Chief Executive Officer's Q&A

Continued good progress in margin recovery

We have delivered solid currency-neutral revenue growth and another year of significant growth in margins and profits, representing a sustainable and well-established recovery.

Dimitris Lois
Chief Executive Officer

You forewarned us in last year's report about increased volatility in 2016. Did the business step up to the challenge?

There were a number of external factors that posed challenges to the business. The economy in our largest market, Russia, continued to contract, although to a lesser extent than in 2015. In addition, our Nigerian business grappled with an environment of severe hard currency shortages, a significant devaluation, ensuing high inflation and a contraction in the economy. Oil prices were volatile, not only impacting both of these economies, but also requiring careful management of PET resin prices for plastic packaging.

Our people managed this volatility very well indeed. We deployed proactive measures to manage currency exposures, increased prices to offset the foreign currency impact on our profits and continued with our restructuring programmes. I am particularly pleased that the challenges we faced invigorated our people, increasing their level of engagement again this year.

How would you summarise the operational and financial highlights of the year?

There were many highlights for me, which I will condense into three. Firstly, our people in Nigeria, with the support of Group functions and close cooperation with The Coca-Cola Company, steered the business through very rough waters this year. The achievement of 11% volume growth was a huge success given the market conditions. Secondly, our Company-wide focus on improving price and product mix has delivered well, with a 2.9% increase in net sales revenue per case on a currency-neutral basis. Finally, Group operating margins expanded considerably for the second year running despite increased marketing investment. Taking into account the strong foreign currency headwind and broadly neutral input costs, this is very much a reflection of the lean cost structure of the business and the leverage this affords us as revenues grow. The work we have done to optimise our production and operating cost base is bearing fruit.

For more about financial performance, please see the Financial review section of this report on page 54.

Any disappointments?

It is important to drive volume growth, as well as improvements in price and product mix, in order to benefit fully from the operating leverage in the business. This year, volumes grew well in a number of markets, but this was offset by the declines in Russia and some Western European markets.

With another good year behind you, what is your number one strategic priority?

Our number one priority continues to be to ensure revenue growth and margin expansion. We are working towards achieving the 2020 financial targets we disclosed in June 2016. While our plans allow for a slow start in 2016 and 2017, with the pace picking up thereafter, every year of improvement evidences the strength of the business and heralds the results we can deliver as the macroeconomic environment gets better.

Does that divert senior management's attention away from expansion through M&A?

We have always tracked certain brands in still drinks in our existing territory, which we wish to acquire and bolt on to our current distribution network – when they become available and at the right price, of course. This will continue.

As a signatory to the United Nations' (UN) Global Compact since 2005, the business has a very strong sustainability focus. Did you make further progress in the year?

We are absolutely committed to sustainable, responsible business growth. Building on improvements we have made over a number of years, our water use ratio fell by 3.2% in 2016 vs. 2015 and our energy use ratio fell by 4.7%, meaning that we need less to produce a litre of beverage. Carbon emissions from our operations have also continued to fall – by 6.2% in 2016.

To push ourselves further, we announced seven new targets in September 2016, committing us to significant improvements related to product packaging, use of renewable and clean energy, sustainable sourcing practices and more investment and involvement in our communities.

What are the vital themes for the long-term success of the business?

Firstly, it is vital that we manage our product portfolio proactively as consumer preferences evolve. In addition, markets are changing and we need to respond to mega-trends such as the development of the retail landscape. Finally, the reputation of Coca-Cola HBC and maintaining the trust of our wider audiences are also front of mind in everything we do.

Unlocking our talent potential

Trusted by our communities

Remaining relevant for our consumers

Preferred supplier for our customers

Remaining focused on cost efficiencies

See more information about our stakeholders on p 34-53

Chief Executive Officer's Q&A continued

These new targets complement our existing 2020 commitments related to carbon and water intensity. Our level of ambition demonstrates how we, as a business, actively support the achievement of the Sustainable Development Goals adopted by the UN. We also continuously work to implement and promote the principles of the UN Global Compact in support of human and labour rights, corporate governance and anti-corruption and environmental protection.

You personally devote a lot of time and effort to Coca-Cola HBC's investment in people. What impact have you seen?

In 2016, we continued our efforts to identify, attract and retain the best talent by fostering the engagement and enthusiasm of our people, developing their capabilities, and rewarding a high-performance mindset. Our success is reflected in the strength of our talent pipeline and engagement survey results. As I briefly mentioned earlier, our annual employee survey showed a notable improvement in engagement again this year. Our engagement score was 88%, up from 87% in 2015. This score is two percentage points higher than the high-performing norm of companies measured by Willis Towers Watson.

I am extremely proud to be leading such a motivated and capable team and I know that it is the dedicated efforts of all of our people that drive our success, yielding the positive results we have reported again in this report. I thank them with all my heart.

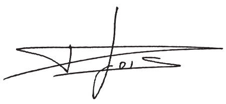
For more about our engagement and talent development initiatives, please see the People section of this report on page 34.

What are your plans and aspirations if we look further out than 2017?

We expect the non-alcoholic ready-to-drink industry to grow by c.1.5% per annum on average in the next four years. We have plans to build on this and accelerate revenue growth by gaining share and driving value. Our commitment to optimising our cost base further and the operating leverage in the business should then ensure that top-line growth falls through to the bottom line, expanding margins to levels achieved prior to the global financial crisis.

And finally, what is the outlook for 2017?

In 2017, we expect slightly better economic conditions to support volume growth. We take confidence from these improving underlying trends as well as the success of both our commercial activities and cost initiatives, which will remain key focus areas in our plans. We are confident that 2017 will be a year of currency-neutral revenue growth and margin expansion as we continue to make progress towards our 2020 targets.



Dimitris Lois
Chief Executive Officer

Our strategy

Our vision is to be the undisputed beverage leader in every market in which we compete.

Our Company has a clear strategy to achieve this vision. We recognise our responsibilities to our communities, who are also our consumers, to make positive economic, social and environmental impacts. We continue to evolve our portfolio to create a balance of sparkling and still beverages and reformulate our products to reduce calories in collaboration with The Coca-Cola Company. We engage with our customers, working with them to grow their businesses and ours. Business efficiency and investments are ongoing priorities and it is vital that we continue to optimise our manufacturing cost base and logistics footprint with ongoing careful management of operating expenses.

We live by our values: authenticity, excellence, learning, caring for our people, performing as one and winning with customers. We think these values make for a culture where people have a strong sense of ownership and make decisions with purpose, confidence and speed. A values-led approach to business also makes good commercial sense, as it creates a company customers want to work with.