Managing risk and materiality *continued*

We moved to strengthen our cyber-security programme through improving identity protection, securing an increasingly remote workforce and reducing vulnerabilities by hardening our IT environment. In addition, we developed a cyber incident management and crisis resolution (IMCR) plan, fully integrating our cyber response with our well-established IMCR programme. The plan was tested using simulations at business unit, Group and Executive Leadership Team levels.

Many of our office-based employees continued to work from home in line with government guidelines and our processes for managing COVID-19 transmission risk. In 2021, the Company started to transition some offices to permanent flexible working arrangements enabling our employees, at their request, to continue to work from home for at least part of their working week. Several policies and procedures were implemented to ensure a safe working environment at home. As noted in the Emerging Risks section, we will continue to monitor the impact of these new working arrangements.

In 2021, we saw government initiatives aimed at introducing or increasing taxes in a number of areas relevant to our business. In Poland for example, the introduction of a broad-based beverage tax had a significant impact at a time when the business was already under pressure from input cost increases. Governments are increasingly turning to levying additional taxes to respond to economic conditions, including increased debt levels, as well as public concerns on matters such as the health impact of sugar and single-use plastics.

Sustainability remained top of mind for our business and our stakeholders in 2021, notably including our commitment to NetZero emissions by 2040.

We made significant progress on our quantitative assessment of climate change risks with the development of our 2021 water risk assessment (see page 71). Water is fundamental to our business and climate change will have a significant impact on the water sources that our local communities and our business rely upon. The water risk assessment better enables us to focus our investment and resources on water priority areas for our long-term management plans to assure supply and business continuity.

We continued to work to reduce and manage plastic packaging waste. We believe that, wherever possible, collection systems should be established at a national level. Where effective systems don't exist, we participate actively to support the set-up and implementation of new packaging collection schemes. However, delivering this sort of meaningful change takes time and our progress has been incremental.

A broader discussion on our climate-related risks, their link to materiality, and our risk management approach is provided as part of our statement on implementing the recommendations of the Task Force on Climate-related Financial Disclosures located on pages 66-67.

One of the fallouts of the COVID-19 pandemic was higher than normal resignation rates reported by many companies – often referred to as the 'Great Resignation'. We maintained good retention rates (85% in 2021 vs 89% in 2020) although we did see challenges in certain employee groups, primarily truck drivers and business developers in some countries.

Emerging risks

Employee health and engagement in new ways of working

One of the outcomes of the COVID-19 pandemic has been a rise in the number of our people working from home. As home working or hybrid arrangements are becoming more permanent, the Company has less direct control over the provision of safe and productive working conditions as we do in our office spaces. This increases the risk of occupational injuries impacting employee safety and our reputation as a caring, responsible employer; as well as increased costs of lost time and potential compensation claims.

In addition, the risk of our people feeling isolated and less engaged increases. This may impact their mental health and reduce the level of teamwork; and individual and group productivity which is critical to meeting one of our strategic Growth Pillars, see 'Cultivate the potential of our people' pages 40-42. It may decrease our attractiveness as an employer of choice and decrease our retention rates. It is critical that our line managers have the right skills to support our people to stay connected and engaged with the Company. We also need to utilize new technologies to support productive work, team building and engagement.

We will continue to monitor the impact of new working arrangements through employee listening mechanisms, including regular employee surveys, as well as provide support through our employee assistance programme and Mental Wellbeing policy, guidance and other support materials.

Changing retail landscape

The Covid-19 pandemic has had both positive and negative impacts on retailers. We expect continuing changes as large retailers and buying groups grow and consolidate, increasing their pricing power. This can lead to increasing pricing pressure on our business which could reduce our profits.

Smaller retailers have continued to face challenging economic conditions and in some cases the removal of government subsidies in some countries may have further negative impact on them. Our business is significantly dependent on smaller retailers to deliver our products to consumers, particularly in emerging markets. If smaller retailers don't survive, we may lose part of an important channel for delivering our products to consumers which could reduce our revenue. It is important that we continue to assist smaller retailers by helping them build their capabilities and leveraging our growing e-Commerce expertise.

A significant part of changes in retail is the continuing growth of e-commerce. E-commerce provides exciting opportunities for our company to enhance our relationship with customers and consumers that can drive revenue growth. In 2021 for example, we more than quadrupled orders made on our online customer portal to over 8% of all transactions. Our e-Commerce sales grew by 87%.

As digital and e-commerce grows, competition from new entrants and existing industry competitors; or failing to invest sufficiently or implementing an effective digital commerce strategy could impact our revenue growth.

Sustainable sourcing

In the short to medium term, we expect increasing environmental, social and corporate governance (ESG) due diligence requirements across our supply chain, including new directives such as the EU Mandatory Due Diligence regime. While we have a good understanding of ESG performance in our larger suppliers, we may increasingly be held responsible for the actions or lack of compliance of suppliers deeper in our supply chain where we have less visibility. This increases the amount of management time spent in due diligence and can lead to reputation risks, and fines as well as additional costs in finding alternative suppliers.

Our relationships with suppliers are critical for us to meet our sustainability objectives as outlined in Growth pillar 'Earn our licence to operate' page 48 and 'Fuel growth through competitiveness and investment' on pages 35-36. To ensure that we are able to meet increasing stakeholder and regulatory expectations, we will continue to build our relationships with suppliers through initiatives such as our supplier sustainability forums as well as greater engagement to ensure more sustainable sourcing (e.g. training, joint initiatives, joint sustainable goal setting etc.)

In the longer term, many of our suppliers, particularly in key agricultural ingredients such as sugar and fruit juice, will be impacted by climate change. This could lead to increased costs due to increased scarcity or having to use alternative suppliers or ingredients. As part of our climate risk assessment process, we are conducting deeper assessments into the potential impact of climate change on our suppliers and the implications for our business. We will continue working with our suppliers to support them in setting and delivering science-based carbon reduction targets.

Risk management in action

Egypt in focus

In the second half of the year, the Company announced that it would acquire Coca-Cola Bottling Company of Egypt (CCBCE) and the acquisition was completed in January 2022

Although CCHBC has considerable experience in working in emerging markets, Egypt has a unique risk profile. We are working closely with the Egyptian team to better understand the risks and opportunities inherent in the business and to share best risk management practices. Coca-Cola HBC and CCBCE established a joint integration management team in late 2021 to ensure seamless transition of the Egyptian business into our ERM and IMCR programmes in 2022.

Political and security context

After a number of tumultuous years, the current Egyptian government has been very stable. The recent lifting of the state of emergency that had been in place since 2014 and a statement of support from the IMF on its macroeconomic reforms are indicators of a positive outlook.

Major infrastructure projects including the construction of rail networks, roads and bridges are also providing jobs and stability.

Our Egyptian business has a very robust security programme, led by an experienced management team that will continue to monitor the security environment and maintain effective mitigation programmes to protect our people and our key assets.

Competitive environment

As Egypt is one of the few countries in the world where Coca-Cola does not have leading market share, we expect our primary competitors to be concerned about the additional capability that Coca-Cola HBC will bring to support an already successful business. We expect them to respond strongly. We are very positive about the impact enhanced route-to-market and revenue growth management capabilities will have on our competitive position in the medium to longer term.

Economic conditions

Egypt has a relatively high inflation rate and also imports ingredients paid in US dollars. Exchange rate fluctuations and inflation may affect the profitability of the business. CCHBC has well developed capabilities to manage these uncertainties.

Sustainability

While the Coca-Cola business in Egypt has prioritised several key areas in its own sustainability strategy, such as packaging collection, community investment and water stewardship, there are other areas that will require focus and investment to bring them in line with our sustainability goals. CCHBC is committed to doing this as part of our long-term sustainability strategy.

Water

Egypt is almost entirely dependent on the River Nile as its source of water. Ethiopia's construction of the Great Renaissance Dam across the Blue Nile, which provides around 85% of the Nile's water, has led to tensions over water access. This is a key risk for Egypt. We remain optimistic that the countries impacted, primarily Egypt, Sudan and Ethiopia, will find a peaceful long-term solution that will allow Egypt to meet its water needs into the future.