CCH – 2018 Full-year financial results
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QUESTIONS FROM

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Stamatis Draziotis, Eurobank Equities

Fernando Ferreira, Bank of America Merrill Lynch

Richard Felton, Morgan Stanley

Andrea Pistacchi, Deutsche Bank

Edward Mundy, Jefferies

Mitch Collett, Goldman Sachs

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QUESTIONS AND ANSWERS

Telephone Operator

If you would like to ask a question please press *1 on your telephone keypad. If you change your mind and wish to withdraw your question, please press *2. You will be advised when to ask your question.

And the first question comes from the line of Sanjeet Aujla, from Credit Suisse. Please go ahead.

Sanjeet Aujla, Credit Suisse

Hi Zoran and Michalis a few questions from me. Firstly, Michalis can you just quantify how much of the step up in net finance cost is temporary or one off, and how much is permanent? That's my first question?

Michalis Imellos, Chief Financial Officer

Hi Sanjeet, so looking at 2019 specifically it's an element of the overlap between the new bond, assuming we will refinance within 2019, and the 2020 bond which will mature in June 2020. So that is a temporary impact. And there is also the new issue premium for the new bond, which obviously is not going to be repeated.

These are the two elements. To put a specific figure on it is difficult because obviously it depends on the timing of the refinancing and also the terms at which the new bond will be issued.

Sanjeet Aujla, Credit Suisse

Got it, okay. And then are you able to quantify how much of the impact is related to IFRS 16 and is that basically implying a lower depreciation expense moving into finance costs, or is there a net negative impact on earnings from that?

Michalis Imellos, Chief Financial Officer

Yeah, so I expect that from the adoption of IFRS 16 we are looking at anything between €7m and €10m, of additional cost. Now just to give a complete picture of what happens with the adoption of IFRS 16 across the P&L and the balance sheet, because there are quite a few moving parts.

First of all what it means is that we will reclassify the vast majority of operating leases from the P&L to the balance sheet, which means that the assets whose operating lease costs were previously posted in opex or in cost of sales in the P&L, will now be capitalised as fixed assets. And that will in turn generate depreciation and interest cost.

So we will see a significant improvement in EBITDA, and a marginal improvement in EBIT and the difference is the depreciation, with a deterioration in financing cost, as I mentioned earlier, net profit will deteriorate very slightly and I would expect EPS also a very, very small deterioration.

Capex will go up significantly as I also mentioned during my prepared comments, nearly one percentage point of revenue. Now as far as the net cash that is generated by the business, that doesn't change, whatever we were paying before and what we're paying after the accounting change, does not change.

But what will happen is that free cash flow will show a small improvement because it doesn't include the financing costs, interest payments, and interest paid will show an equal deterioration.

So a small improvement in free cash flow, a small deterioration in interest payments, net cash generation remains the same.

Sanjeet Aujla, Credit Suisse

That's very clear. My second question is just coming back to the balance sheet. As you alluded to the balance sheet is becoming quite inefficient now as you continue to build up cash. Can you just give us a bit more thoughts on the timing of any potential capital deployment, be it M&A related or cash returns, how are you thinking about that?

Michalis Imellos, Chief Financial Officer

Okay, so first of all we have alluded to the fact that 2019 is likely a year for raising the additional financing, which will optimise our gearing back towards the 1.5 to 2 times net debt to comparable EBITDA levels. Clearly, we don't know at this point exactly when this will happen. And if you consider the current levels of EBITDA and how it develops over time we can afford to nearly double our net debt.

So roughly speaking, and taking into account the permanent additional financing costs, also as a result of the IFRS 16 adoption and the levels of debt costs, this is what will drive the doubling of the 2019 financing costs on an ongoing basis.

So there is an assumption here that 2019 will see an increase in our level of debt and therefore available cash. Clearly there is no intention - or it's not good practice to sit on this cash. So as we go along within 2019, and as we have stated many times in the past, our first priority is to continue to invest in the business, whether organically or through acquisition of strong local brands that are complementary to our business. We also continue of course with our progressive ordinary dividend policy. And after that we would consider returning cash to our shareholders in the form of a special dividend.

Sanjeet Aujla, Credit Suisse

Got it. And my final question is just one for you Zoran on Nigeria; you seem to express confidence the business has turned around in December and the early part of the year. Can you just give us a bit more detail as to how the business has turned around?

And then tied to that Coca-Cola has just consolidated Chi is there for a role of CCH in distributing that brand across the country? Thanks.

Zoran Bogdanovic, Chief Executive Officer

Thanks Sanjeet. Indeed what I mentioned with reference to Nigeria is a reflection of trading performance that we've seen in December and January and that I see also this month. And this comes as a result of the fact of further price and pack changes that we have done in Nigeria in Q4. Where, as I mentioned, and I would like to reiterate we don't have this one size fits all approach, however we really distinguish between Lagos, which is a highly competitive, or the most competitive area of Nigeria, versus other parts. And our capability today to execute and segment is such that what you see in Lagos you will not see in other parts.

And we have done, I believe, very good fine tuning between our glass packages as well as PET packages, to such a level that it really made us quite competitive, ranging from being - you know satisfying the quite affordable needs, to playing on a premium level versus the competitors.

What I also would like to emphasise that contributed to this is - I would say a new wave of marketing campaigns and marketing drivers that we see in Nigeria which are fully localised. A fantastic example was our Q4 launch of 1 litre, which was supported by an outstanding marketing campaign which has been received by local consumers simply in an excellent way.

Additionally we are tapping into critical passion points of Nigerian consumers. You are probably aware that the Coca-Cola Company has signed up the sponsorship with the English Premier League, which in Nigeria is super relevant property. And we have been the first country - in Nigeria - to activate in on our packages and we see that this has been received very well by consumers.

On top of that, as I mentioned Lagos versus the rest of Nigeria, this is how we have also reorganised our sales organisation and marketing organisation, so that we are really able to address differences and competitive and consumer play that we see in the market through such two separate organisations and we see that that is giving us additional firepower.

On top of that is also our continuous work on route to market. I mentioned a few times last year that from the end of 2016 we started working on route to market where we are strengthening our direct contact with the outlets, the way we work with selected distributors and how also we work with wholesalers is significantly different versus what we had two years ago. And that is a critical element that from Lagos we went to the West and now we are going to East Nigeria and that is a very important reason for my confidence of Nigeria, not only for '19, but also for '20 and onwards.

Last small point, you know that we are two days away from the elections in Nigeria. That is always a very important event in the election year. So unless really something unusual and dramatic happens, which I hope it will not and that everything will be okay, I do believe that we are going to have a growth year in Nigeria.

Sanjeet Aujla, Credit Suisse

Got it and on Chi?

Zoran Bogdanovic, Chief Executive Officer

Yes, on Chi, as you know Coca-Cola has just completed that transaction at the very end of January, first of all I would like to reiterate that it is an excellent thing that the Coca-Cola Company has bought Chi, this is not only important for current times in Nigeria, but for many years - in the long term ahead.

We will be discussing with the Coca-Cola Company in which ways and how do we, you know, do things together, that's ahead of us. But I can only confirm that yes we are interested, like in other cases when such similar cases appeared that we see and find a way of how we will do that together. So I can see that and I can confirm that interest on both sides is absolutely there.

Sanjeet Aujla, Credit Suisse

Thank you.

Telephone Operator

The next question comes from the line of Stamatis Draziotis, from Eurobank Equities. Please go ahead.

Stamatis Draziotis, Eurobank Equities

Hi there, thank you very much for taking my questions. Let me start actually with a follow up on the balance sheet optimisation question asked before. Do I understand correctly that you are effectively saying that you are not keen to wait beyond this year for a transformational M&A, so if no such opportunity arises you actually intend to proceed to a special dividend this year?

Zoran Bogdanovic, Chief Executive Officer

Stam, this is Zoran, thanks for the question. We definitely see that as Michalis highlighted that this year is the year where we need to start improving the efficiency of the balance sheet, along the lines that Michalis said.

I would reiterate that our primary objective is to find bolt-on opportunities that can really fit our strategic agenda and grow appetites for the future. We are actively working on a number of things, as always said, primarily in the area of Water, Stills, but as also Michalis said, you know, strong local brands that can in a complementary way fit our business. And I hope that we will be able, you know to share, some of those things soon this year.

With improvement of our balance sheet I believe that we - this is not going to prevent our ability to constantly and continuously look into opportunities that are ahead of us, whether in terms of the acquisition, or if anything comes up in terms of geographies, which we always say that we discuss with the Coca-Cola Company. So that does not stop or limit our openness of exploration and understanding what this could be.

Stamatis Draziotis, Eurobank Equities

Thank you, that's very clear. My second question relates to 2018 and your performance in Established markets. Just wondering, despite the more than 2% actually revenue growth in the second half, your comparable EBIT seems to have declined in the same period. Could you elaborate a bit on the drivers that diluted the positive operating leverage in H2 in this segment please?

Michalis Imellos, Chief Financial Officer

Yes Stam, so if you look at the year over year EBIT performance Established was down by around €10m. And out of this, 80% can be attributed just to the negative currency impact that we face from the Swiss franc. So it's a special year where the Swiss franc and the weakening of the Swiss franc gave us a very negative effect.

We also in Established have quite significant input cost per case growth, which was around mid single digit. And that was coming, to some extent, from the fact that we were cycling favourable sugar contracts, particularly in Italy, which expired, and therefore even with the good prices that we saw in 2018 we experienced some growth there. Of course resin grew quite significantly. And I would say these are the two major reasons why we didn't see the leverage translating to profit and margin growth.

Stamatis Draziotis, Eurobank Equities

Okay that's very helpful. Thank you and just a last quick question on the €50m FX headwind if you could elaborate a bit on the transactional and translational elements please?

Michalis Imellos, Chief Financial Officer

Yes, so the €50m first of all is quoted in line with the standard practice that we have to quote the FX impact based on the current spot rates. In this particular instance we have assumed the current spot rates, but also we have stepped up a little bit the Nigerian naira by around 4% weakening versus the spot, because we believe that for a very long time the naira has been consistently at the range of 360 to 365 to the dollar and potentially following the elections we could see some depreciation there.

So spot rates on all other currencies and a 4% depreciation in the naira gives us the €50m negative forex impact guidance for 2019.

Within that I would say that around 80% is transactional. But I also wanted to point out that the current rate of the ruble, or the spot rate, is somewhat favourable, I would say. So internally we have worked and built plans to be able to withstand further depreciation in the currencies than the €50m, particularly in the ruble, even though we are 60% covered when it comes to the ruble, January to December 2019. Our operational plans are preparing for an even higher forex impact than the €50m.

Stamatis Draziotis, Eurobank Equities

That's very clear, thank you so much.

Telephone Operator

The next question comes from the line of Fernando Ferreira, from Bank of America Merrill Lynch. Please go ahead.

Fernando Ferreira, Bank of America Merrill Lynch

Morning, thanks for the questions. The first one, as you mentioned there are several markets that are expected to slow down. Is it fair to say that you're expecting the top line growth to maybe go back to the range of 4 to 5 in 2019?

Zoran Bogdanovic, Chief Executive Officer

Hi Fernando, no that's not our expectation. Our expectation is to stay in the neighbourhood of what we have seen last year.

The fact that we see some slowdown in a few of our markets is really what it is. It's some slowdown. Actually, as a matter of fact, we call it a little bit less of a tailwind, but we definitely remain in the growth area, but we felt just it's responsible to highlight from today's visibility and the latest data what we see.

However, with all the initiatives, our execution capability, marketing programmes and plans, innovations, I'm really confident that we will be looking into a growth level that I said at the beginning of my answer.

Fernando Ferreira, Bank of America Merrill Lynch

Got it, thank you. And then I had a question on the 2020 Plan, is the extra margin to reach the 11% primarily coming from operating leverage [audio breaking up] and those restructuring costs that you're taking this year? And also which region should we expect it to come from primarily?

Zoran Bogdanovic, Chief Executive Officer

Can you just clarify the second part of the question because there was some breakage in the line?

Fernando Ferreira, Bank of America Merrill Lynch

Sure, what are the regions that should drive this margin expansion, because we saw quite a bit of margin expanding in the Developing region right, in '18, but when we look forward to the 2020 which are the regions that should drive that margin improvement?

Michalis Imellos, Chief Financial Officer

Hi Fernando, we expect to see balanced progress across the three segments in terms of margin improvement. Certainly we have seen very good development in the Developing segment, but also Emerging is growing quite fast. Emerging continues to be a segment where we have quite significant opportunity. But also in Established, as I mentioned earlier, we have this, I believe, temporary set off - or setback in terms of the currency in Switzerland. So there also I would expect that we can see some further improvement.

Fernando Ferreira, Bank of America Merrill Lynch

Perfect, and then just the last one if I may, if you can talk a little bit more about the Developing region right, which went from your least profitable region to the most profitable region. And we've seen not only strong volume growth but also price mix improving quite a bit. So can you talk about Poland and your key markets there and your expectations for '19 please?

Zoran Bogdanovic, Chief Executive Officer

Yes, sure. So exactly as you said we are very happy with how Developing markets performed in 2018. And right away I would say that also we are very positive on what Developing markets will bring us also this year.

We had last year very strong volume growth, which was primarily led by Poland and then Hungary and Czech. So when we talk about volume we do see that volume will have a moderation this year, simply because we'll be cycling a very high growth rate. And those territories really had an excellent summer in 2018.

This will be coupled with improvement in the price mix in 2019 versus 2018. And already I would say a good indication of that is Q4re our price mix in Q4 was on a significantly different level than what we have seen in the first three quarters.

Now Poland, absolutely the key driver of growth in that segment. It is a market of huge potential, it is a very competitive market but I'm very positive on what our team is doing and all the plans they have.

We also need to acknowledge the fact that Poland, but also countries in this segment, are having very solid and good economic backdrops so economies are in good shape and NARTD markets are growing. Poland particularly has low unemployment. So there are also external factors which are giving us good ground even a tailwind.

Some of the elements in Poland that work very well. First of all Sparkling which is our most important category, we see excellent performance on My Coke, even better on Fanta. And one thing that has awakened last year in Poland is Adults where with Kinley we had 40% growth and I would say that that's just beginning of a good story that we'll be seeing there.

Also Energy, you know it's a big category in Poland and the team there is doing an excellent job. And I expect that Energy is going to continue driving and helping us with the growth.

Also in Poland what was very well done last year in tight work and collaboration with customers, is also the price increases that we have done in Poland which serves the value creation for our customers and us.

Poland is also focussing on premiumisation and small packs. That's why last year they have, apart from Kinley that I mentioned, they have also launched non-returnable 330 glass, which is a clear pack that will help us with the organised, modern trade with a more premium pack.

Poland has done excellent work with route to market. For example they are improving the call concept and frequency which means that they are increasing customer facing time in gold and silver outlets. The way we work with wholesalers has been totally step changed and customers, wholesalers have recognised this in Poland as the number one supplier in the GFK Customer Satisfaction survey that we measure and monitor.

So these are some of the highlights of what we are doing on the ground. Last thing just to emphasise is that Poland has been doing, and is doing an excellent job in strengthening further, both capacity, meaning number of people as well as capability of our people to execute in the market.

Hungary is another market that has a healthy economic environment, also growing NARTD. And has been a market that for now several years has been consistently delivering across all categories. Very good work in price mix, strong total beverage 24/7 capabilities. It's one of the flagship markets when we refer to total beverage company.

Excellent work also on Light and Zeros, they will continue work on Adults, not only with Kinley, but also now with Royal Bliss for premium HoReCa. And by the way, HoReCa and at work are channels where we are even further stepping up our focus to create value.

And Hungary has been one of the markets that has really done both RGM, revenue growth management, and route to market to work, which gives us a leverage and power for what happened last year and going forward.

So without going further I just want to pause here to see, you know does that satisfy your question or you need more information?

Fernando Ferreira, Bank of America Merrill Lynch

No that's, perfect, thanks a lot.

Telephone Operator

The next question comes from the line of Richard Felton from Morgan Stanley. Please go ahead.

Richard Felton, Morgan Stanley

Good morning, thanks for taking my questions. My first one is on working capital. I notice that inventories as a percentage of sales nudged up slightly in 2018 versus 2017. Is that just phasing or should we think that sort of 7% is the right level for that business going forward?

Michalis Imellos, Chief Financial Officer

So indeed it's inventories that drove the working capital increase. So I would say that there are a number of different reasons depending on the country. First of all the fact that we had a number of new categories launched, the Plant Based beverages with AdeZ, the Smartwater, Royal Bliss and so on and so forth, all these required higher finished goods levels in the market.

Also as you know we did quite a few pre buys for resin wherever it made sense for cost purposes so that has added to it.

Also we have had some normal operational increase in the levels of inventories to accommodate the higher volumes that we see as we exit Q4 and getting into the first quarter. So these are all reasons why we have seen higher inventories in the year.

Richard Felton, Morgan Stanley

Thanks. And then my second question is on launching new products. You mentioned in your remarks that you're up to 4.4% of your volume from new products. Can you give any colour on how that falls by region; are there certain markets where you've been pushing more of an innovation agenda than others?

Zoran Bogdanovic, Chief Executive Officer

Thanks Richard. Well, in short I cannot say that there is only one region. Innovation and how we think, and innovation which is by the way one of our prioritised capabilities for growth, is spread across all our countries absolutely. So it's absolutely everywhere because this is now a very important part of the way we do business.

And personally I'm very happy how, together with Coca Cola Company, in a very effective partnership we have stepped up this capability. And that's why the last two years we see very good results from that.

And I'm confident also knowing the pipeline that we have, not only for this year, but for a number of years ahead. But to conclude my remarks this is absolutely across all our territories from Nigeria to Russia, to Ireland, left, right, north, south, centre, everywhere.

Richard Felton, Morgan Stanley

Great thank you very much.

Telephone Operator

The next question comes from the line of Andrea Pistacchi from Deutsche Bank. Please go ahead.

Andrea Pistacchi, Deutsche Bank

Yes hi, good morning. I have also two or three questions please. The first one is on FX, I was a little surprised by the guidance, you've talked about it a bit but €50m impact for 2019 is broadly similar to what you saw in 2018. I appreciate what you've said about allowing for some naira depreciation. But when you look at 2018 both the ruble and the naira fell, I think quite significantly, about 10% against euro and dollar. And if you project current spot rates through 2019 there is much smaller change in these currencies.

So is the €50m because of your hedges you're carrying through to 2019 some of the depreciation that we've seen in the past year? And can you remind us where you hedge please on currency? Thanks.

Michalis Imellos, Chief Financial Officer

Yes so if I take those two currencies that you just mentioned. The average for the ruble to the dollar in 2018 has been around 63. And the most recent levels of the ruble has been around 65.5 to 66; recently we saw it nosing up further. So that is a depreciation on average of around 4%, I would say 4 to 5. And when it comes to the naira, the naira has been, I would say, pretty stable around the 360 levels and that's why we have taken a further step for 2019.

And as you said quite rightly, what we quote is also the result of all the hedges that we have taken so far for 2019. As I said earlier we are nearly 60% covered when it comes to the ruble, January to December, so with some actuals already in the mix.

So I believe that with this type of depreciation that we see and the fact that I said earlier that the ruble is probably right now in a favourable spot and we saw yesterday just the initiation of some talks around sanctions create volatility for the currency. I believe that these are, if you like, good levels of where we are now and further depreciation might not be excluded, that's where the €50m is coming from. And as I said earlier we have prepared within our plans for some further potential depreciation should it happen to have the initiatives to be able to offset it.

Andrea Pistacchi, Deutsche Bank

Thanks. Second question if I may is on the margin bridge thinking of the moving parts there and where that leaves us. So in 2018 I think you said that input costs plus FX were a negative of 50 basis points. It seems to me that this line with FX similar input costs worse, this should get worse.

But on the positive side in 2018 volume leverage and revenue leverage were 90 and 80 basis points. Top line growth you're saying continues, probably close to the pace of last year but maybe there's a bit more skew towards price mix than last year, if I understand right so that should be a positive.

And then, I don't know about the marketing spend which was a drag last year and the other moving parts. How comfortable are you, it sounds as if it could be a year of again good market expansion, is that fair?

Michalis Imellos, Chief Financial Officer

Yes we are talking about 2019; yes we do feel that it's going to be another year of margin expansion. What right now may be a little bit different on top of what you just mentioned which is absolutely right in terms of the top line and the rebalancing - slight rebalancing between volume and revenue per case. We talked about FX so on the face of it and based on current spot rates we are looking at the same impact.

However transactional FX is double that, in 2019 double that of 2018 so nearly 80% transactional in 2019, whereas around 40% transactional in 2018. And that has a bearing on the margin.

In addition input costs, we are giving guidance for 2019 of low single digit increase. Whereas in 2018 we saw a minus 1.4% and I would say that there is always if you like potentially the risk of that increased currency depreciation that I talked about. So these are the elements that are weighing a little bit on the growth for 2019. But definitely we see margin growth also for this year.

The accelerated marketing investments will continue, so we'll continue to support our top line growth with marketing spend behind the innovations and the revenue growth. And also continue on the high capex spend as a percent of revenue that we saw last year in 2018. So the 6.4% was a significant step up from the 5.3 and the 5.7 or 8 that we had seen in 2016 and 2017. We will continue with this type of spend and gradually, as you can imagine, this will also have a bearing through depreciation to the P&L.

So operating leverage continuing from the strong revenue growth that Zoran also mentioned in the beginning, some small headwinds from what I mentioned from FX and input costs. But definitely driving another year of margin expansion.

Andrea Pistacchi, Deutsche Bank

Thanks. My very last question, please, is for Zoran on Italy. How do you think about the outlook for Italy given the macro slowdown that we've seen in the past two quarters in Italy, and which doesn't seem to have had, for now at least, an impact on the business?

Zoran Bogdanovic, Chief Executive Officer

Thank you, Andrea.

I feel quite positive and optimistic about Italy. I have to say, respective of the fact that we have that backdrop, which we already started feeling throughout 2018, and I'd like to really say a few words why that's so and why I feel so and, actually, the list is long, which are all the things that give me confidence, but also all the things we have, you know, looked in the mirror and we understand what we need to fix and do better.

First of all, we see - and I said in my remarks that last year - we've done changes in our OBPPC, pack price architecture, which, after several months, when it scaled and was implemented, started giving the results that we were hoping and aiming for. And that's why, in the last number of months of last year, we saw that also reflected in the share as well as in the feedback from our customers, which is very important. So, that's a very important element in Sparkling.

The second thing is that Italy shows very well that it reacts to Zero and Light propositions, and that's why the gross of Zero and Light is something that is going to give us the growth, which is also coupled with innovation with flavours that we are doing on our Zero variants.

After many years where I believe we didn't have the right horse for the race, now, with Fuze Tea, we are really in the game, and Fuze Tea performance in Italy has been excellent, and I'm very positive that it is going to continue with that performance as well as Energy, which is performing very well.

Now, we are doing investments in the market. That's why cooler acceleration is part of the broader - our route to market evolution and strengthening, where our work on, primarily, out of home channel opportunity, this is where we are stepping up our presence, outlet coverage, number of people that are serving those outlets, and that's why our weighted coverage has increased, for example, only in 2018, by 20 percentage points from 23% to 43%.

And we also have done quality changes in the way our people spend time in prioritised segmented outlets and customers, increasing, as we call this customer-facing time, almost doubling it in the market.

And all these quality improvements are things that make a difference and are important for what we are trying to do.

Another thing is that we have formed, and stepped up our focus on premium HoReCa, which also is now helped with the start of Premium Spirits distribution because that helps increase our leverage and relevance with HoReCa outlets.

Also, now, as I mentioned, we also looked at what things didn't work well, or what needs to be better, and absolutely there are those elements. Number one is that we are also stepping up the way of marketing, and marketing campaigns and marketing initiatives are being done. And, with several changes that are being done over there, I'm very optimistic of what Italy will be seeing this year.

And we have already seen some exciting things towards end of the year where we've seen also the use of augmented reality, how the marketing campaigns connect with critical occasion of fooding, also how marketing campaigns and programmes will connect with music, which is super important in Italy.

On top of that, another area where we have recognised that we need to step up and improve is our capacity and capability and quality of execution in the market. And this is part of those I have mentioned already, and this is where we are further strengthening training and upgrading the skills of our people. And these are some very tangible steps that, personally, to me, are giving lots of confidence that Italy is going to have a growth year. And I'm also encouraged with the trading that I have seen end of last year, January and also into this month, how we are performing.

Andrea Pistacchi, Deutsche Bank

Great. Thank you.

Telephone Operator

The next question comes from the line of Edward Mundy from Jefferies. Please go ahead.

Edward Mundy, Jefferies

Morning, Zoran. Morning, Michalis.

I'm really sorry to have to come back to the whole balance sheet optimisation sort of debate. I appreciate it's, you know, incredibly difficult for you to comment too specifically, but it does strike me that you've got sufficient headroom for both a special divvy and also, you know, small bolt-on deals, such as Water or Juice, so it is fair to infer that the lack of special dividend to optimise the balance sheet means that you're not altogether ruling out more meaningful M&A?

Michalis Imellos, Chief Financial Officer

Hi, Ed. Look, right now, all options are open, and it's not either/or. It can be a combination. Clearly, it will depend on the timing and the size of such bolt-on opportunities, but, as I said, considering that we, as I said earlier, we have headroom to nearly double our net debt to get to the upper end of the range of one and a half to two on the net debt comparable EBITDA. With this size of additional financing that we can afford, we can have, potentially, all options open.

Edward Mundy, Jefferies

Great. Thank you.

And then, just as a second question, just so I've got it clear in my mind, you know, the bond, the €800m Eurobond, you know, is not due for maturity until June 2020. What's the rationale for refinancing it, sort of, 18 months early, and ahead of that?

Michalis Imellos, Chief Financial Officer

Okay. We didn't give a specific time. 18 months means now practically, it's not what we are saying. We are saying at some point in 2019. And it's quite customary to go to the debt market earlier, much earlier than a maturity because, clearly, the closer you come to the maturity date the more risk you run, potentially, not to be successful. And, of course, the cost may go significantly up. And this is a practise that we, and many other companies, have followed in the past, so it's not something that is not unusual I would say.

Edward Mundy, Jefferies

Okay. Thank you. And just a final one, again, on the interest charge - just to be clear that the €7m to €10m I think you were flagging on the IFRS 16, part of the additional interest, that is non-cash.

Michalis Imellos, Chief Financial Officer

Look, it is cash because it's part of the lease payment that we make on a monthly basis.

So, let's say, under the old accounting treatment, we would make a monthly lease payment for an operating lease, which is part of a cash flow, and that would be part of, let's say, opex, in the P&L. What happens tomorrow is that we make this payment again, the same payment, a contract with the supplier or the lessor - does not change - except that the depiction of this payment in the P&L and the balance sheet is different.

That's why I said earlier that the net cash that's, ultimately, generated by the business does not change because of the adoption of IFRS 16, it's just a different part in the P&L and the balance sheet that change, and how we treat it from an accounting perspective in order to get to the same cash result.

Edward Mundy, Jefferies

Got it. So, it's just the way you book it in the cash flow's different. Got it. Okay, thank you.

Telephone Operator

The next question comes from the line of Mitch Collett from Goldman Sachs. Please go ahead.

Mitch Collett, Goldman Sachs

Hello. My first question is on margins, again. And I appreciate you've given lots of colour on the moving parts, and you've said that margins will expand this year, but would it be sensible to assume, given all those moving parts, that you can get halfway towards your 11% target in F'19?

Michalis Imellos, Chief Financial Officer

I would certainly feel that getting halfway, covering halfway up the remaining 80 bps is an absolute minimum that was can achieve.

I would say, from then on, it will all depend, other than the operational performance, we are very, very early in the year. It will depend also on how the currencies will evolve, as I mentioned earlier.

So, certainly, getting halfway there is something that I believe is the minimum we will do.

Mitch Collett, Goldman Sachs

Okay. Understood. That's very clear.

And then on developing markets - you gave lots of great colour, you know, why you're very confident about that business, but, obviously, in the release, you've said you expect it to slow, and I appreciate that's partly because you've had such a strong year. But should we expect that to go back to the 2016/'17 level of volume growth that was low single digits or can it be better than that in 2019?

Zoran Bogdanovic, Chief Executive Officer

Mitch, hi. We are just mindful of the fact that 2018 really had an excellent summer across those countries, particularly Poland, and we really saw high growth.

So, looking overall, the level of revenues that we had in 2018, I don't see us going, you know, what '16 was, however, I would rather say staying in the neighbourhood of last year's performance. It's just a matter of, you know, how that revenue generation will come through, through probably a little bit more rebalanced way between volume and price mix.

Mitch Collett, Goldman Sachs

Got it. And then my last question is, given you're guiding towards a similar level of organic revenue growth this year as last year, and that would make it your third year in a row of being above your 4% to 5% target ranges, is there a temptation to increase the target range given the level of delivery?

Zoran Bogdanovic, Chief Executive Officer

Yes, there is temptation from the point of view that, first of all, you know that when we said in 2016 how we see that 4% to 5% is start slower, and then we said that in the second part we have seen - we have estimated that it's going to accelerate, so our first commitment, critical moment, is that we deliver or meet, or exceed 2020 targets.

However, we are already mindful, as a team, in our thoughts and work, that also needs to happen beyond 2020, and in this, if I can say, in this growth period, and growth era, we are fuelling and nurturing that growth to stay on that neighbourhood level that I said of what we've seen in '18. And, with fuelling it going forward, I would see that also potentiality of that even being a bit higher.

Here, I would like to emphasise one point, is that, while we are really focused on delivering short term, of '19 or even '20, that's also short term, we are equally focused, and we see huge responsibilities of investing and planting the seeds that will bring us continuous, sustainable growth in the years ahead.

So, when we have a call like this in a couple of years, that we can make a reference that all the investments that we are doing these days are the ones that are going to give us the continuous growth on that good level for the years ahead.

Mitch Collett, Goldman Sachs

Got it. That's very clear. Thank you.

Telephone Operator

The next question comes from the line of Chris Pitcher from Redburn. Please go ahead.

Chris Pitcher, Redburn

Hi there. Thanks for the question.

Just apologies for going back to the whole interest and everything. Can I just try and just clarify everything in my own mind?

If I look at the refinancing, you're talking about, depending on, you know, the level you're having to spend, that's going to be about €5m extra interest. If you do double your net debt at the, sort of, rates you're paying, that would be about another €15m, which implies that the IFRS adjustment would be about €20m. Now, that seems to tally with the €150m right of use assets that you have in the notes, if we assume about a seven times multiple. Is that the right way to think about it?

And then, secondly, you had about €60m of operating leases in your 2017 numbers. Can you tell us what the 2018 charge was, because it looks like you're not taking all of those charges out? Just to clarify the moving parts there.

And then, secondly, on the operations, I note, the performance, you had a very strong performance in the Baltics, you know, up over 20%. Is there quite a bit of cross-border going on between that and Russia, and that's been part of the reason perhaps for the Russia slowdown, or can you just explain that? Thanks.

Michalis Imellos, Chief Financial Officer

Hi, Chris.

So, let me just go back to the financing cost for '19 versus '18. There are five elements that are driving the movement in '19 versus '18.

So, the first one is the fact that, assuming the refinancing within '19, which is our basic assumption, there will be an overlap of interest cost as we will have the new €800m bond in place in parallel to the old, okay.

So, here is the incremental cost equals the coupon times the €800m that we will raise, plus the new issue premium for this new bond, which is a one-off.

Second is the new incremental debt cost, also depending on the timing, the terms and so on. That will also be whatever amount we raise at the coupon that we will achieve. We are going to have a third element which is the IFRS 16, and that we estimate to be €7m to €10m impact on an annual basis, and so an ongoing cost that is added now due to the change in the accounting treatment.

And, lastly, we will continue to see lower interest income for two reasons; A, because gradually our cash balance will reduce in markets where we still earn positive interest income, and also in markets where we have significant balances, primarily in euros. The negative interest rates in 2019 are not going to go away, and, potentially, we will see even a small deterioration.

So, these are the moving parts for 2019. So, the IFRS 16 number is not €20m, it's €7m to €10m. The number you quoted is more of a one-off capitalisation of our operating leases today that will move, effectively, from the P&L to the balance sheet, but the ongoing annual hit on interest expense, on the financing cost, is €7m to €10m.

Chris Pitcher, Redburn

I suppose where I'm struggling to reconcile it is you've talked about a value in the notes of €150m, I believe, and, therefore, I'm trying to back out that the EBIT benefit you're going to get from taking the operating lease out, just trying to get a handle on that, and your discussion - because you mentioned that you thought the IFRS 16 adjustment would be marginally EPS dilutive, but, you know, if you've got interest coming in, depreciation and the charge coming out, just trying to get - is your margin assumption, is that before any IFRS lease adjustment?

Michalis Imellos, Chief Financial Officer

Yeah. We can take offline, if you like, the moving parts, but the principle is that you're taking out opex at, say, 100, and you are introducing back in the P&L depreciation, which is - the depreciation and interest cost, which the sum of which is slightly less than what you are taking out of the opex.

However, if you look at the EBITDA, because you are taking out the opex and you are introducing depreciation, which is not part of EBITDA, EBITDA will go up quite significantly. EBIT will also go up but to a small extent, much smaller extent because it will get a depreciation hit, and then you're going to have the interest cost also added to it. And that's why net-net EPS, we expect a very small hit, but very, very small.

And, as I said, when we have much higher capex, as a result of the capitalisation of those leases - the right of use that you mentioned also, so free cash flow going slightly up by perhaps €7m to €10m, and then interest expense coming up also by €7m to €10m, so that the net cash that we generate does not change as a result of the accounting change.

Chris Pitcher, Redburn

I suppose the one number I just need, could you tell us what your operating lease charge was in 2018? Because you give it every year in your annual reports, but I can't see it in the notes today. You know, that's the number, if you had it there that would be most useful.

Michalis Imellos, Chief Financial Officer

Let's take it offline with the IR team, and, you know, get all the figures that you need.

Chris Pitcher, Redburn

Thank you.

Zoran Bogdanovic, Chief Executive Officer

And, Chris, you asked about the Baltics indeed. I'm very happy you asked the question on Baltics because it is organic performance which, last year, really has been very strong. I've been there two weeks ago in Tallinn, it has nothing to do with any - Russia or anything like that, but it's the performance of the three countries over there.

We had 10% increase in Sparkling. They had a very strong Q4. And the Baltics is an area where our recent, a few years ago, acquisition of water brand Neptunas, is an acquisition that has really been giving us excellent results.

And so the result is the result of the initiatives and actions and great progress that we see in the unit itself.

Chris Pitcher, Redburn

Thank you very much.

Telephone Operator

We have a follow-up question from the line of Mitch Collett. Please go ahead.

Mitch Collett, Goldman Sachs

Sorry to labour the point on IFRS 16, but can you just confirm that when you said 40 basis points of margin progression was the absolute minimum you'd expect that that's on a like-for-like basis, i.e. excluding the margin benefit that you get from taking operating leases out of EBIT?

Michalis Imellos, Chief Financial Officer

It's including the IFRS 16 because, obviously, this is the new way of reporting, but this should not really have an impact on the EBIT margin. Potentially, we are talking about 5 bps if you look at the net impact on EBIT. So, really, IFRS 16 is not a factor in terms of the EBIT progression.

Mitch Collett, Goldman Sachs

Got it. Thank you.

Telephone Operator

We have no further questions in the queue, so I'll now hand the call back to Zoran for any concluding remarks.

Zoran Bogdanovic, Chief Executive Officer

Thank you, Operator.

I want to thank you all for joining us today, and for all your questions that facilitated a good and rich discussion.

I will leave you with the following thoughts. We are very pleased with our progress against our 2020 strategic plan. We are now delivering revenue growth above our target range of 4% to 5%, and are very close to achieving our opex and margin targets.

The progress we have made is a testament to the dedication of our people, to a strategy they own and drive.

Looking forward, we are confident that the unique strengths of our business, combined with our proven strategy, position us well for the future.

Thank you, and we look forward to speaking with you soon.

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