CORPORATE GOVERNANCE (BINBO1427E)
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CORPORATE GOVERNANCE

Coca-Cola
Hellenic Bottling Company

CORPORATE GOVERNANCE REPORT

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B.SC. IN INTERNATIONAL BUSINESS

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INTRODUCTION

Our company, Coca-Cola Hellenic Bottling Company (CCHBC) was formed through a merger of Hellenic Bottling Company SA and Coca-Cola Beverages PLC in the year 2000, although our rich history dates back to Lagos, Nigeria in 1951 when we were founded by AG Leventis *(Our History | Coca-Cola HBC)*. Our growth journey brought us from Lagos, Nigeria, through Athens, Greece, and to our current headquarter in Steinhausen, Switzerland. Our 70 year history has led to the development of deep core values, ones we wish to stay true to, even in times of crisis.

At CCHBC, we specialize in the bottling and selling of beverages of the Coca-Cola Company and other partners. We have a broad portfolio consisting of beverages for all demographics and occasions, including Coca-Cola, Aperol, Fanta, FuzeTea, SmartWater, Monster, Sprite, Costa Coffee, and much more *(Our 24/7 Portfolio | Coca-Cola HBC*). Our widespread portfolio contributes to risk diversification as our revenue streams are spread across the entirety of the beverage industry[1], from sparkling beverages to coffee, and everything in between, as well as snacks in supplement hereto. Our portfolio is, however, definitely not the only element of our business we have to be proud of.

We have seen tremendous growth since our founding and are currently operating in 29 markets across 3 continents, with a total of 36,000 employees, and serving 715 million consumers. In fiscal year 2021, we reached a net profit of 547.2 € million[2], which equates to a growth rate of 31.9% from the previous fiscal year 2020 *(Coca-Cola HBC, 2021)*. We are listed on the London Stock Exchange, as well as the Athens Exchange, and are amongst the companies with the highest market capitalizations, shown by our FTSE (Financial Times Stock Exchange) 100 company listing. We are also leaders of the sustainability agenda, and our efforts have rewarded us with an AAA rating from MSCI ESG, as well as a first-place ranking in the Dow Jones Sustainability Index within the beverage industry.

Faced in times of turbulence, our broad portfolio and governance practices have helped us regain our growth and profitability, this is at least what we have observed following the Covid-19 pandemic. We ended the fiscal year 2021 with greater volumes, revenues, and profits than in 2019, despite the Covid-19 pandemic, due to our long-term value maximization strategy. This long-term focus is especially critical to hold on to as we face yet another crisis, the Russian invasion of Ukraine, a war with significant effects globally, and one forcing us to meticulously evaluate our values, goals, and to whom we as a company are socially responsible.

This report aims to assist all of us within CCHBC in reflecting upon the core areas of our governance in which we can improve, in order to maintain, reassess, and rebuild our goals and values in this time of crisis, ensuring value maximization for all stakeholders.

[1] See Appendix 1. Revenue Percentage by Category
[2] See Appendix 2. Annual Report Financials 2021

OWNERSHIP STRUCTURE

Our ownership structure at CCHBC is concentrated[3], with two major block holders, The Coca-Cola company with 21% shares, and Kar-Tess with 23% shares, and with the remaining 56% being free-float, 2/3 of which are held by a variety of institutional investors, the largest of which being Blackrock Inc. with 4.9% shares, each share amounting to one vote for all shareholders, following the one-share-one-vote principle *(Orbis | Company Information across the Globe | BvD ; Shareholder Structure | Coca-Cola HBC)*. Institutional investors such as Blackrock Inc. are often passive in their holdings due to their diversified portfolio, and as they invest capital on behalf of others, it is assumed that their primary objective is profit maximization.

Collectively, The Coca-Cola Company and Kar-Tess (a holdings company of the David-Leventis family, of whom our company was founded) are our controlling owners, each with over 20% of shares, and not faced by any other large block holders. These two controlling owners have a high level of influence, as well as the incentives to monitor management successfully, preventing type I agency costs. There are however also drawbacks to this ownership structure regarding the fact that the controlling owners may seek private benefits, not in line with the interests of the residual shareholders of our firm. This ownership structure is therefore theoretically known to give rise to type II agency problems, as the controlling shareholders have conflicting interests with the minority shareholders *(Jensen & Meckling, 1976)*. Especially in a time of conflict, as we currently face, it could be argued that the controlling shareholders seek private benefits of control over profit maximization, as the controlling owners face reputational risks regarding the Russian invasion of Ukraine. We must continue to bring shareholder value in the long run, although we must carefully consider how long-term value maximization is best achieved while mitigating these type II agency problems to the best of our abilities.

MANAGEMENT & BOARD OF DIRECTORS

Although a difficult task, it is crucial that we look at our management team and board of directors objectively, as suboptimalities here within have the potential to work against our goals of share- and stakeholder value maximization in all facets.

Our management team is led by CEO, Zoran Bogdanovic, who was appointed in 2018, after having worked with us since 1996. Zoran Bogdanovic is also one of the members of our board of directors, effectively defining our board as being one-tiered. Our board consists of 13 members, 6 of which were appointed by our controlling shareholders[4], The Coca-Cola Company and Kar-Tess, effectively increasing monitoring capabilities and ensuring interest alignment between management and shareholder, although this could lead to type II agency problems as these majority shareholders act in their own best interest, which could be at the expense of minority shareholders.
CEO Zoran Bogdanovic is the sole executive director on the board, and his position is being used as a mechanism for reducing information asymmetries, although simultaneously reducing the

[3] See Appendix 3. Ownership Structure
[4] See Appendix 4. Board of Directors

monitoring effect, which is a less favorable result hereof. CEO duality is however not at play, as our chairman is Anastassis G. David, a non-executive director, but deemed not independent, as he has family ties to the firm and has been on the board for well over 5 years, reducing information asymmetries, but also leading to greater reduction of the monitoring effect. Despite his lack of independence, our chairman was appointed in 2016 as he is believed to embody our company's values, heritage, and culture, and it is thought that his extensive knowledge and experience with us ensures effective leadership that will benefit our company as well as our shareholders' interests. As quoted by our chairman, Anastassis G. David himself, "*Several board members, including myself, are connected to our Company's founders. This gives our Board a unique long-term perspective and sense of ownership.*" *(Coca-Cola HBC, 2021).* This is a worrisome topic considered from a corporate governance standpoint, as the chairman (and other board members with family ties) will likely act in favor of the majority investors, as benefits stand to be reaped through doing so, even if this is at the expense of minority investors. Our chairman's lack of independence also goes against the UK Corporate Governance Code recommendation, we do however follow the recommendation of a 50% ratio of independent to dependent directors, not including the chairman, with 6 independent non-executive directors who present the opportunity to gain insightful perspectives and increase objectivity, although also presenting greater information asymmetries *(Coca-Cola HBC, 2021; Code Corporate Governance The UK Corporate Governance Code Financial Reporting Council, 2016)*.

Two of our non-independent board directors are current employees at the Coca-Cola Company and 3 David-Leventis family members and 1 non-executive director appointed by Kar-Tess, all of whom were chosen by our controlling shareholders as they hold monitoring incentives, and will effectively ensure interest alignment between the majority shareholders and management, reducing type I agency problems, although giving rise to type II problems as there are conflicting interests between these controlling owners and the minority shareholders.

We pride ourselves on having a diverse board, one of which has many fields of expertise and knowledge and contains 8 different nationalities. Our board consists of 31% female non-executive directors, 4 females and 9 males, which is comparatively favorable but could be considered as an area worth improving upon if we wish to truly lead in the field of diversity. The objective of our board is to ensure long-run success through sustainable value creation through the determination of our purpose, strategy, values, and monitoring of the implementation of such. We have four board committees, the Audit and Risk Committee, the Nomination Committee, the Remuneration Committee, and the Social Responsibility Committee. Each committee is delegated specific responsibilities, making for a structured and efficient board.

Despite some potentially suboptimal governance mechanisms within our board, such as family ties, a dependent chairman, and two large block holders holding a great degree of power, our corporate governance seems to be well functioning. Lintstock Ltd, a London-based external corporate governance advisory firm, facilitated an evaluation of our board's performance where a conclusion was reached that our board was felt to have performed effectively and perceived to possess a strong work dynamic *(Coca-Cola HBC, 2021)*. This is grounds for consensus regarding our board being well-functioning, although there inevitably are areas which we could consider improving in the future.

THE CURRENT ECONOMIC & GEOPOLITICAL CLIMATE

On February 24th, 2022, Russia began its invasion of Ukraine. This tragic war has had vast implications globally and has caused drastic changes in the economic and geopolitical environment, creating tremendous tensions worldwide. The current global climate is categorized by dramatically low consumer confidence, supply shocks, soaring inflation, increasing interest rates, and decreasing demand due to the current economic instability, and from the start of 2022 to the present day, we have seen stock declines of 33.23% on the London Stock Exchange.

Following the Russian invasion of Ukraine, companies began suspending operations in Russia as a measure to put pressure on the Russian economy and government and stand up against the humanitarian crisis instigated by Russia. Economic sanctions have been imposed on Russia by the US, UK, EU, and many others, showing a consensus on limiting operations in Russia. On March 8th, 2022, The Coca-Cola Company followed suit, announcing their decision to suspend business operations in Russia, as it was deemed a necessary action for the brand's contribution to this geopolitical crisis. We at CCHBC, have therefore suspended our production and sale of brands within the Coca-Cola portfolio in Russia, but we have yet to decide upon our future actions regarding our remaining local brands in the country *(The Coca-Cola Company Suspends Its Business in Russia | Press Release; Update 1-Bottler Coca-Cola HBC Mulls Other Options for Russian Business | Reuters)*.

The board has considered the suspension of the remaining local brands, but ultimately decided not to follow our controlling shareholder, the Coca-Cola Company's lead in suspending all operations in Russia, sustaining operations for the time being, due to the conclusion that our efforts in emerging markets, including Russia and Ukraine, offer significant growth opportunities in the future. Emerging markets, including but not limited to Russia and Ukraine, amounted to 46.4% of our 2021 revenue[5]. Thus far in 2022, our growth has been led by momentum in the emerging markets segment *(First Quarter 2022 Trading Update | Coca-Cola HBC)*. Additionally, in 2021, we saw 20% of volume sales and EBIT specifically stemming from Russia and Ukraine alone *(Coca-Cola HBC, 2021)*. Considering these quantitative measures, it seems as if sustaining operations of local brands in Russia would be a strategy to hold onto if we wish to maximize profits, which is assumed to be the main interest of our minority shareholders. Controlling shareholders, however, may seek private benefits in the form of maintaining their reputation, showing the type II agency problems at play here. These type II problems can for instance be analyzed with regard to our philanthropic actions, such as our €1 million donation to the Red Cross in Ukraine together with the Coca-Cola Company, where minority shareholders do not stand to benefit *(Our Support for the Humanitarian Relief Efforts in Ukraine and the Region | Coca-Cola HBC)*. It is however up for discussion, whether the continuation of sales in Russia will, in actuality, solely maximize short-term profits, while undermining long-term profits, or if we are reliant on these emerging markets for our long-term growth. It is in both minority and majority shareholders'

[5] See Appendix 5. Emerging Markets

interests for profits to be maximized in the long run, and it is, therefore, a crucial topic needed to be discussed, as to gain an understanding of the long-term implications of either sustaining or suspending our company's efforts in Russia.

To further analyze this issue, it is important to recognize the stakeholder perspective, to fully understand the implications of either sustaining or suspending our operations in Russia. A major stakeholder to whom we are responsible are consumers, and it has become evident that consumers want businesses to boycott Russia as a measure of standing up against the invasion of Ukraine and to *"stop funding Putin's War" (Boycott Russia, 2022)*. Our brand, as well as those of our controlling shareholders', could face long-term consequences in the form of reputational damage if we choose to continue to do business in Russia. Consumers have become increasingly focused on firms' CSR initiatives and want to hold firms accountable for their actions and participate in ethical consumption, this is shown through statements such as *"If companies won't boycott Russia, Boycott the companies" (Opinion | Some of the Biggest Brands Are Leaving Russia. Others Just Can't Quit Putin. Here's a List. - The New York Times)*. It is therefore truly a time where we must consider the short vs. long-run implications of a continuation of our operations in Russia, as reputational damage due to this conflict, could potentially negatively affect our profits in the long run, essentially against the objectives of both minority and majority shareholders. This goes to show how this dilemma not only regards the interests of our minority and majority shareholders but also all stakeholders, giving rise to type III agency problems.

Many stakeholders are affecting and being affected by our company, and many of these stakeholders have conflicting interests regarding the current crisis and our decision as to whether we should suspend our operations in Russia. Employees, suppliers, and consumers in Russia would be put under immense pressure if we were to entirely suspend our company's work within the country, but it is simultaneously against other stakeholders' interests to remain in Russia. Consumers and governments have globally reached a consensus that boycotting Russia is our main tool in hindering the continuance of the war in Ukraine. We must consider what message we are sending to the Russian government by sustaining our efforts within the country. It is crucial in the decision-making process that we consider not only shareholder value, but also stakeholder value, as we wish to continue to follow the theory of enlightened value maximization and create sustainable value, of benefit to our stakeholders and shareholders simultaneously, but to do this we must reach a consensus as to the implications of our actions moving forward given the current crisis, we have at hand *(Jensen, 2017)*.

CONCLUSION

We pride ourselves on being a stakeholder-oriented company, with core values and goals regarding the support of socio-economic development as well as having a positive environmental impact *(Coca-Cola HBC, 2021)*. In this time of crisis, we much make use of our corporate governance mechanisms and consider to whom we are responsible in this complex situation, to best navigate through these external threats facing our company. We must consider both shareholder profit-maximizing and stakeholder value-maximizing aspects and agree upon the long-term implications and value that will be brought forth, through either sustentation or suspension of our operations in Russia.

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APPENDICES

APPENDIX 1. REVENUE PERCENTAGE BY CATEGORY

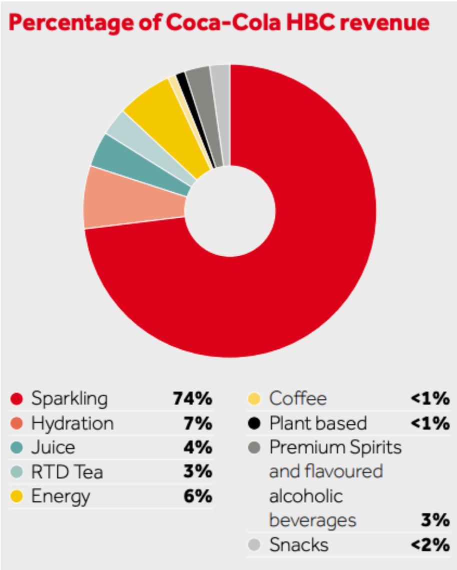

Figure1: Percentage of revenue based on portfolio, Source: Integrated Annual Report 2021, Coca-Cola HBC

APPENDIX 2. ANNUAL REPORT FINANCIALS 2021

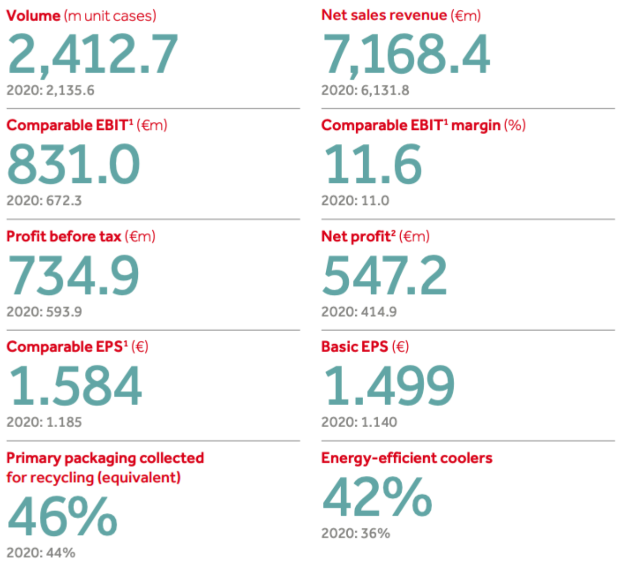

Figure 2: Annual Report Financials, Source: Integrated Annual Report 2021, Coca-Cola HBC

APPENDIX 3. OWNERSHIP STRUCTURE

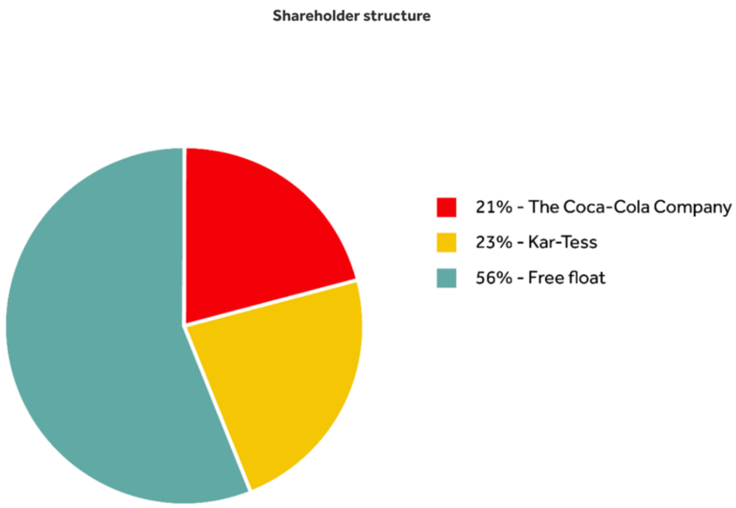

Figure 3: Ownership Structure, Source: (Shareholder Structure | Coca-Cola HBC)

APPENDIX 4. BOARD OF DIRECTORS

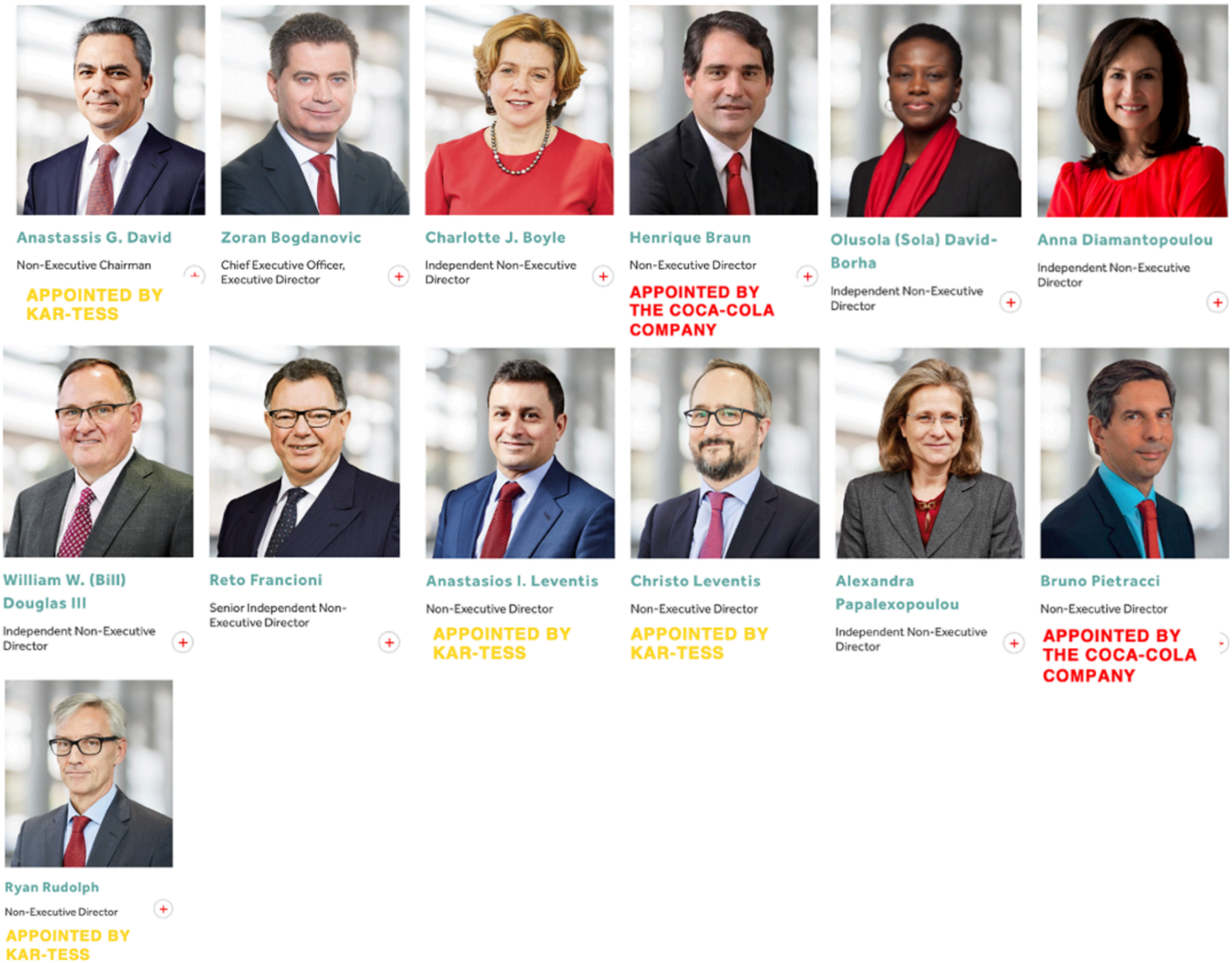

Figure 4: Board of Directors, Source: (The Board | Coca-Cola HBC)

APPENDIX 5. EMERGING MARKETS (IN COMPARISON TO ESTABLISHED & DEVELOPING MARKETS

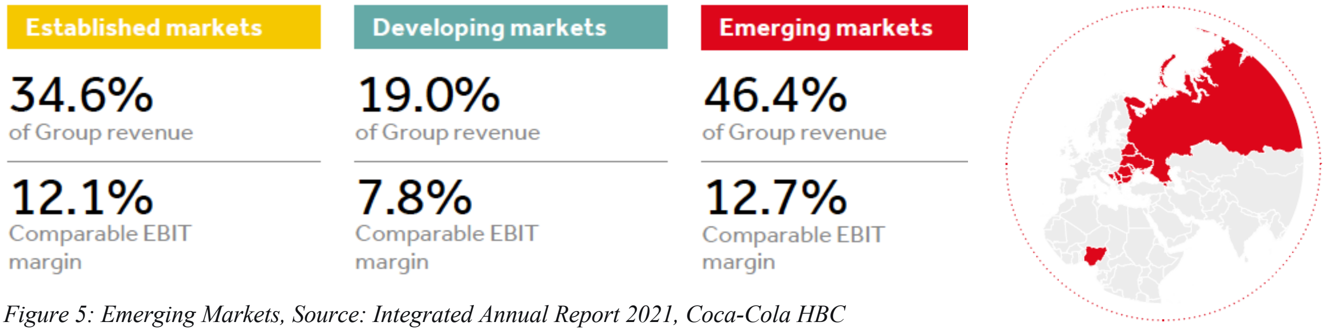

Figure 5: Emerging Markets, Source: Integrated Annual Report 2021, Coca-Cola HBC