3

GROWTH PILLAR

# FUEL GROWTH THROUGH COMPETITIVENESS & INVESTMENT

**KPIs**

- OpEx as a % of NSR
- CapEx as a % of NSR
- Comparable EBIT margin
- ROIC

**Stakeholders**

- Partners in efficiencies
- Shareholders

**Risks**

- Cyber incidents
- Foreign exchange and commodity costs
- Geopolitical and macroeconomic
- Ethics and compliance

## Highlights in 2019

- Introduced automatic line changeovers to improve production flexibility
- Invested in augmented reality technology for increased efficiency
- Continued investing in automatic guided vehicles and high-bay warehouses
- Invested in growth-focused areas such as big data and advanced analytics, production capacity and connected coolers
- Introduced 100% recycled PET in four water brands

## Priorities in 2020

- Continue increasing production flexibility to support our 24/7 portfolio and innovation
- Continue to focus on automation in all areas including production and warehousing
- Introduce innovative carton packaging to reduce plastic use
- Invest in new technology to produce 100% recycled PET widely at an affordable cost

## Optimising infrastructure

Our drive to optimise and develop our infrastructure to support growth and produce an expanded 24/7 portfolio continued in 2019. By centralising our production planning system for the whole Group, with each plant serving regional needs, we have been able to meet market demand with speed and agility. We are currently expanding production capacity in targeted markets, including Nigeria and Russia, where we anticipate strong future growth.

To support innovation, we upgraded production lines so that our manufacturing capabilities reflect our diverse product portfolio. We made investments to support the new premium glass packaging for FUZETEA in the Czech Republic and Romania and for Coca-Cola Energy in Hungary. During the year, we also made additional investments to support the production of Cappy Lemonade and Coca-Cola signature mixers in Romania.

Investments made in Italy during the year included new production capabilities for different package sizes, a new aseptic PET line at our Nogara plant to accommodate our expanded 24/7 portfolio and new TriBlock technology in a PET line in our Marcianise plant. TriBlock technology helps us use production space more efficiently and reduce water and energy consumption.

To manage the increased output from our mega plants and the complexity of our expanded 24/7 portfolio, we continued investing in automation for our high-capacity warehouses. Automated warehouses, and automatic guided vehicles, improve both efficiency and service quality.

At our distribution centre in Northern Greece, we piloted augmented reality glasses to help our warehouse colleagues find products and pack orders for delivery. The positive results, with improvements in service and transaction speed and excellence, led us to introduce the technology to an additional seven locations in 2019 and we plan for further rollout across our 28 markets in 2020.

Beyond logistics, we also improved our manufacturing efficiency. In Bulgaria and the Czech Republic, we introduced automatic line changeovers to reduce idle production time and increase our effective production capacity. These lines are particularly well suited for small batch production, which improves our flexibility and helps us cater to changing consumer preferences. Additional investment in automatic line changeovers is planned for 2020 in Poland, Romania and Russia.

We have implemented split maintenance, which spreads maintenance activities more evenly across the year, and we are moving towards a predictive maintenance model. The move from one annual maintenance overhaul for manufacturing equipment to a more spread out maintenance schedule helped us reduce down time by approximately 6,500 production hours in 2019 compared with 2018. We made our first investments in predictive maintenance during the year, using machine learning to recognise patterns and generate insights to further improve the efficiency and effectiveness of our maintenance schedule.

In the five plants where this technology has been introduced, emergency breakdowns have been reduced by 30% resulting in a 2% increase in line capacity.

In 27 of our plants, we are now using smart glasses to resolve production line issues faster, capitalising on remote technical support from equipment manufacturers. This technology helps us resolve emergency incidents 70% faster than if a technician had to come to resolve problems on site and it will be rolled out in an additional 16 plants in 2020.

Across the business since 2008, our optimisation work has resulted in a 30% reduction in plants, from 80 to 56 at the end of 2019. At the same time, we increased our production lines per plant by 40% which allowed us to maintain our capacity and create more efficient and flexible facilities. To improve our service offering while reducing our costs, we have also reduced our distribution centres by 65% and our warehouses by 34% over the same time period.

Nigeria is a good example of our focus on≈fuelling growth through investments in efficiency. The country represents a key growth market for our business and one of the most challenging environments from a supply chain perspective. Since 2014, we have reduced our Nigerian production footprint by 38% while optimising our logistics network with a 74% reduction in distribution centres. By eliminating non-essential infrastructure and costs, the country has become more efficient and flexible for further growth.

# **Fuel growth through competitiveness & investment** continued

## Leveraging technology and big data

We are making investments in technology to provide a better and faster service. In 2019, we continued building a powerful network of connected coolers that maximises performance by tracking door openings, supporting automatic stocking and ordering and freeing up time for sales people to spend with our customers.

A productivity assessment in Bulgaria found that connected coolers increased sales team productivity by 117 minutes per month, equivalent to four selling days per year, while boosting incremental sales by 3.2%.

Our sales force automation tool gives our sales people easy access to critical data, including information from coolers, in a single user-friendly solution which is tablet-based in most markets. This technology boosts sales process effectiveness and agility with real-time performance measurement and execution tracking. Across our markets in 2019, we increased the use of our sales force automation tool by 7pp compared with the prior year.

We are also investing in big data and advanced analytics to identify and capture value creation opportunities. Leveraging our extensive customer and market data allows us to make better decisions faster and implement laser-focused initiatives that generate incremental value. In select Nigerian outlets where we trialled this approach in 2019, we achieved a 32% average increase in sales volumes.

In addition to outlet segmentation, our investments in analytics allow further optimisation in supply chain, minimising out-of-stocks with faster, more efficient responses to demand fluctuations. In 2020, we will deploy a machine learning solution that will have a demand forecasting process based on analytics in Italy, Greece, Romania and Poland.

## Robotic process automation and master data

Following the 2018 implementation of robotic process automation (RPA) to execute basic tasks in our shared Business Service Organisation (BSO) in Sofia, we achieved cost and process efficiencies. During 2019, we expanded RPA use to additional processes in Sofia and in our Russian BSO, automating a total of 102 processes.

For example, we now have an RPA application extracting customer balances from SAP and sending them to customers by email and creating payment batches for weekly supplier payments. In 2020, we will implement this technology in other areas of the organisation including supply chain management, treasury and human resources.

Another area of enhanced efficiency is maintenance of our Company data relating to customers, suppliers and materials, called master data. We have implemented a new technology solution that has not only improved the quality and accuracy of our master data but has also reduced the cost per processed transaction.

## Smarter procurement and joint initiatives

As part of ongoing efforts to digitalise our procurement processes, we are implementing a variety of new tools. We kicked off the implementation of SAP Ariba e-procurement software across our Company, a process we expect to complete by 2021. We also launched a new digitally-based buying platform to procure materials supporting our trade marketing. Following an initial rollout to four markets, it will be implemented in all of our other markets by late 2020. We have selected the Merkateo procurement platform as our preferred solution for cost-effectively managing smaller procurement orders, based on the success of a 2019 pilot in Austria. The platform will be available in seven markets by the end of 2020.

Changes in regulation in the EU sugar market have brought it more in line with global price setting practices, subsequently affecting global sugar prices. Capitalising on this opportunity along with other Coca-Cola bottlers, we have requested that all our sugar suppliers offer pricing formulas that reference the world benchmark contract for raw sugar trading. This gives us the option to use financial derivatives to mitigate the risk of sugar price volatility.

In line with our continuous efforts to improve operational efficiency and support our sustainability agenda, we have worked to continuously improve and reduce product packaging. Efforts to make our cans the lightest in the market are underway, with an aim of reducing our average aluminium can weight by 2%. We managed to reduce the weight of our 33cl can by 4% during 2019, and expect to achieve an additional 4% reduction by 2021.

> **"OUR SALES FORCE AUTOMATION TOOL GIVES OUR SALES PEOPLE EASY ACCESS TO CRITICAL DATA, INCLUDING INFORMATION FROM COOLERS, IN A SINGLE USER-FRIENDLY SOLUTION WHICH IS TABLET-BASED IN MOST MARKETS."**

We are making similar improvements to plastic packaging. Our aggressive PET bottle light-weighting programme reduced our Group-wide use of PET by 6,000 tonnes in 2019 compared with the prior year. We introduced our first 100% recycled PET bottles for water brands in Austria, Ireland, Switzerland, Croatia and Romania as part of a long-term effort to increase our use of recycled PET. In 2020, we will continue to expand this approach and we will invest in an innovative technological solution in Poland to produce 100% recycled PET bottles.

We are also one of the first bottlers in the Coca-Cola System to move to replace plastic wrap on can multi-packs with a sustainable, paperboard packaging solution, KeelClip™. The first countries to start introducing this will be Ireland, Poland, Austria and Romania. Meanwhile, we are exploring other sustainable solutions to replace stretch and shrink films.

We have guidelines and tools for supplier selection and governance, including Supplier Guiding Principles, and sustainability criteria for supplier selection are an integral part of our supply assessment process. On an ongoing basis, we monitor the activities of our critical suppliers through our internal supply base assessments, audits of compliance and the EcoVadis platform. EcoVadis helps us monitor a range of risks using 21 criteria from international standard setters including the UN Global Compact, ISO 26000, the Global Reporting Initiative and the International Labour Organization.

In 2019, more than 450 of our critical suppliers were assessed using EcoVadis and our plans are to expand the use of these assessments for better, more objective supplier monitoring.

To increase awareness of sustainability in our supply chain, during 2019 we held sustainability days with strategic suppliers in Russia, Austria and Hungary. These events create opportunities to identify joint sustainability initiatives and share our corporate social responsibility policy, sustainability commitments and best practices.

## Sustainable sourcing

The sourcing of our raw materials accounts for a large portion of our economic, operational and environmental footprint, and the behaviour of our suppliers directly impacts our sustainability performance. We therefore consider our suppliers as critical partners, as well as contributors to the ongoing and sustainable success of our business.

As part of the Coca-Cola System, we have a uniform approach to sustainable agriculture, which is rooted in the principles of protecting the environment, upholding human and workplace rights, and helping to build more sustainable communities. These principles are showcased in The Coca-Cola Company's Sustainable Agriculture Guiding Principles, which provide guidance to our suppliers of agricultural ingredients.

The scale and uniform approach of the Coca-Cola System helps us source our raw materials sustainably, while mitigating business risks. This helps us balance the costs of sustainability by leveraging relationships and initiating new opportunities, ensuring that our agricultural suppliers and their suppliers have a sustainable business. All suppliers are required to meet our Supplier Guiding Principles. These principles communicate our values and expectations of compliance with all applicable laws, and emphasise the importance of responsible workplace practices that respect human rights.

This framework for sustainable sourcing is integrated into internal governance and procurement processes. Our 2025 target for ingredient sourcing is to achieve 100% certification of our key agricultural ingredients against the Sustainable Agriculture Guiding Principles. In 2019, 74% of the key commodities we purchased for use as ingredients were certified, up from 64% in 2018. Our work to certify our key agricultural ingredients will continue to expand in 2020, with close cooperation with suppliers who are still progressing towards certification.


## UN Sustainable Development Goals

Our sustained efforts to reduce our costs and improve our impact have generated significant results for our business, our communities, society and the environment. These results correspond to contributions to the Sustainable Development Goals for clean water and sanitation, clean energy, economic growth, industry innovation, sustainable communities, responsible production, climate action, life below water and life on land.