



ZORAN BOGDANOVIC
CHIEF EXECUTIVE OFFICER

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ANOTHER YEAR OF GROWTH

How was 2018 for CCH?

We achieved another year of strong revenue growth with margin expansion and introduced more launches of new packages, brands and even categories than ever before. These launches accomplish two key things. First, they ensure that we are bringing our customers a beverage portfolio which meets emerging consumer trends. Second, they allow for profitable revenue growth by providing the right package and price combinations across our channels and consumption occasions.

I am very pleased by the successful introduction of our expanded package and product portfolio, and am confident that these changes position our Company for sustained profitable growth. You will find many examples of our successful launches in the Consumers and Customers sections on pages 40-53.

More launches of more products requires adjustment throughout the business: an enhanced route-to-market approach; a more agile supply chain; and ongoing focus on cost control. This would not be possible without close partnerships with our customers and the dedication and hard work of our people.

Our people's adaptability and agility made it possible to implement these changes. We are investing in our people to nurture their potential. I want our Company to have an empowered, accountable workforce, fully engaged and motivated by our unlimited opportunities. It is an honour to work with our people and serve them in my capacity as CEO. I applaud their efforts in 2018.

2018 was also a year where we saw progress on our key sustainability goals and in fact we have set new, bold commitments for our business for 2025. Operating sustainably and creating value for all stakeholders is core to our long-term success.

All of this work is the foundation of our transformation to a Total Beverage Company, and it is producing results. In 2018, we achieved revenues of €6,657 million, up 6.0% in currency-neutral terms. Our comparable EBIT margin was 10.2%, up 70 basis points compared with 2017. Reported net profit was €447 million¹. With these results, we are on track to deliver on our 2020 financial commitments.

What were your personal highlights in 2018?

It was a great year on many fronts, but one of our key achievements was the launch of FUZETEA simultaneously in 27 of our markets at the start of the year. This launch was meticulously planned and the results have been impressive. With FUZETEA, we have seen volume growth of 1.5% in the ready-to-drink tea category in 2018 after several years of decline. I believe this shows the tremendous power of the Coca-Cola System, operating with both speed and scale to achieve a great result.

Another highlight was the work that went into the FIFA World Cup in Russia. The biggest sporting event in the world in our biggest market was always going to be a focal point for the year, and our team on the ground did a phenomenal job. Their excellent customer engagement and market activation around the event supported the 4.4% volume growth we achieved in Russia in 2018.

As a business driver, events such as the World Cup are not just a short-term boost to sales, they also support our long-term reputation and growth, and these benefits extend beyond the host nation. From an operational perspective, we delivered by getting the right drinks to meet the demand of fans in the 12 cities and FIFA Festivals, but also by ensuring that we collected and recycled our packaging. Working with The Coca-Cola Company and other partners, we supported the recycling of the equivalent of all the PET packaging distributed to FIFA stadiums by the Coca-Cola System during the tournament.

Of course, it was a great personal highlight to enjoy a Coke Zero while watching my team, Croatia, in the World Cup Final – even if the result didn't go the way I would have wanted.

Can you tell us a little more about the operational changes the shift to becoming a Total Beverage Company necessitates?

This change requires a faster pace of decision-making within the whole Coca-Cola System, which is being supported by even greater alignment between The Coca-Cola Company and the bottlers. We are creating a more agile, responsive system which allows us to roll out our successes with speed and to ensure we focus our efforts on the highest return opportunities, while eliminating unsuccessful products faster.

Many launches of new packs and flavours use our existing assets, by which I mean the manufacturing plants, the distribution centres and warehouses, through to our sales force and customer relationships. However, there are examples of new products that require specific investment. We have invested in a new line for GLACÉAU smartwater in Hungary for example, and another for AdeZ in the Czech Republic.

1. Net Profit and comparable net profit refer to net profit and comparable net profit respectively after tax attributable to owners of the parent.

This transition to being a Total Beverage Company allows us to offer an even more compelling proposition in more sales channels and more consumption occasions throughout the day. This requires additional sales capabilities and updates to our route to market. We are particularly excited by the opportunities that our evolving portfolio, including sophisticated, premium products, is giving us to improve our opportunities in premium hotels, restaurants, bars and cafés, and we have hired dedicated teams to address this channel directly.

What are the key projects you are undertaking in the Company to improve performance?

The full benefit of our expanded, innovative product portfolio will only be realised through targeted, effective marketing initiatives and ongoing revenue growth management initiatives.

We undertook a significant reboot of our route to market in 17 of our markets during the year. This work expanded our depth and breadth of coverage with a particular focus on high-potential channels. We are also working to make our customer relationships increasingly collaborative, focusing more of our actions on customer needs and prioritising outlets with the highest potential for collaboration and growth. Driving more value from every case we sell benefits our customers and us. To achieve this, we introduced new revenue growth management initiatives to improve category and package mix, as well as pricing and promotional management strategies.

Technological innovations also provide us with new opportunities to add value. For example by analysing patterns in cooler door openings alongside sales data, we can ensure our coolers are well placed to maximise growth. Coolers with internet connections can also automate inventory assessments. This frees up time for our sales people to do what they do best: sell our beverages to the customer with the best possible level of service.

Of course, you can see at once that the common factor for success in each of these areas is the crucial role of our people. We are passionate about creating an inclusive, growth culture that ensures that our people are not only engaged but empowered.

What are you doing to ensure that your people are engaged?

In the Company's 2018 employee engagement results, we saw a 1pp decline in engagement level to 88%. Our results for 2018 remain high compared to the FTSE 100 companies in the Willis Towers Watson benchmarking pool and the norm for FMCG companies. As our business evolves, our talented people are being asked to be even more agile and more entrepreneurial. We need to have a culture to support our growth ambitions. Feedback from our people tells us they are passionate about their work and our products and brands. They also see the potential to operate faster and are engaged by the opportunities to remove unnecessary bureaucracy and focus on results.

We have begun to simplify processes and address structural barriers, and we are asking our people to take intelligent risk where necessary. We are encouraging empowerment and personal accountability and to support this, we are focusing on providing faster feedback to our people so that we can all iterate and improve on a more continual basis. Supporting a shift in our culture is going to take time. This will be an ongoing priority for our leadership team and me.

You talk a lot about growth mindset, what does this mean to you?

As an organisation we have to focus on constantly improving, individually and collectively, to ensure that we keep growing, and our customers, partners and communities grow with us. This focus requires a mindset that understands the power of learning by giving and receiving honest feedback and then acting on it. We cherish the curiosity of our people which keeps them aware of ideas outside of our organisation and encourages them to bring the most inspiring ideas back into the Company. A growth mindset requires us to continue to embrace collaboration and innovation as ways of working and emphasises empowerment, personal accountability and an optimism in the potential of our people. It's been a big focus over the past year because we can only continue to drive forward with this growth mindset.

What have been the key challenges in 2018?

Although we have enjoyed strong growth in the majority of the Developing and Emerging markets in which we operate, the environment in Nigeria, with sluggish growth and an intense competitive dynamic, has been more challenging than we expected.

Nigeria remains a market with huge potential. We have worked hard in recent years to improve our flexibility to manage challenges, and we prepare meticulously, both for the most likely outcome and also for potential risks. The results we produced in Nigeria, achieving an increase in currency-neutral revenues of 5.0% compared with 2017, are testimony to our people's ability to adapt and take challenges in their stride. We have a lot of tools for addressing economic and competitive challenges – in particular using the full range of our brands and package sizes to expand our offer in the market. We were able to use these tools to help us stay on course.

The issue of plastic pollution seemed to shoot up the media and political agenda in 2018. How are you addressing this?

While plastic waste has received more high-profile attention recently in the media, it is an issue we have been working hard to tackle for years. We have continually redesigned packages to make them lighter and easier to recycle and we have made investments in technology that lets us use more recycled content in packages. In 2019, we will launch PET bottles for four water brands in 100% recycled PET, and use 50% recycled PET for both Coke and Coke Zero in Austria and Switzerland. This is an important trial which we will expand in the future.

We believe that a litter-free world is possible and that our industry has a key role and a responsibility to help achieve this. As part of our 2025 sustainability commitments, we set ambitions to ensure all our consumer packaging is 100% recyclable, that we use even more recycled PET in our bottles and that we help collect more after use. These commitments support the Coca-Cola System's World Without Waste goal of helping to collect and recycle a bottle or can for each one we sell by 2030.

Youth unemployment remains high in many markets. What are you doing to support young people?

Another of our 2025 sustainability commitments is designed to step up our efforts in this area.

Since 2015, we have been supporting young people in our markets who are not in education, employment or training by providing skills, networks and access to mentors to give them a leg-up to the employment ladder. While we are very proud of what we have accomplished through our Youth Empowered programme, we think we can do even more. We have therefore set ourselves a big goal of training one million young people by 2025 through the scheme.

What about the other commitments and sustainability more generally?

Beyond what we are trying to achieve with packaging and youth empowerment, we have set new ambitious 2025 sustainability commitments for emissions, water use and stewardship, World Without Waste, ingredients sourcing, nutrition and our people. These commitments are aligned to the UN Sustainable Development Goals (SDGs) which call on businesses, governments and individuals to work to end poverty, fight inequality and tackle climate change.

We have a strong track record of managing our business responsibly and sustainably, and we are proud of our continued leadership positions in the most recognised sustainability benchmarks, such as the Dow Jones Sustainability Index, CDP Climate, FTSE4Good and MSCI. We know that, ultimately, our success is linked to our ability to create sustainable value for all of our stakeholders, from customers and investors to the communities in which we work.

There is more about our approach to creating value for stakeholders in our stakeholder and business model sections on pages 10-11 and 14-16.

Now you've been CEO for over a year, what have you found most rewarding?

One of the many great things about being CEO is seeing and supporting the individual and team growth stories that contribute to the overall success of the business. I believe that we should never stop learning, personally and professionally; it's one of our key values and 2018 has certainly been another year of rich learning for our business. Our people are continuously building their capabilities through our Excel leadership training programme or the accelerator courses that our business developers and key account managers attend.

I find it particularly rewarding to see how our people drive solutions for our customers.

This is true of new ideas that make life easier for them, such as connected coolers and on-shelf technology to how we implement big scale challenges like introducing a new category in the form of AdeZ plant-based beverages or launching FUZETEA across 27 markets simultaneously. Again and again across the business, I see individuals and teams putting the customer front and centre of each thing we do by focusing their efforts on selling or helping us to sell.

What are the investment priorities for Coca-Cola HBC? You currently have a lot of cash. What will you do with it?

Our priority remains investment in the business, with a disciplined approach to capital expenditure and managing shareholders' capital. We have seen increased opportunity for investment in 2018 and our capex to sales ratio stood at 6.4%, an increase on the 5.8% ratio in 2017. We will continue to look at opportunities to make complementary bolt-on acquisitions, particularly in strong local water and juice brands.

We also operate a progressive dividend policy and in 2018 our dividend payout ratio was 43.6%. Finally, in the absence of the right investment opportunities we will seek to optimise the balance sheet, returning to our targeted net debt to comparable adjusted EBITDA target of 1.5-2.0 times.

What are the opportunities and challenges for 2019 and beyond?

In 2018, we delivered another very good performance with revenue growth above our target range and another step up in margins. Overall, we expect volume to continue to grow in all three segments and that we can continue to deliver currency-neutral net sales revenue per case improvement, accompanied by margin expansion.

The economic environment is expected to be less of a tailwind in 2019 in our territory. We believe, however, that we are well placed to withstand less favourable conditions. I am confident that 2019 will be another year of growth, both for the Company and our people, as we continue strengthening our capabilities, carry on improving the way we serve our customers and work collaboratively with all of our partners to create shared value.



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