free is doing particularly well. So we don't see it as an either/or outcome in Western Europe, we see both the innovation and the core business growing nicely at the moment. And clearly, that gives us confidence in our guidance.

On your first question, we don't quantify the impact of weather to that level. From a perspective as you well know, fantastic weather in Northern Europe last year and not in Southern Europe. So you could call it a bit of a wash, one offsetting the other. But we're not getting into the specifics of the delta.

Kevin Michael Grundy ***Jefferies LLC, Research Division - Senior VP & Equity Analyst***
So Nik, question for you on free cash flow, which I know is a huge focus for the company in terms of driving ROIC improvement. You guys have done a great job from a cash conversion cycle perspective, notably on AR and AP. So what's the runway for improvement? How are you benchmarking that opportunity? And how quickly can you realize that opportunity? Just so we get a sense you're going forward in terms of what the potential contribution can be.

Nik H. Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
So thank you for the recognition. And I would say that we -- that is actually what you have seen that's driving those results. Keep in mind, as we have been focused on the delivery of the synergy program, that obviously, had a cash cost to achieve, that came along as well. So we had a drain or a drag on our free cash flow conversion and absolute numbers being driven by that cash outflow, which has been very nicely offset by our strong focus on working capital. So as I said, in the 2 years to date, we've achieved about a EUR 600 million benefit that has flown through to our cash flow. And we continue to be focused in on it. We have some more opportunities, wink, but probably at a much lower pace and a rate than what you have seen in the last couple of years. And the one area that we continue to be focused in on is overall inventory levels as well as spare parts, but we've got to look at both those in the context of new product launches and innovations that we want to do. We've also got to look that in the context of maintaining and actually enhancing our customer service levels, et cetera. So we have to do the right things for the business alongside that. So long answer short, we think we have some more runway, definitely not at the pace that you would have seen the last 2

years, and that's been built into our guidance for this year as well of the EUR 1 billion to EUR 1.1 billion of free cash flow.

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes. Just an additional comment. In our guidance for capital, we continue to transform our IT infrastructure and our digital platform. I mean, that's built into our guidance, but it's a critical enabler to just come back at what Nik said, in terms of getting to the next level of cash optimization in our business and customer service delivery. We have obviously, reflected that in our needs in terms of our capital. So we've got a very exciting IT and digital agenda that we're going through at the moment. And that will be a key enabler to unlock some more of that cash as we move beyond 2019. Thank you.

Operator
Next question is from Lauren Lieberman.

Lauren Rae Lieberman ***Barclays Bank PLC, Research Division - MD & Senior Research Analyst***
Wanted to talk -- you guys talked a bit about -- quite a bit about France already, both in terms of what's happened and your outlook looking forward. But I was curious if you could comment a little bit specifically on these new retail laws? Changes in what's mandated to be allowed in terms of promotion? And given that you'd already changes to price/pack architecture, is there further flexibility to adjust in this new environment, or is what you've already done, was that -- with these new laws contemplated? So any color you could add broad strokes on this new law? What it means and what you've done or are doing to deal with it would be great.

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
Thanks, Lauren. So we had factored in the potential of that law coming into effect as we looked at the changes we were making, in fact, obviously, we planned our package architecture changes back in 2017 for France. And then put the capital and et cetera in place to deliver them in 2018. But we did so with the expectation that this law would pass because it had been talked about for quite a while and on a political level and at a customer level in France. So our change is, kind of feed into that strategy and by and large, it gives us more opportunity, we believe, to keep offering more pack differentiation to our consumers in France. So a couple of benefits from the changes we've made in '18, clearly, we believe that we've improved the profitability, the category for our customers, that's good news. It's given us a chance to reset our packaging, which again, with this law, was a good move at the right time. Going forward, I'd like to see and we plan to see that if you walk a supermarket in Belgium for example, you'll see a lot more small, glass, mini cans available to you than you'll see today in France. And until we changed our pack architecture, we were struggling to get traction with the retailers and some of that innovation. And that's something that I'm excited about for the future because I think now -- because historically, they'd just looked at price per liter as you know, and it was quite difficult then to get anything in below 1.5 liters. So by taking 1.5 liters out, we've changed the game. And that allows us also to operate obviously, within the new legal framework. So long way to go, but at least the foundation is now -- are in the right place for France. Hope that helps, Lauren.

Operator
And your next question comes from the line of Sanjeet Aujla.

Sanjeet Aujla ***Crédit Suisse AG, Research Division - European Beverages Analyst***
You seem pretty content with how your pricing discussions have gone. Can you just elaborate a little bit more on that? Are you getting headline price increases in all of your markets? And tied to that, are transactions growing ahead of volumes across all of your markets? Or is it 1 or 2 markets driving

that?

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
Thanks, Sanjit. I -- maybe because the sun is shining on London today I should never sound too confident about pricing. But we're through over 90%, 95% of our customer negotiations for this year. So I think that puts us in a good place to focus on other elements. So I feel that the teams have done a very good job in that negotiation. I also, by and large, I would say, except for maybe some weather impact, but even then, I do believe that in all of our markets, but certainly most of our markets, we have growing transactions ahead of volume.

Nik H. Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
All.

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
Yes, I think it is all actually. Thanks, Nik. So I think even where we suffered some weather setbacks like in Spain, we've continued that momentum of small pack focus, premium pack focus, and we're quite pleased that transactions will remain a key indicator for the health of the brands and our business. So across all our markets, we've seen that trend continue, which is obviously, very positive.

Nik H. Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
And the sun isn't shining where I'm sitting. So I'll just put a bit of a negative spin on that. I mean, we do have to still get through February, particularly in France, where legally that's the timeline by which we need to have agreed all our agreements for pricing. But as Damian said, overall, we are in good shape.

Richard Withagen ***Kepler Cheuvreux, Research Division - Research Analyst***
I want to go back to the Costa deal. Can you perhaps share some of the initiatives that we can expect from CCEP with regards to the Costa business? And should we be thinking specifically about food service?

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
So just on -- I mean, on Costa, as I said earlier, obviously, you'd have to know that's the deal that's just recently closed. So a lot of the discussions are happening as we speak. We are now selling Coca-Cola in Costa in GB. So those of you who visited GB previously that wasn't the case. So we're getting some good product distribution through the outlet. So we're happy about that and that will flow through in 2019. We are looking at all opportunities. So clearly we have got a vending universe within our own cold drink business. There may be some opportunities to complement Costa and Coke in that environment which would be predominantly food service network. But too early to say anything specific and had that opportunity might evolve, suffice it to say that, as I mentioned earlier, we're having very positive and engaging conversations with the Coke Company on the opportunity for them and for us with Costa. And that goes from ready-to-drink, all the way through to outwork food service. I'd expect as we go through 2019, and as the Coke Company firms up and communicates it's plans, we'll be able to give you a further update on Costa later in the year. But as we had mentioned earlier, broadly, very exciting, we're really happy that they're a customer now. So that's good news. And we look for other opportunities as they come.

Brett Young Cooper ***Consumer Edge Research, LLC - Senior Analyst of Beverages & Managing Partner***
As your portfolio shift. I was wondering if you could talk about how you think about the potential

margin versus per unit or per case economics when there is a trade-off as some new products may carry higher pricing, lower margins, but better per unit profitability? And then if there's any general comment you can talk about in terms of the incremental capital needed for those new products and diversified portfolio realizing that they're probably isn't a universal answer on the capital side?

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
Well, we have a great chart coming in CAGNY. So wait -- so to just address that question but before that, I'll let Nik maybe just give some commentary around how we look at that.

Nik H. Jhangiani ***Coca-Cola European Partners plc - CFO & Senior VP***
Yes. So I think you've hit the nail on the head from the standpoint that the majority of our innovation as we're looking at a new product development is smaller packs and typically at a higher revenue per case. It does come with an associated cost, both from an angle of the fact that either if we're producing in-house, it does mean a higher cost just because of transitions on our lines, et cetera, or in the most instances, we're actually having these products toll filled initially before we bring them in-house. Net-net, clearly, you know, they are gross margin percentage perhaps dilutive, but gross margin absolute amount accretive, and that's what we're focused in on. From an operating margin perspective, clearly, as we make joint investments behind these brands with The Coca-Cola Company, both on the trade marketing side as well as direct marketing expenses, initially, those would be a bit of a drag, but the right thing for us to do is we continue to drive our portfolio innovation and embrace the Beverages for Life strategy.

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
And I think one real example of that strategy is being what we do in Fuze. I mean, we entered with that brand against the market in terms of pack sizes. So we went with the 400 ml versus 0.5 liter and a 1.25 versus the industry standard 1.5. So that gave us a chance to innovate, protect margin, and as it turned out, in that case, offer package sizes that fit better with consumer needs. So we will continue to look at that and as Nik mentioned, by and large, our innovation pipeline is in the higher-value, single-serve, on-the-go or premium packaging, and not a lot in large-format packaging. So that's also helping us manage that balance.

Operator
And this comes from Chris Pitcher.

Chris Pitcher ***Redburn (Europe) Limited, Research Division - Partner of Beverages Research***
I know you don't normally talk about country-level profitability, but at the end -- in the Capital Markets Day, you put up some slides saying that you were targeting double-digit profitability in Germany. Can you confirm that you hit your -- it looks like you've hit your revenue per case targets. So can you confirm that you hit your profitability targets? And can you give us just a bit of an update on where you are in terms of the away-from-home opportunity in Germany, and whether we should expect another sort of big round of investment in terms of sales and cooler placements in that i.e. a German margins potentially sort of peaking out?

Damian Paul Gammell ***Coca-Cola European Partners plc - CEO & Director***
Maybe I'll just deal, Chris, with the last point. We have a very solid away-from-home business in Germany, and it's growing nicely on the back of the investments we've already made. So within our guidance and within our plan, we can see that growth being sustained and accelerated without the need for any significant step up in investment. So I think we have put in place a lot of the enablers already in terms of our cooler plan, we have a lot of sales people in Germany. We've reallocated some sales people out of the home market into away-from-home. So we haven't added cost, bit we've

added accelerated capability in that part of the business. So I think it'll continue to be an area that we can perform within the guidance of investment that we've given. On the margin, I'll make Nik do a bit of work for a change, and ask him to finish by answering that question.

Nik H. Jhangiani *Coca-Cola European Partners plc - CFO & Senior VP*
So on the margin, we, as you rightfully said, do not disclose country-level profitability, but I can confirm to you that we did deliver against our targets that we communicated to you in Wiesbaden. So that business had a very solid year and we've made some tremendous changes that will continue to help us position our profitability for the future.

Sarah Willett *Coca-Cola European Partners plc - VP of IR*
Excellent. Thanks for your time, Chris. I think that's the end of the call now. So thank you very much everybody. And we will be back at Q1 for our conference call alongside our first trading update.

Damian Paul Gammell *Coca-Cola European Partners plc - CEO & Director*
And see you in CAGNY.

Sarah Willett *Coca-Cola European Partners plc - VP of IR*
And in CAGNY next week.

Damian Paul Gammell *Coca-Cola European Partners plc - CEO & Director*
Thank you.

Nik H. Jhangiani *Coca-Cola European Partners plc - CFO & Senior VP*
Thank you.

Operator
Thank you very much to our speakers today. That does conclude the conference. Thank you all for participating, and you may now disconnect.
