Cost leadership

Remaining focused on cost efficiencies

We continually seek to make our business more efficient and leaner. By optimising our infrastructure, centralising back office functions and reducing the water and energy intensity of production processes, we are demonstrating that we can deliver excellent results with fewer resources.

Reduction in number of plants since 2008

-30%

Improvement in water use ratio

3.2%

Plants that have eliminated all waste to landfill

4

Producing economic value with less resource

Key highlights

- Consolidated three more plants in the year
- Set up shared services for Nigeria and Russia
- Invested €4.4 million in water and €6.3 million in energy reduction initiatives
- Made five new sustainability commitments

Material issues

- Direct and indirect economic impacts
- Carbon and energy
- Packaging recycling and waste management
- Sustainable sourcing
- Water stewardship
- Employee well-being and engagement

In 2016, raw material costs were stable compared to 2015, and foreign exchange movements in certain countries continued to have an adverse impact on our profitability. However, our focus on cost control continued, and this helped to ensure that the increase in revenues due to price and product mix improvements benefited our bottom line. Our comparable operating margin increased from 7.5% for 2015 to 8.3% for 2016.

In addition to managing the cost structure of the business, we continued to improve our ability to use natural resources efficiently. We have taken additional steps to ensure that we achieve our long-term targets to reduce water and energy consumption, and contribute to the achievement of global goals regarding climate and clean water. In 2016, we invested a total of €10.7 million in water- and energy-saving initiatives during the year, and we estimate that these investments will be recouped through lower energy and water costs by 2019.

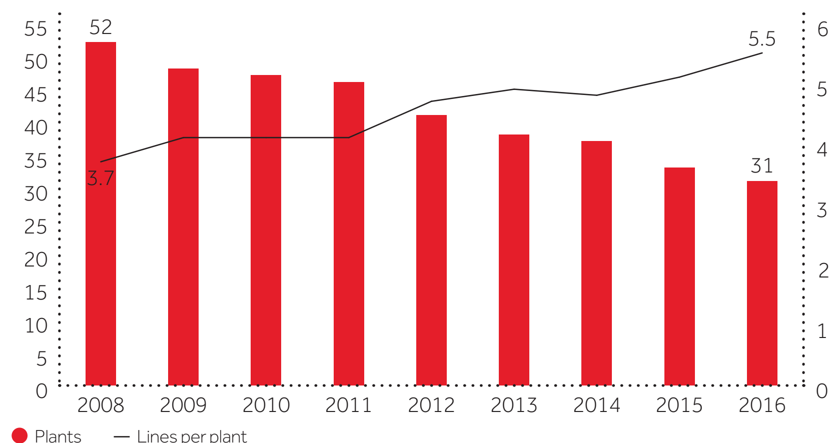
Infrastructure optimisation

The drive to optimise our infrastructure continued in 2016, with a focus on transforming existing plants into cost-efficient mega-plants that can effectively serve a country or region. After primarily focusing on our European infrastructure over the last several years, we have turned our attention to optimising infrastructure in Russia and Nigeria.

In our European markets, we closed the Luka plant in Slovakia and the Alytus plant in Lithuania. We will absorb the capacity within our existing network with higher-speed filling lines and more cross-border shipments.

In Russia, we closed the relatively small Oryel plant in the European part of Russia and transferred this production capacity to facilities in Moscow and Siberia. This change provides better geographic alignment between production and demand. While we proactively addressed the macroeconomic volatility in the country by temporarily closing 10 filling lines, we retain the option to restart production on these lines once the market improves, potentially in 2018.

Infrastructure optimisation in Europe



Work done in Europe; excluding Russia, Nigeria, Belarus and Armenia.

In logistics, we continue our drive to shift costs from fixed to variable, for instance by further outsourcing our logistics activities and using of third-party partners.

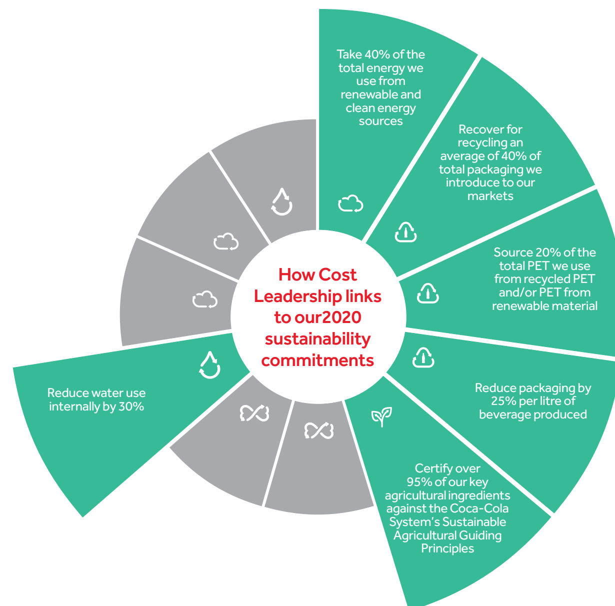
In Nigeria, we began the process of establishing future mega-plants through expansion of production facilities in locations including Asejire, Abuja and Port Harcourt. Optimisation of production and logistics will continue in the country through 2018, with less efficient plants closed in due course. We closed 14 distribution centres accounting for more than a quarter of our logistics capacity during 2016. These changes reduced our fixed costs and improved operational efficiencies. Meanwhile, we continue to invest in PET packaging as the Nigerian market shifts from returnable glass bottles to plastic bottles.

Across the Group, we focused our investments on upgrading our lines, making sure we can support our initiatives to offer consumers the right product, in the right pack, at the right price to suit every occasion. We have leveraged our scale in sparkling beverages, offering a full non-alcoholic ready-to-drink portfolio to our customers and consumers, and made significant improvements in the environmental impact of packaging. We are converting our cans from the standard 0.33 litre size to slim design cans, and we are introducing smaller can sizes to offer consumers more choices and alternatives for different occasions. Another good example of packaging that appeals to our young adult consumers is the new Fanta Slider bottle design, which features a twist in the lower half of the bottle. Within the Coca-Cola System, we have led the rollout of the new Fanta bottle, introducing it in our European markets during 2016.

Our optimisation work has resulted in a 30% reduction in the number of plants across the Group, from 80 in 2008 to 56 at the end of 2016. During the same period, we also reduced the number of our warehouses and distribution centres by 27%. As a result, the average number of filling lines per plant has increased from 3.6 to 4.8, for more efficient and flexible facilities. Our capacity utilisation across the business was 63% during peak months in 2016, giving us plenty of room for growth without the need for additional investment.

Business standardisation

We launched a shared business services organisation (BSO) in 2011 in Sofia, Bulgaria to centralise and standardise the management of general accounting, procurement and invoicing, cash collection and allocation, master data and human resource processes. In 2016, collection and dispute management, purchasing administration and customer master data activities were successfully centralised and transferred to the BSO from all of our markets except Nigeria. We expect the BSO to assume these tasks for our Nigerian operations in 2017. In late 2016, we finalised the set-up of our Nizhny Novgorod, Russia service centre, which performs the same services as the BSO in Sofia but is entirely focused on serving our Russian operation.



Read more about our 2020 sustainability commitments on page 5

Cost leadership continued

During 2016, the BSO in Sofia achieved additional efficiencies, leading to:

- reduction in the average cost to process a vendor invoice from €3.1 to €2.8;
- increased automatic customer allocations to 78.4% of orders;
- improved accounting efficiency; and
- increased productivity of master data processes by 20%.

While carrying out this transformative work, the Bulgarian BSO continued to improve on internal customer satisfaction scores, reaching 78% in 2016. To sustain this and increase the added value for our operations, the BSO works with internal customers to improve processes, make IT systems more intuitive and build a culture of customer centricity.

The BSO also serves as a talent pool for our Company, with 59 people promoted to country operations and corporate service centre roles in 2016.

Cash generation

Our business is highly cash-generative, producing an average of c.€400 million of free cash flow per annum. In 2016, we generated €431 million of free cash flow by maintaining excellent working capital discipline, and by improving our profitability. This reflects our efforts to improve our working capital management, a significant focus of our Company from 2008 when we began experiencing a reduction in our operating profits.

Having reached a year-end working capital position less than negative €100 million, further optimisation of working capital can only be incremental. However, in line with our financial targets, we are expecting a bigger contribution of profits to free cash flow in the coming years.

Our medium-term target for capital expenditure is from 5.5% to 6.5% of net sales revenue. The majority of this is invested in revenue-generating assets such as state-of-the-art filling lines and cold drink equipment. Our net expenditures for 2016 amounted to €332 million, equivalent to 5.3% of net sales revenue. Excluding the sale of idle assets, capital expenditure was 5.9% of net sales revenue. Given our integrated capital expenditure decisions, and our disciplined approach to capital expenditure, we continue to believe our medium-term target range is appropriate for nurturing our future growth.

Partnering with our suppliers

We partner with our suppliers to provide new technologies for production and cold drink equipment and packaging, and with our logistics providers to minimise our impacts and drive our performance. Our sustainable supply joint value creation initiatives and joint ventures with our supply partners play an important role in supporting the Company to achieve this target. We place significant focus on forming partnerships with multinational suppliers that have supply points located within our countries, while also developing strong local suppliers across our territories. These efforts support our strategy for local sourcing and contributing to socio-economic development in the countries where we conduct business. For agricultural commodities, we work with multinational suppliers to source ingredients from farms located in Coca-Cola HBC countries. In September 2016, we hosted a sustainable agriculture workshop in Athens with key suppliers, to align our efforts towards a sustainable supply chain.

Integrating sustainability in business processes

Since 2015, we have required all countries to include quantitative water conservation and carbon reduction criteria in their capital expenditure investment appraisals. This work, which was recognised with a Finance for the Future Award from Accounting for Sustainability (A4S) in 2016, involves evaluating our investment projects for their impacts on people and the planet. Impacts assessed are both direct (e.g. water, energy, carbon) and indirect (e.g. jobs and taxes, capability building, environmental externalities, cultural heritage and stakeholder perception). Our Group-level carbon and water team works together with country carbon and water champions to execute carbon, energy and water reduction initiatives.

In 2016, we continued using our internal carbon price and 'true' cost of water, with water stress multiplier, to set environmental plans for our production sites. The water stress multiplier is defined per river basin using water and risk data from the World Business Council for Sustainable Development's Global Water Tool. The WWF water risk filter is also used to evaluate the water risk of our suppliers.

Water and energy reduction

In 2016, we invested more than €4.4 million in water reduction initiatives at our plants and we saved 0.74 million cubic metres of water. Our water use ratio has improved by 3.2% for 2016 compared to the prior year.

We also invested €6.3 million in 2016 to reduce 118.5 million MJ of energy, resulting in our energy use ratio improving by 4.7% compared to 2015. By mandating that our top 10 water and top 18 energy-saving initiatives be used at all sites, we achieved an implementation rate of 70.5% for water and 63% for energy, by year end.

Packaging recycling and waste management

We continue to focus on reducing packaging through light-weighting initiatives. Moreover, we published three new commitments related to packaging. In 2016 vs. 2015 we avoided 500 tonnes of PET material, and used 13,566 tonnes of recycled PET and 12,855 tonnes of plant PET material. As a result, we avoided more than 36,300 tonnes of carbon emissions.

Four of our European production sites in Switzerland, Northern Ireland and Austria have succeeded in eliminating all waste sent to landfill. We also found new solutions for some types of waste in our Developing and Emerging markets in 2016. These efforts enabled us to reduce the tonnage of landfill waste from our operations by 33.5%. Measured per litre of produced beverage, our waste ratio fell by 32.5%, from 0.76 g/litre beverage in 2015 to 0.51 g/litre beverage in 2016.

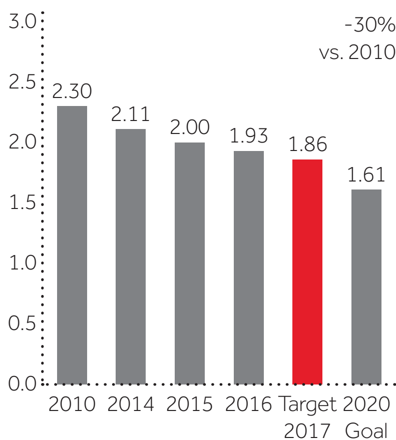
Furthermore, we continue to support 19 packaging waste management schemes that recover and recycle post-consumer packaging. In 2016 we recovered for recycling approximately 60% of packaging material placed in these countries and approximately 30% across our operations.

Our carbon reduction targets are based on climate science. The 'Science-Based Targets' initiative, a partnership between the Carbon Disclosure Project, the UN Global Compact, the World Resources Institute and the World Wildlife Fund, helps companies determine how much they must cut emissions to prevent the worst impacts of climate change. As we were one of the first companies globally to have science-based targets approved through the initiative, our business case has been published as a reference at http://sciencebasedtargets.org/case-studies/.

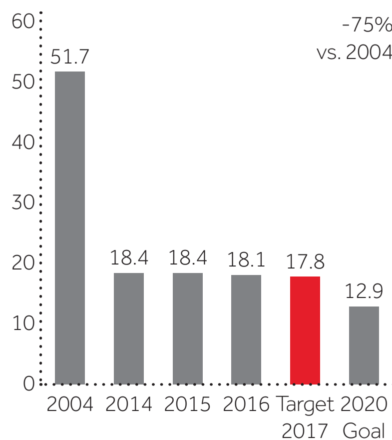
Case study

In our plant in Cracow, Poland we invested €150,000 in water reuse from backwashing and sterilisation of carbon filters. In the past water was diverted directly into the wastewater system. By collecting the water in the main water collector and tank, and sending it to the beginning of the water treatment process after chlorination, we are saving 20,000 cubic metres of water annually.

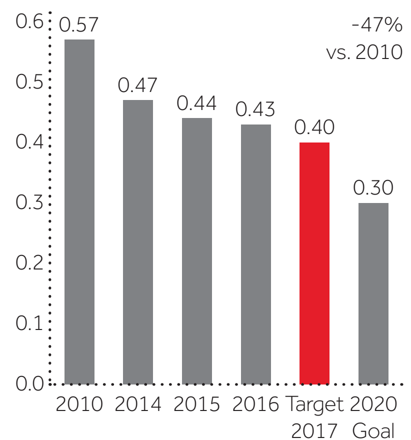
Water use ratio in plants
(litre/litre of produced beverage)



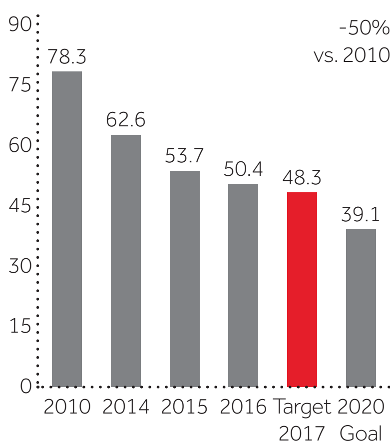
Operational water footprint
(billion litres)



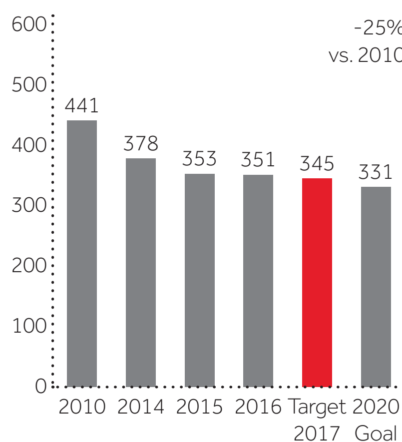
Energy use ratio in plants
(MJ/litre of produced beverage)



CO_2 ratio (scopes 1 and 2)
(gCo_2/litre of produced beverage)



CO_2 ratio (scopes 1, 2 and 3)
(gCo_2/litre of produced beverage)



Landfill waste ratio
(g/litre of produced beverage)