Risk management

Business Resilience: Managing our risks and opportunities

Adopting an all-encompassing business resilience approach supports growth while protecting our business.

As we continue to operate in an environment that is shaped by uncertainty, ambiguity, complexity and volatility, we have adopted a combination of proactive and responsive strategies to address these challenges. These are managed through our Business Resilience function, which is headed by our Group Chief Risk Officer (CRO). The function draws together our Group-wide enterprise risk management, insurance, security, fraud control, crisis management and business continuity programmes. The Business Resilience team determines the strategy and then standardises and simplifies processes and structures across the programmes to ensure that all elements add value for our business.

In the area of risk management, the function collaborates with business units to identify, review and propose actions and mitigation plans to address risks arising from business activities. The greater visibility of this work, coupled with the wide spectrum of activities it covers, has strengthened our ability to manage risk, making us a more resilient business.

During 2015, we continued to roll-out our extensive enterprise risk management culture change programme, embedding risk management throughout the Company. The programme places an equal emphasis on having the right processes and tools in place, building our people’s risk management capabilities, and executing a strong change and communication plan. This provides us with a competitive advantage in the market and is a key to driving business growth in what continues to be a complex operating environment.

Our alignment with the changes to the risk elements of the UK Corporate Governance Code was further enhanced during the year, including redefining the Group’s risk appetite. As will be clear from the description of how we manage our material issues (see pages 16-21) we see effective risk management as a way of leveraging opportunities as well as mitigating risks. The CRO worked closely with the Audit and Risk Committee and the Board on the important element of risks and opportunities as an integral part of our risk strategy. We have thoroughly reviewed the Code, refining and aligning our processes to ensure full compliance. The Operating Committee and the Board receive regular updates on our progress toward alignment. Our focus is on risk management processes, principal risks and risk appetite, risk culture and risk assurance, risk profile and risk mitigation, monitoring and review activities, and risk communication and reporting.

We continue to enhance our enterprise risk management framework, ensuring that our risks and opportunities are visible and are managed within a consistent and standardised process. The framework provides both bottom-up and top-down risk identification, evaluation and management, ensuring that risks and opportunities are subject to continuous review at the business unit and corporate support function levels. The operational processes are supported by the work of the Group Risk Forum, which places a strategic lens on the aggregated risks from the operations. This information forms the basis of the data that links to our principal risks.

Enterprise risk management is as much about recognising and leveraging opportunities as about mitigating risks.
A robust framework

Within our ongoing management programme, the aggregated risks and opportunities are reviewed by the Group Risk Forum, the Operating Committee and, ultimately, the Board, with feedback provided to the business units and support functions.

The Group Risk Forum plays a pivotal role in the process, serving as an independent review mechanism and our internal think tank on strategic risk. Chaired by the CRO, the Forum includes senior business leaders from all functions and draws on their experience and insight to provide additional evaluation of the Group’s risks and opportunities. In particular, they examine the risks within the context of our strategic priorities of customer preference, consumer relevance, cost leadership and community trust. They also provide guidance and input on the principal risks, which are subsequently reviewed by the Operating Committee and the Board.

The Group Risk Forum, the Operating Committee and the Board also view risks in the context of our assessment of the most material issues for our Company. (See page 16 for more on how we assess materiality.) By considering business risks in the context of materiality, we fine-tune our prioritisation and ensure that we take into account the perspectives of key stakeholders.

Our enterprise risk management programme solidifies our competitive advantage.
A process-oriented approach to risk management

The Board is ultimately responsible for the Group’s risk management and internal control systems, and for reviewing their effectiveness. The Board defines the Group’s risk appetite and monitors risk exposure to ensure that the nature and extent of the principal risks facing the Company are managed in alignment with our goals and objectives. While responsibilities for overseeing these important ongoing processes rest with the Audit and Risk Committee, the Board as a whole is informed of the outcomes and all significant issues and evaluates the risks on a quarterly basis.

The detailed process of risk identification, review and escalation includes the following steps:

– Regular risk assessments are conducted within markets and corporate office support functions to assess progress with risk mitigation.
– Significant operational risks and associated management actions are escalated to the Region Directors and the Business Resilience Function.
– The Company’s Group Risk Forum reviews the identified risks and presents issues relating to critical exposure to the Operating Committee.
– The Operating Committee reviews critical risk exposures and subsequently reports material changes and mitigating actions to the Audit and Risk Committee.

Functional collaboration is central to the success of the programme and strong partnerships have been established with the Sustainability, Health and Safety, and Internal Audit functions. Continuous process improvement occurs by sharing best practice throughout our Company and across the Coca-Cola System through regular meetings.

Key features of our enterprise-wide risk management system are:

– Group statements on strategic direction, ethics and values.
– Clear business objectives and business principles.
– A formalised risk management policy.
– Clearly defined risk universe aligned to our strategic priorities: Community Trust, Consumer Relevance, Customer Preference and Cost Leadership.

– A continuous process for the identification and evaluation of significant risks to the achievement of business objectives.
– Implementation of management processes to mitigate significant risks to an acceptable level.
– Implementation of a cultural change programme to embed risk management into the fabric of the business.
– Focus on enhancing risk management capabilities of all line managers across all operations and functions.
– Adoption of risk management software, which streamlines both information collection and risk aggregation.
– Continual monitoring of our internal and external environment for factors that may change our risk profile.
– Annual evaluation of both the type and amount of external insurance purchased, with reference to the availability of cover and cost, measured against the likelihood and magnitude of the identified risks.

Defining our principal risks

Our strategic priorities provide the context for guiding us in the management of the risks faced by our business. The most important risk categories are macroeconomic and operational. Macroeconomic risks relate to the external environment and the markets in which we operate. We have less control over these risks than we do over operational risks, such as product quality. The overview of our most important risks does not include all the risks that may ultimately affect our Company. Some risks not yet known to us, or currently believed to be immaterial, could ultimately have an impact on our business or financial performance. We remain constantly vigilant to changes to our economic and regulatory operating environments, to ensure we proactively identify and evaluate new risks. Our enhanced ability to aggregate and analyse risk, together with the enhanced role of the Group Risk Forum which now functions as a strategic “think-tank”, coupled with detailed discussions with the Operating Committee and the Board, led us to identify four existing business risks, for elevation to principal risks in 2015. These build on our 2014 principal risks and in summary they address the areas of sustainability, cyber security, business transformation and legal and regulatory compliance.
## Our principal risks

<table>
<thead>
<tr>
<th>Principal Risks</th>
<th>Risk</th>
<th>Impact</th>
<th>Key Mitigations</th>
<th>Risk Universe</th>
<th>Strategy</th>
<th>Risk Status</th>
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<tbody>
<tr>
<td>Breach of laws or regulations</td>
<td>Inadvertent non-compliance with the wide-ranging local laws and regulations that exist across our diverse mix of markets.</td>
<td>- Damage to our corporate reputation</td>
<td>- Annual “tone from the top” messaging</td>
<td>Legal and Regulatory</td>
<td>Community Trust</td>
<td>New</td>
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<td></td>
<td></td>
<td>- Significant financial penalties</td>
<td>- Code of business conduct training and awareness</td>
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<td>- Management time diverted to resolving legal issues</td>
<td>- Anti-bribery policy and compliance training</td>
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<td>- Internal control assurance programme with local management accountability</td>
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<td></td>
<td>- Risk-based internal control framework (2015)</td>
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<td></td>
<td></td>
<td></td>
<td>- Speak Up hotline implemented (2015)</td>
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<td>- Legal function in constant dialogue with regulators</td>
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<td>- Risk-based internal control framework (2015)</td>
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<td>- Project plans and change management strategies in place</td>
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<td></td>
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<td>- Board and Operating Committee conduct regular tracking of actual performance against the business case</td>
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<td>Change management</td>
<td>Failure to effectively execute major business transformations, or performance issues with third-party providers that we deploy as part of our business transformation.</td>
<td>- Under-delivery of expected transformation results</td>
<td>- Project plans and change management strategies in place</td>
<td>Business Transformation</td>
<td>Customer Preference</td>
<td>New</td>
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<td></td>
<td></td>
<td>- Disengaged employees</td>
<td>- Board and Operating Committee conduct regular tracking of actual performance against the business case</td>
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<td>- Reduction in profitability</td>
<td>- Project plans and change management strategies in place</td>
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<td>- Market confidence in our ability to deliver on strategy is weakened</td>
<td>- Board and Operating Committee conduct regular tracking of actual performance against the business case</td>
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<td>- Corporate reputation is adversely affected</td>
<td>- Project plans and change management strategies in place</td>
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<td>Climate, carbon and water</td>
<td>Failure to meet our stakeholders’ expectations in making a positive contribution to the sustainability agenda, particularly relating to climate change, carbon emissions and water usage.</td>
<td>- Long-term damage to our corporate reputation</td>
<td>- Water stewardship programmes that are reducing our water consumption</td>
<td>Sustainability</td>
<td>Community Trust</td>
<td>New</td>
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<td>- Less influence in shaping the citizenship and sustainability agenda</td>
<td>- Carbon and energy management programmes</td>
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<td>- Packaging waste management programmes</td>
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<td>- Partnering with NGOs and INGOs on common issues such as nature conservation</td>
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<td>- Partnering with local communities to minimise environmental impact</td>
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<td>- Focus on sustainable procurement</td>
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<td>Cyber attacks and system availability</td>
<td>Dependence on IT systems and infrastructure in our interaction with our customers, suppliers and consumers together with the protection of the data we have created, or that has been provided to us.</td>
<td>- Financial loss</td>
<td>- Monitoring, identification and addressing cyber threats and suspicious internal computer activity</td>
<td>Cyber Security</td>
<td>Customer Preference</td>
<td>New</td>
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<td></td>
<td></td>
<td>- Operational disruption</td>
<td>- Training on information management and the protection of information</td>
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<td></td>
<td>- Damage to corporate reputation</td>
<td>- Disaster recovery testing and building resilience into our cyber risk programme</td>
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<td></td>
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<td>- Non-compliance with statutory data protection legislation</td>
<td>- Disaster recovery testing and building resilience into our cyber risk programme</td>
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</table>

**Key**

- Increased
- No change

**New:** business risk elevated in 2015 to a principal risk via robust evaluation process.
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| Channel mix    | A continued increase in the concentration of retailers and independent wholesalers on whom we depend to distribute our products. The immediate consumption channel remains under pressure as consumers switch to at-home consumption. | Reduced profitability | - Continued to increase our presence in the discounter channel during 2015  
- Collaboration with customers to identify opportunities for joint value creation  
- Right Execution Daily (RED) strategy continues to support our commitment to operational excellence | Commercial and Competition | Customer Preference |  |
| Consumer health| Failure to adapt to changing consumer health trends and addressing the misconceptions on the health impact of soft drinks. | Focus on product innovation | - Focus on product innovation  
- Expand our range of low- and no-calorie beverages  
- Reduce the calorie content of products in the portfolio  
- Clearer labelling on packaging  
- Promote active lifestyles through consumer engagement programmes focused on health and wellness | Beverage Category Acceptability | Consumer Relevance |  |
| Declining consumer demand | Challenging and volatile macroeconomic conditions can affect consumer demand. This includes political and security instability in Russia, Ukraine and Nigeria. | Eroded consumer confidence affecting spending | - Seek to offer the right brand, at the right price, in the right package, through the right channel  
- Robust security practices and procedures to protect people and assets  
- Crisis response and business continuity strategies | Political & Security Stability | Customer Preference |  |
| Foreign exchange | Foreign exchange exposure arising from changes in exchange rates between the Euro, US Dollar, and other currencies in the markets we serve. | Negative EBIT impact | - Treasury policy requires hedging of 25% to 80% of rolling 12 month forecasted transactional exposure  
- Hedging beyond 12 months if forecast transactions are highly probable  
- Derivative financial instruments are used, where available and/or appropriate, to reduce net exposure to currency fluctuations | Tax & Treasury | Cost Leadership |  |
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| People and talent | Inability to attract and retain sufficient numbers of qualified and experienced employees in competitive talent markets and inability to ensure their ongoing engagement and commitment. | - Failure to achieve our growth plans | - Focus on developing leadership talent  
- Right people in the right positions across the business  
- Focus on employee engagement ensuring support for our values  
- Promote operational excellence  
- Create shared value with the communities in which we work to ensure we are seen as an attractive employer | Employee Engagement & Retention | Community Trust |  |
| Quality | The occurrence of quality issues, or the contamination of our products. | - Reduction in volume and net sales revenue  
- Damage to brand and corporate reputation  
- Loss of consumer trust | - Stringent quality processes in place to minimise the occurrence of quality issues  
- Early warning systems (consumer information centres and social media monitoring) that enable issue identification  
- Robust response processes and systems to address quality issues, ensuring customers and consumers retain confidence in our products | Product Quality & Food Safety | Consumer Relevance |  |
| Strategic stakeholder relationships | We rely on our strategic relationships and agreements with The Coca-Cola Company, Monster Energy and our premium spirits partners. | - Termination of agreements, or less favourable renewal terms than currently experienced, could adversely affect profitability | - Management focus on effective day-to-day interaction with our strategic partners  
- Working together as effective partners for growth  
- Engagement in joint projects and business planning with a focus on strategic issues  
- Participation in 'Top to Top' senior management forums | Stakeholder Relationships | Community Trust |  |
| Taxation | Regulations on consumer health and the risk of the targeting of our products for discriminatory tax and packaging waste recovery. | - Reduction in profitability | - Proactively work with governments and regulatory authorities to ensure that the facts are clearly understood and that our products are not singled out unfairly  
- Shape sustainability agenda relating to packaging and waste recovery  
- Engage with stakeholders, including NGOs and the communities in which we operate, on strategies to protect the environment | Legal and Regulatory | Community Trust | ![Increased]
Viability statement

1. Assessment of prospects

Our business model and strategy, as outlined on pages 8 and 12 of this report, are key underlying factors for understanding and assessing our prospects. Our strong sales and execution capabilities, attractive geographic diversity, market leadership, global brands, and diverse beverage portfolio are the fundamentals of the Group’s business model and have been in place for several years. Our strategy has been adapted over time in order to sustainably create value for our shareholders, suppliers, employees, customers and communities we serve.

The Group’s business model has proven to be strong and defensive even in challenging market conditions and our Board has historically applied a conservative approach to the Group’s decisions relating to major projects and investments. From 2010 to 2015, we generated free cash flow of at least €3.33m per annum with an average of €4.12m.

The Board considers that our diverse geographic footprint including exposure to emerging markets with low per capita consumption, and our proven strategy in combination with our leading market position and our proven strategy in combination with our strong sales and execution capabilities, at attractive geographic diversity, market leadership, global brands, and diverse beverage portfolio are the fundamentals of the Group’s business model and have been in place for several years.

The assessment process and key assumptions

Qualitative and quantitative assessments formed the central pillars of the assessment process. The qualitative assessment analysed the internal processes of Enterprise Risk Management; Business Planning (both short and long term); and Liquidity Management to ensure that the risks to viability are understood and managed. This process aligns with, and draws on, the analysis and evaluation of the Group’s principal risks as disclosed on pages 55-58. The Board has concluded that the Company’s processes provide a comprehensive framework that effectively supports the operational and strategic objectives of the Group and provides a robust basis for operation and meet its obligations as they fall due over the period of assessment.

Supporting the qualitative assessment is the quantitative analysis that includes both sensitivity and stress testing. The quantitative assessment is performed through financial modelling evaluating the financial performance of the Group over a rolling five-year period, including but not limited to our ability to generate cash, as well as determining the financial headroom available at the end of each financial period. The model combines financial data from both the short and the long-term planning processes. In terms of the assumptions used we have taken into consideration, among others, the Group’s expectations on key microeconomic data in the territories in which we operate such as gross domestic product, inflation and unemployment rate (factors impacting our customers’ disposable income and consequently our sales volume and revenues), key raw material costs (including concentrate, sugar, PET and aluminium), foreign currency rates, the level of spending for production overheads and operating expenses, working capital levels and capital expenditure.

2. Assessment of viability

While the five-year long-term plan, approved by the Operating Committee, reflects the Directors’ best estimate of the future prospects of the business, the potential impact of the principal risks on the Group have also been tested. The Board has drawn on these robust assessments of the principal risks, including events that could threaten the business model, future performance, solvency and liquidity of the Group in combination with the qualitative assessment and the stress testing. The period of viability has also been considered in terms of the Group’s debt profile where the majority of the long-term borrowings have a minimum five-year maturity upon issuance together with our impairment review process, where goodwill and indefinitely-lived intangible assets are tested based on five-year forecasts (plus perpetuity considerations). Stress testing was performed on a number of scenarios including different estimates for sales volume and revenues, foreign currency rates and raw material costs, in addition to the sensitivity analysis inherently incorporated in our planning process. Our stress testing showed that due to the stable cash generation of our business, the Group would be able to withstand the impact of these scenarios occurring over the period of the financial forecasts by making adjustments, if required, to its operating plans within the normal course of business. From the undertaking of these processes the Board has concluded that the Group is well positioned to effectively manage its financial, operational and strategic risks.

3. Viability Statement

Based on our assessment of prospects and viability as outlined above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue operating and meet its liabilities as they fall due over the five-year period ending 31 December 2020.