





IN A STRONG POSITION TO ACHIEVE FUTURE GROWTH OPPORTUNITIES

In 2017, we steered our organisation through another year of success and growth.

Anastassis G. David
Chairman

Zoran Bogdanovic
Chief Executive Officer

We are building on the strong foundation that we established with Dimitris Lois, who led Coca-Cola HBC as CEO from 2011 until his untimely death in October.

We continue to successfully implement our strategic plans, evolving our Company by diversifying our portfolio of beverages and modifying our offerings to be even more relevant to consumers and customers.

Q: How was 2017 for Coca-Cola HBC?

AD: Our impressive results for the year are very pleasing and a clear demonstration of our long-term efforts to establish a strong strategic framework. The implementation of our internal succession plan, and the reinforcement of corporate governance and sustainability commitments, are also a testament to the effectiveness of the Board.

I feel privileged to have worked with Dimitris Lois, a special person and an inspiration to the whole Coca-Cola HBC family. He had remarkable values, and placed our people at the centre of everything we do.

This is reflected in the Company's 2017 employee engagement results, which set the bar for the Coca-Cola System and ranked Coca-Cola HBC above the Willis Towers Watson benchmarking pool of high-performing companies. This is an achievement that forms the foundation for much of the Company's success.

I was delighted to announce Zoran's appointment as Chief Executive Officer in December. He will bring a deep understanding of our markets and corporate culture along with fresh, innovative insights to address new challenges.

ZB: Needless to say, we are proud that, once again, we achieved solid currency-neutral revenue growth as well as improvement in operating margin. We started the year excited about the recovering economies in our markets and the well-thought-through plans every person was charged with implementing. As the year progressed, the operational and financial results we delivered invigorated everyone in the Company. As Region Director for part of the business before my appointment as CEO, I have been witness to the day-to-day motivation and energy throughout the business. Improvements in the macroeconomic environment in Russia and our success in managing the challenging circumstances in Nigeria were key developments in 2017, and provide good momentum for 2018.

Q: How would you summarise the operational and financial highlights for the year?

ZB: We have been making significant changes to drive volume and enhance value in an ever-changing environment, with consumers looking for more choice to suit their preferences and customers making changes to ensure the long-term health of their businesses.

Each market in the Company had a set of clear 'revenue growth management' initiatives, ranging from identifying new revenue pools and improving mix to adjusting pricing and promotional management. These initiatives have been very successful in supporting revenue growth. Our commitment to continuous efficiency improvements remains unchanged, as does our steady focus on attracting, developing and retaining the best people. Finally, we are proud to have been named the food, tobacco and beverage supersector leader this year in addition to remaining beverages industry leader in the Dow Jones Sustainability Indices for the fourth year in a row. This is an important indication of our commitment to our stakeholders and communities as well as our success in managing critical material issues.

Our strong results for the year have us on track to achieve the 2020 financial targets we announced in 2016. We delivered 5.9% revenue growth on a currency-neutral basis. Importantly, this was achieved with a good balance between volume growth and price and mix improvements. As anticipated, the operational leverage in the business meant that this revenue growth resulted in a 120 basis-point expansion in our comparable operating margin to 9.5%.

We also continued to convert our profits to cash, delivering €426 million of free cash flow.

Q: Can you elaborate on the 2017 Integrated Annual Report theme: Understand, Evolve, Energise?

ZB: Consumers' lifestyles are changing, with growth coming from lower calorie and more unique product propositions, some of which offer additional functions in addition to satisfying thirst. Demographics in many of our markets are also changing, with populations in many European markets ageing and more people living alone. As lifestyles change, shopping habits are also changing, making the adult segment and 'small baskets' increasingly important.

Understanding these trends is important to ensure that we evolve our business, our product portfolio and market execution in ways that meet changing consumer and customer needs and preferences. As consumers are spending more time at work, or at home having 'me time', we are evolving our approach to cater to these occasions alongside the more traditional occasions such as 'Coke with meals'. Digital technology is also impacting consumption patterns and shopping habits, opening up new sales channels.



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“We have been making significant changes to drive volume and enhance value in an ever-changing environment.”

Zoran Bogdanovic

In this report you will read about our plans for innovation, reformulation, new packaging formats, changes to our route to market, digital coolers and e-commerce, all of which contribute to this evolution, energising our business for growth and success in the long term.

AD: Our consumers are key stakeholders, and understanding their needs is crucial. We are also mindful that all of the other stakeholders we engage with, from investors and customers to employees and suppliers, are keen to understand how our business is evolving to remain fit for purpose and energised to grow in a changing world.

Q: What innovations are being prioritised for the year ahead?

ZB: Firstly, in order to shape choice and proactively support low- and no-calorie sparkling drinks consumption, we are working with The Coca-Cola Company to evolve the recipes. Sparkling drinks account for two thirds of our portfolio and we will continue to accelerate their growth. We are also refreshing the juice portfolio with smoothies and seasonal flavours. In ready-to-drink tea, we are launching FUZE tea, which will replace Nestea in all but three of our markets.

We believe that the innovative flavour and herb combinations of FUZE tea and the marketing investment to support the brand will revitalise the ready-to-drink tea category.

We are very excited about new categories, too. AdeZ plant-based beverages are coming in 13 markets. Coffee, which is critical to our efforts to grow the ‘at work’ occasion, has already been launched in several markets. Finally, we are running a new initiative called Incubate & Grow, which will pilot certain products such as Appletiser, glacéau smartwater and ZICO Coconut Water in affluent cities in our territory. In my 21 years at Coca-Cola HBC, I have never witnessed as many launches as we will have in 2018.

Q: How is the Company tracking against its strategy?

ZB: The financial results speak for themselves. What is important for me is how well entrenched our strategy is in the hearts and minds of our people. After all, our people and our culture are the most critical differentiating factors of our Company as well as being the drivers of growth.

Having applied revenue growth management principles in our business for a few years, we have gained greater impetus. The understanding and discipline we now have, coupled with the tools we have developed, will support volume and value growth in a sustainable way.

With the total beverage portfolio evolution that we are pursuing with The Coca-Cola Company, we are collaborating in realising an unprecedented level of innovation, leading to new categories, brands, packages and channels. We are in touch with consumers 24/7, for every occasion.

Our route-to-market and execution capabilities have recently been upgraded, helping to make sure we can support our existing customers in the established channels as well as taking advantage of opportunities presented by newly emerging channels.

Gaining efficiencies in production, logistics and operating cost base are a way of life at Coca-Cola HBC, and our continued focus on efficiency is key to streamlining packaging, reducing energy use and minimising our impact. Finally, we are determined to continue to invest in the business for growth.

These are, I believe, the key factors for the fulfilment of our vision.

Q: Two years into the 2020 plan and you have delivered very well. Are your plans and financial targets still valid until 2020?

AD: When the Company first announced its 2020 financial targets in 2016, the targets were seen as ambitious by the investment community. We indicated that our progress would be slow through 2017, picking up significantly as the macroeconomic environment improved.

That we are well on track to achieve our 2020 plan goals is very pleasing and shows that our confidence in our business and our people was justified. I am just as pleased that the Company is on course to achieve the vast majority of its ambitious sustainability targets.



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ZB: Our strategy is clear and implementation has been successful because our people really understand their role in making it happen. The success we are achieving validates the strategy, and we believe we are gaining speed. Barring unforeseen circumstances, we are committed to our plans and reiterate our financial targets for 2020.

Q: As a signatory to the United Nations' (UN) Global Compact since 2005, and a supporter of the UN's Sustainable Development Goals (SDGs), the business has a very strong sustainability focus. Can you explain how this strengthens your business?

ZB: During 2017, we continued to make substantial progress against our ambitious sustainability targets. These targets, set for 2020, range from science-based goals for carbon reduction to increasing the recycled content used in product packaging.

Let me summarise our progress. We are partly behind on our commitment to increase the use of recycled PET and plant-based PET materials for our PET packaging due to the higher cost of these materials in our geographies. On the other hand, we are pleased that in 2017 we have already met our 2020 packaging recovery target, collecting for recycling approximately 41% of the total packaging we put in the marketplace. Encouraged by this strong performance, we are working on revising the recovery rate target.

We have also joined the World Without Waste global packaging commitment of The Coca-Cola Company, developing plans for drastic packaging reduction and increased recovery beyond 2020.

In 2017, we invested €7.4 million in our communities, which is 2% higher than 2016 and is equivalent to 1.3% of our pre-tax profit.

This investment is lower than our commitment to spend 2% of our pre-tax profit on communities due to the fact that our programmes take longer to ramp up while the increase in profitability is nearly 60% in two years.

I am particularly happy with our achievement of a 9% reduction in carbon emissions from operations in 2017, compared to 2016 levels. Moreover, we reduced the amount of water we use and energy we consume to produce a litre of beverage by 6% and 4% respectively. These actions demonstrate our commitment to grow our business profitably, whilst lowering our impact on the environment.

We also introduced a new commitment in 2017. As part of an overall industry pledge, we will by 2020 reduce the amount of added sugars in our sparkling soft drinks across the EU and Switzerland by 10% against the 2015 baseline. We have already made a good start in 2017, and ongoing work to reformulate recipes supports this objective – and global health and wellness – while helping us meet consumer needs.

We will keep our commitments relevant and maintain our focus on our key material issues; in 2018, we will review our sustainability commitments with a view beyond 2020.

AD: 2017 has been a pivotal year for our sustainability agenda. Along with the improvements that Zoran mentions, we have successfully rolled out our flagship community programme, #Youth Empowered, in 21 of our markets. We know that the future of our business is linked to the futures of young people across our markets. #YouthEmpowered seeks to address persistent underemployment for young people between 18 and 30 years old. During 2017, more than 21,500 youngsters participated in a combination of on-site workshops and online training sessions. In December, I attended a town hall session with youth participants in Athens, along with our Operating Committee, and all of the country General Managers, and saw for myself how meaningful it is to contribute to the futures of people in this age group.

Our sustainability efforts are also recognised internationally. In 2017, Coca-Cola HBC was named the industry leader amongst beverage companies in the Dow Jones World and Europe Sustainability Indices ('DJSI') for the fourth consecutive year. In addition, we became the leader in the wider food, tobacco and beverage sector for the first time ever. We are committed to remaining a force for positive change in our communities.

Q: With the change in leadership, should one expect a change in the culture of the business?

AD: The Board believes that Coca-Cola HBC has an incredibly strong corporate culture, and that this is a valuable asset which requires attention and investment. The Company has very deep roots, both within our markets and within the Coca-Cola System, and our culture is also deeply rooted.

However, as reflected in the theme of this report, we are focused on the need for our business to evolve, and we expect that this will impact our culture. As our Company evolves as a total beverage company, agility will become even more critical. Innovation has already become much more important.

ZB: Our stakeholders, particularly employees, can expect our core values to remain unchanged. Our values are the cornerstone of our culture and the work we do to embed them will continue.

We have defined important behaviours that represent the essential building blocks of our culture; the behaviours we encourage. There are also behaviours, such as being curious, adopting innovative ideas with speed, taking risks and learning from both winning and failing, that will come to the fore with the evolution of the business. We have likewise identified behaviours that are not in alignment with our culture, including accepting the status quo or failing to respond to customer needs. As our business evolves, we will adjust the set of behaviours to ensure it is always one that supports our business the most.

Q: What are the Board's areas of focus as we go into 2018?

AD: The Board will focus on supporting the evolution of the business, the acceleration of product innovation in alignment with The Coca-Cola Company and nurturing our culture and values, all of which are critical for the long-term growth and success of Coca-Cola HBC.

We will also seek to continue demonstrating leadership in sustainability, working to continually improve and meet or exceed our commitments. To maintain resiliency and a strong pipeline of diverse talent, the Board will build on its succession planning work for Board and senior management positions.

Q: How do you see the outlook for 2018?

ZB: In 2018, we expect further economic growth and healthy inflation in Europe and Russia. In Nigeria, high inflation impacted consumers in 2017, but economic conditions are forecast to improve in 2018.

Overall, we expect volume to continue to grow in all three of our segments, with the Emerging markets segment accelerating, as Russia and Nigeria return to volume growth.

We are excited about the year ahead, which has a particularly strong pipeline of product innovation and commercial activity around our route to market and in-store execution. There is good momentum in the business and a determination to build on our success. We are confident that 2018 will be another successful year.



Anastassis G. David
Chairman



Zoran Bogdanovic
Chief Executive Officer