



SOCIAL, ECONOMIC AND ENVIRONMENTAL IMPACT ASSESSMENT

Coca-Cola Hellenic Bottling
Company Armenia CJSC

December 2018



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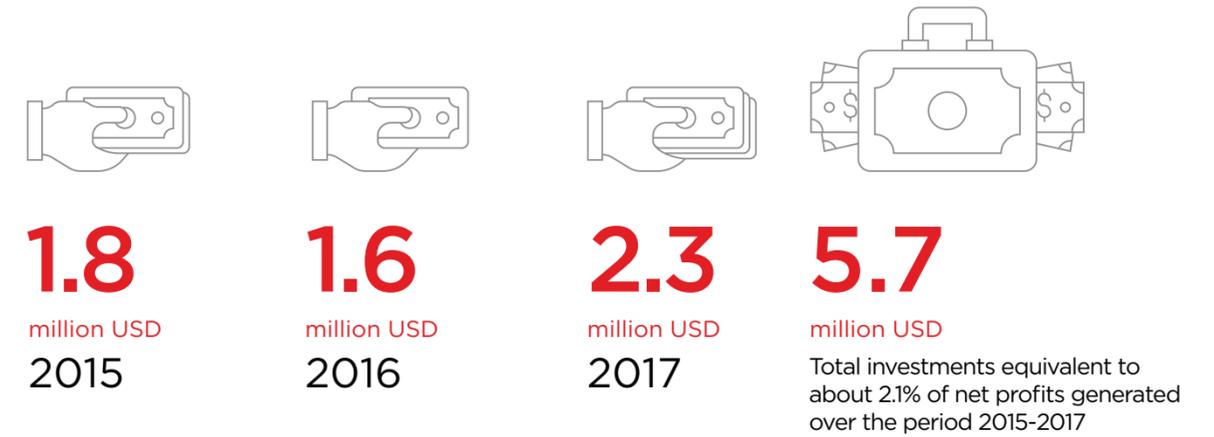
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ABBREVIATIONS

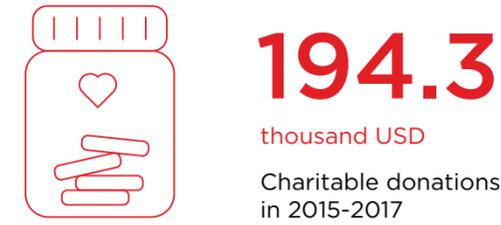
AMD	Armenian dram
CAGR	Compound annual growth rate
CAPEX	Capital expenditure
CDE	Cold drink equipment
CSR	Corporate social responsibility
EMD	Energy management device
FTE	Full-time equivalent
FY	Financial year
GDP	Gross domestic product
GVA	Gross value added
HFC	Hydrofluorocarbon
KPMG, we	KPMG Armenia LLC
LED	Light - emitting diode
MJ	Megajoule
NGO	Non-governmental organization
PET	Polyethylene terephthalate
RA	Republic of Armenia
SCRA	Statistical Committee of the Republic of Armenia
The Company, Coca-Cola HBCA	Coca-Cola Hellenic Bottling Company Armenia CJSC
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USA	United States dollar
VAT	Value-added tax



Total investments made 2015-2017^(1,2)



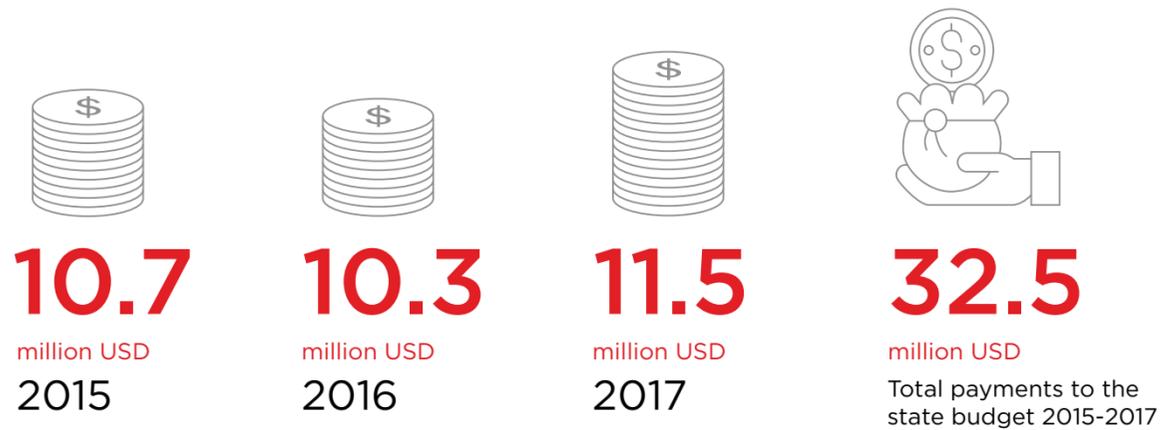
Social contribution, 2015-2017⁽²⁾



Structure of total GVA, 2015-2017



Total payments to the federal budget (fiscal contribution)^(3,13,20)

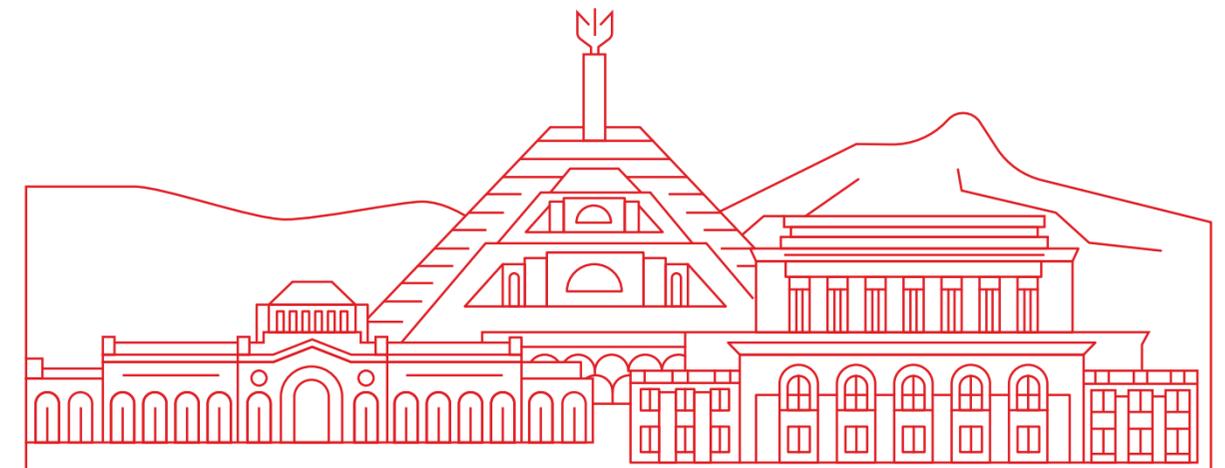


Structure of total payments to the state budget, 2015-2017



GLOSSARY

- GVA** GVA measures the contribution to the economy of an individual producer, industry, sector or activity, net of intermediate consumption (for example, goods and services used in the production process). It is a measure of the economic value of goods and services produced.
- GDP** GDP is the monetary value of all the finished goods and services produced within a country's borders in a specific period.
- Direct impact** First-round effects generated through the business activity and output of a company/industry/sector.
- Indirect impact** Second-round effects generated through the activity and output supported by a company/industry/sector supply chain.
- Induced impact** Multiplier effects generated as a result of company/industry/sector direct employees and those employees in the supply chain spending their company/industry/sector related wages.
- Type-I multiplier** Type-I multipliers capture direct and indirect effects.
- Type-II multiplier** Type-II multipliers capture direct, indirect, and induced impacts.



SCOPE

Coca-Cola HBCA commissioned an independent study of its economic, social, and environmental impacts in Armenia, in order to ascertain and expound the contribution that it makes in Armenia.

KPMG Armenia LLC was contracted as an independent consultant to perform the study.

The scope of impacts analysed in this study was agreed with Coca-Cola HBCA at the outset of the project, based on the impacts that are generally included within such studies and with a focus on the main channels through which Coca-Cola HBCA contributes to Armenia. The agreed areas of the impact and contribution analysis included in the study are:

- gross value added (GVA)
- employment
- investments
- fiscal contributions
- contribution to the social development and well-being of the Armenian community
- the environment

The framework that was applied to assess the contribution of Coca-Cola HBCA captures a wide range of effects, but does not attempt to measure all potential economic, social, and environmental impacts, both positive and negative, of Coca-Cola HBCA's business. The KPMG analysis relates to the social, economic, and environmental impacts generated in the financial years 2015-2017¹. FY 2017 was the last full year for which the required data were available from Coca-Cola HBCA at the time the study was undertaken. It is important to note that, in general, the analysis presents a snapshot in time view of the contribution that Coca-Cola HBCA made within these years and does not consider the longer-term impacts of its activities or the socio-economic contributions realised in previous years or accrued over time.

The KPMG analysis assesses the contribution of Coca-Cola HBCA in gross terms, i.e. it does not consider how the Armenian resources used by Coca-Cola HBCA, such as human and physical capital, would be employed if Coca-Cola HBCA did not exist in Armenia or any displacement, where Coca-Cola HBCA's existence reduces economic activity that may otherwise arise elsewhere. Assessing this displacement would require detailed assumptions about consumer preferences and switching behaviour in the hypothetical scenario that Coca-Cola HBCA did not exist in Armenia, as well as detailed information from its competitors to ascertain how this may affect their own economic activity in Armenia, which was not part of the scope of the study.

The KPMG analysis considers the economic impacts of Coca-Cola HBCA in Armenia only, excluding any 'leakages' of impacts outside Armenia. This means it excludes economic contributions made in any international countries from which Coca-Cola HBCA sources goods and services.

The analysis was conducted based on the following main sources of information (the full list of these sources is presented in Appendix 1 hereto):

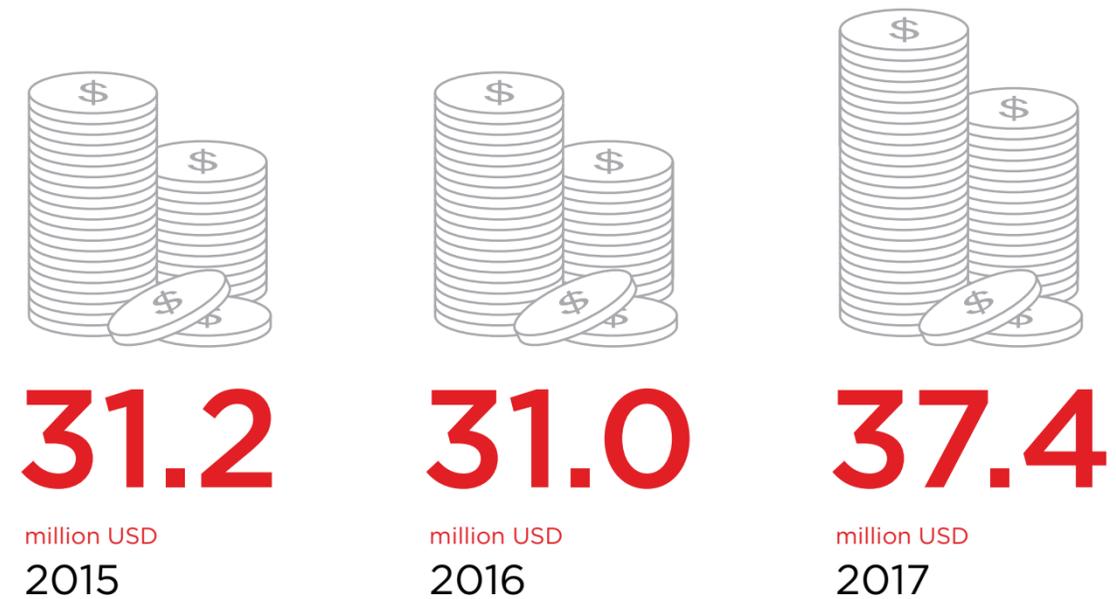
- Publicly available information
- Information provided by Coca-Cola HBCA
- Results of interviews conducted among decision makers, social influencers, and business interest companies (in total, 29 face-to-face interviews were conducted)
- Results of focus groups (in total, three focus groups were organised)

1. The financial year of Coca-Cola HBCA is the period of 1 January – 31 December.

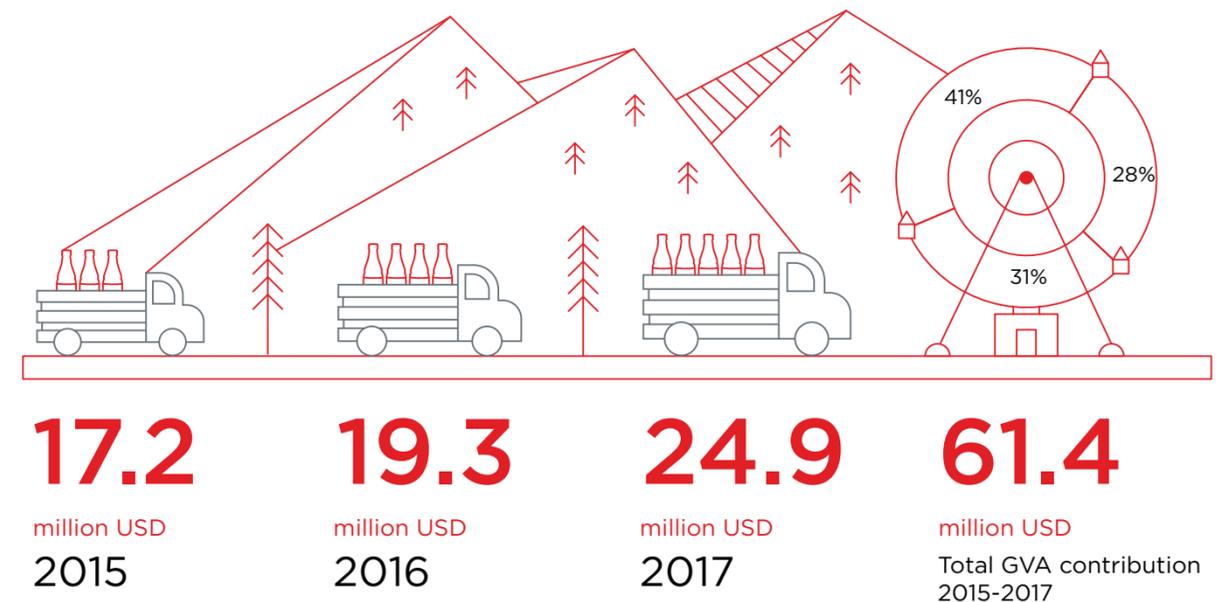
APPENDIX 6

Main facts and findings in USD¹⁵

Revenue generated during 2015-2017⁽¹⁾



Economic contribution^(2, 20)



15. Average AMD/USD exchange rates: 2017: 482.7; 2016: 480.5; 2015: 477.9

Employment contribution

Direct employment data in FTE terms was provided by Coca-Cola HBCA.

Indirect employment = Tier-1 supplier employment + wider supply chain employment, where

Tier-1 supplier employment = $\sum_i^n \frac{\text{Tier-1 supplier GVA for suppliers in sector } i}{\text{sector average GVA per employee for sector } i}$, where

n: number of sectors

Wider supply chain employment

\sum_i^n Tier-1 supplier employment for suppliers in sector i x (Type-I employment multiplier for sector i - 1), where

n: number of sectors

Induced employment = \sum_i^n Tier-1 supplier employment for suppliers in sector i x (Type-II employment multiplier for sector i - Type-I employment multiplier for sector i) + induced payroll employment, where

n: number of sectors

Induced payroll employment = Direct payroll employment x (sector specific Type-II employment multiplier - sector specific Type-I employment multiplier)

Direct payroll employment = Direct Payroll GVA / sector average GVA per employee

Type-I and Type-II employment multipliers were calculated according to the Leontief input-output modelling approach based on the Eora input-output tables.

Fiscal contribution

The **direct fiscal contribution** was calculated based on (1) the data provided by Coca-Cola HBCA and (2) the data published by the Tax Service of the RA (the VAT data were taken from this source).

Fiscal Contribution through the supply chain and induced economic activity = Tier-1 supplier fiscal contribution + induced economic activity fiscal contribution, where

Tier-1 supplier fiscal contribution = indirect GVA x national average tax as % of GDP¹⁴ (13,14)

Induced economic activity fiscal contribution = induced GVA x national average tax as % of GDP¹⁴ (13,14)

Employee fiscal contribution = direct employee contribution + indirect employee contribution + induced employee contribution, where

Indirect employee contribution = indirect employees x country average wage¹⁴ (14) x income tax rate¹⁴ (13)

Induced employee contribution = induced employees x country average wage¹⁴ (14) x income tax rate¹⁴ (13)

Investment

The total investment data, based on which the Capex intensity ratio was calculated, were provided by Coca-Cola HBCA.

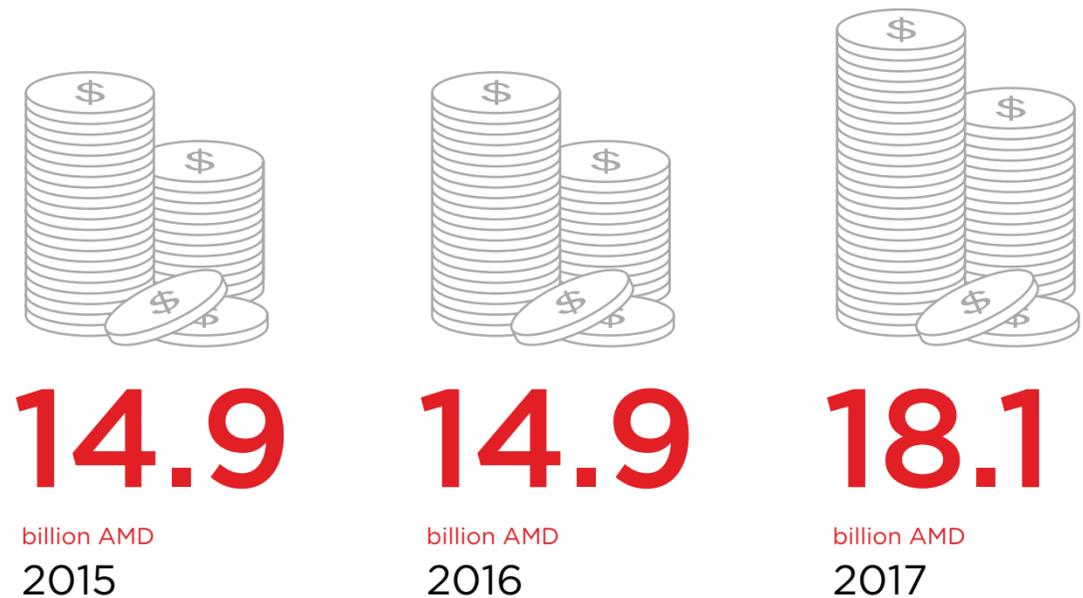
Coca-Cola HBCA Capex intensity = CCHBC HBCA Capex / CCHBC HBCA Direct GVA

MAIN FACTS AND FINDINGS

Brands introduced in Armenian Market



Revenue generated during 2015-2017⁽¹⁾



Revenue share



58.4%

Coca-Cola HBCA's revenue share in the Armenian soft drink production industry in 2017^(1, 14, 20)



12.1%

Coca-Cola HBCA's revenue share in the Armenian beverage industry in 2017^(1, 14, 20)



75%

Coca-Cola HBCA's average share of revenue from sales of locally manufactured goods in total revenue of 2015-2017⁽¹⁾

Total GVA contribution (economic contribution)^(2, 20)



8.2

billion AMD
2015

9.3

billion AMD
2016

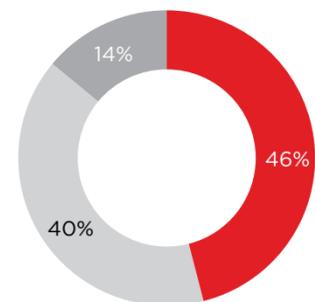
12.0

billion AMD
2017

29.5

billion AMD
Total GVA contribution
2015-2017

Structure of total GVA contribution, 2015-2017



13.7

Direct GVA contribution, billion AMD

11.6

Indirect GVA contribution, billion AMD

4.2

Induced GVA contribution, billion AMD

APPENDIX 5

Methodology

Economic contribution in terms of GVA

The production approach was used for the direct GVA calculation:

Direct GVA = Sales (Revenue earned from goods sold, excluding other non-operating income) - change in inventory - Purchased goods and services (supplier spending)

To estimate the indirect contribution Coca-Cola HBCA supplier spending data was analysed. Spending outside Armenia is considered a "leakage" and was not included in the calculations. Each supplier spending was categorised according to the sectors of the Eora table (see Appendix 2), which are aligned with NACE (Nomenclature des Activités Économiques dans la Communauté Européenne) codes.

Indirect GVA = Tier-1 Supplier GVA + wider supply chain GVA, where

Tier-1 Supplier GVA = \sum_i^n Spending with suppliers in sector i x average GVA as a proportion of output for sector i , where

n : number of sectors

Wider supply chain GVA = \sum_i^n Tier-1 supplier GVA for suppliers in sector i x (Type-I GVA multiplier for sector i - 1), where

n : number of sectors

Induced GVA = \sum_i^n Tier-1 supplier GVA for suppliers in sector i x (Type-II GVA multiplier for sector i - Type-I GVA multiplier for sector i) + induced payroll GVA, where

n : number of sectors

Induced payroll GVA = Direct payroll GVA x (sector specific Type-II GVA multiplier - sector specific Type-I GVA multiplier), where

Direct payroll GVA = Coca-Cola HBCA payroll cost x sector average GVA as a proportion of output.

Type-I and Type-II GVA multipliers were calculated according to the Leontief input-output modelling approach based on the Eora input-output tables. The data of the Eora table were compared with the statistics provided by the Statistics Committee of the Republic of Armenia. Primary input data (the structure is presented in Appendix 2) were adjusted to bring it into line with the official statistics of the RA. While making the adjustments, the structure of the Eora table and the shares per each sector were kept unchanged. To calculate Type-I and Type-II employment multipliers, the ratio of the number of employees / total output per each sector was calculated. The number of employees per each sector was taken from the SCRA⁽¹⁴⁾.

APPENDIX 4

Survey Questionnaire

Economic impact assessment

1. Please estimate the significance of the economic impacts of Coca-Cola HBCA in Armenia, in terms of taxes paid: VAT, income tax, and profit tax.
2. Please estimate the significance of the economic impacts of Coca-Cola HBCA in Armenia, in terms of employment level.
3. Please estimate the significance of the economic impacts of Coca-Cola HBCA in Armenia, in terms of gross value added (direct, indirect).
4. Please estimate the significance of the economic impacts of Coca-Cola HBCA in Armenia, in terms of investments in Armenia.
5. Please estimate the significance of the impact of Coca-Cola HBCA on the supply chain of food and drink products in Armenia.
6. Please estimate the significance of the direct and indirect impacts of Coca-Cola HBCA on economic competition in Armenia.

Social impact assessment

1. Please estimate the significance of the social impacts of Coca-Cola HBCA in Armenia, in terms of social projects implemented.
2. Please estimate the efficiency of the social projects implemented by Coca-Cola HBCA in Armenia. What intended and unintended changes have occurred? What has been the feedback from main stakeholders? (overall and per each project separately).
3. Please estimate the impact of the operations of Coca-Cola HBCA in Armenia on the country's image.
4. Please estimate the impact of Coca-Cola HBCA on the corporate social responsibility and business ethics framework in Armenia.
5. Please estimate the impact of Coca-Cola HBCA on the development of the quality product (quality, safety, taste, design, transparent nutritional information) market (Food and Drink market) in Armenia.

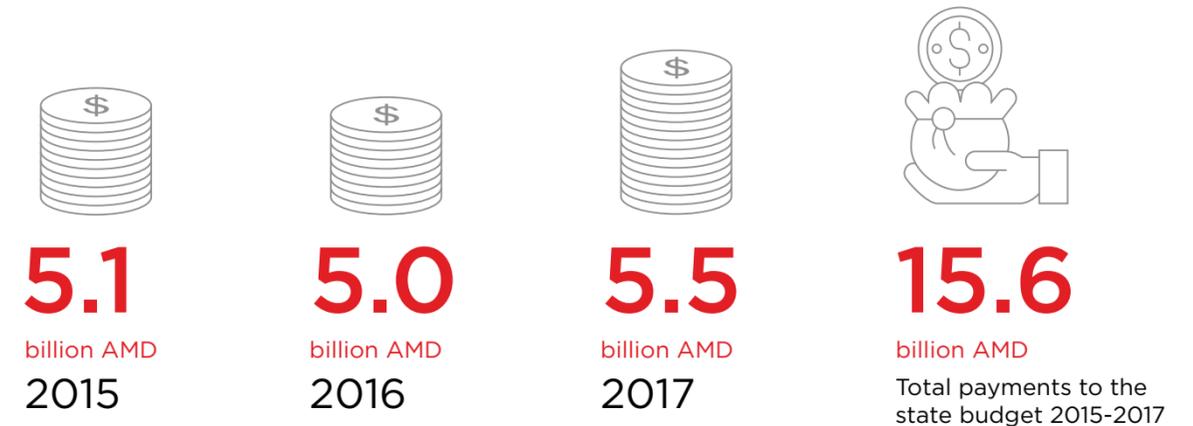
Environmental impacts assessment

1. Please estimate the significance of the environmental impacts of Coca-Cola HBCA in Armenia, in terms of total investments directed towards environment protection.
2. Please estimate the significance of the environmental impacts of Coca-Cola HBCA in Armenia, in terms of carbon emissions, packaging, water use, energy use, transportation and cooling equipment (if the interviewee has sufficient information, each point will be discussed separately).
3. Does Coca-Cola HBCA have an obligation to comply with specific Armenian environmental requirements/standards and regulations.
4. What is your opinion regarding the sustainability targets set by the Company for 2020 (the list of targets will be presented during the interview). How will these actions contribute to the economy and the social and environmental framework of Armenia?

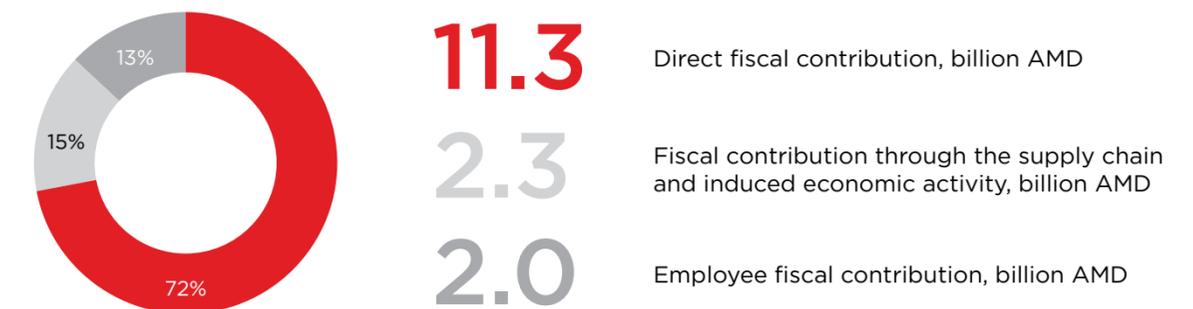
General

1. Are there any other comments that you would like to make?

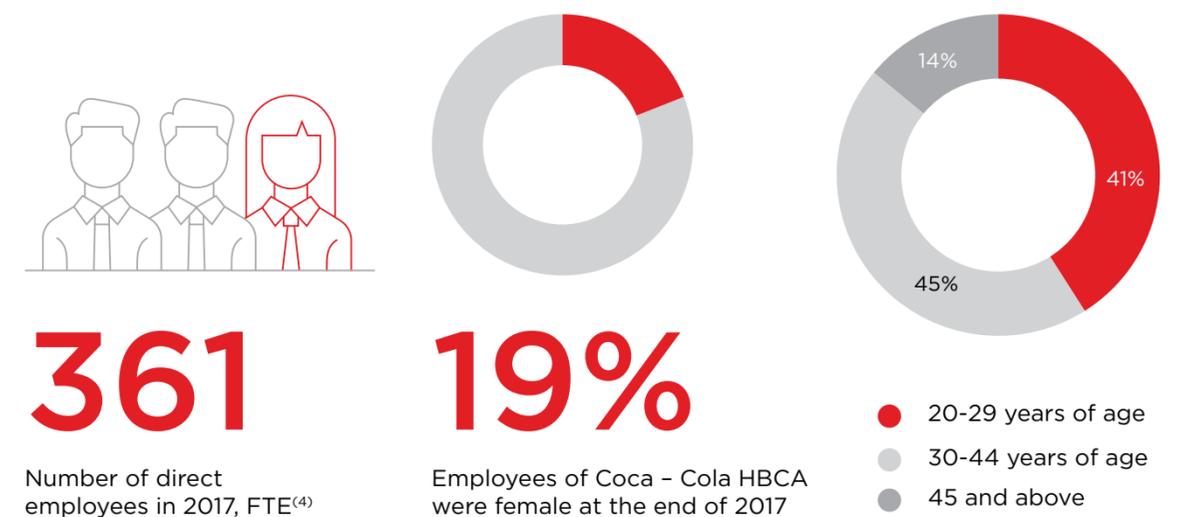
Total payments to the state budget (fiscal contribution)^(3,13,20)



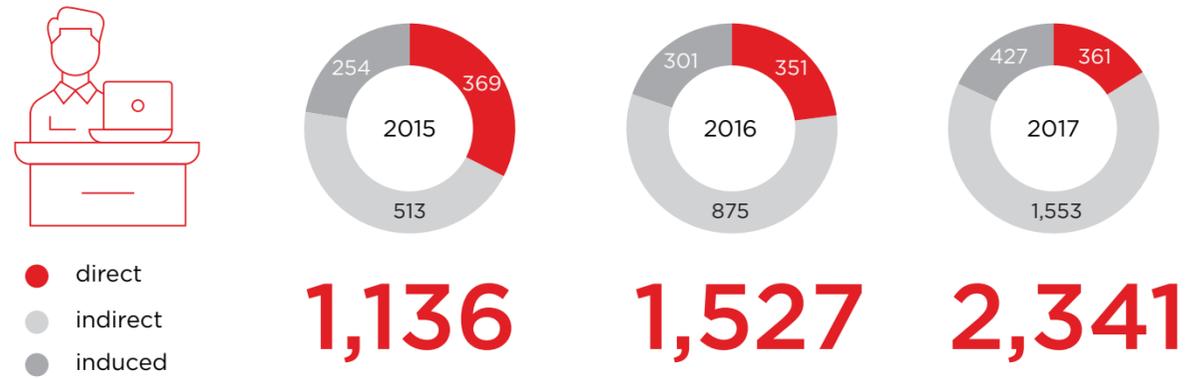
Structure of total payments to the state budget, 2015-2017



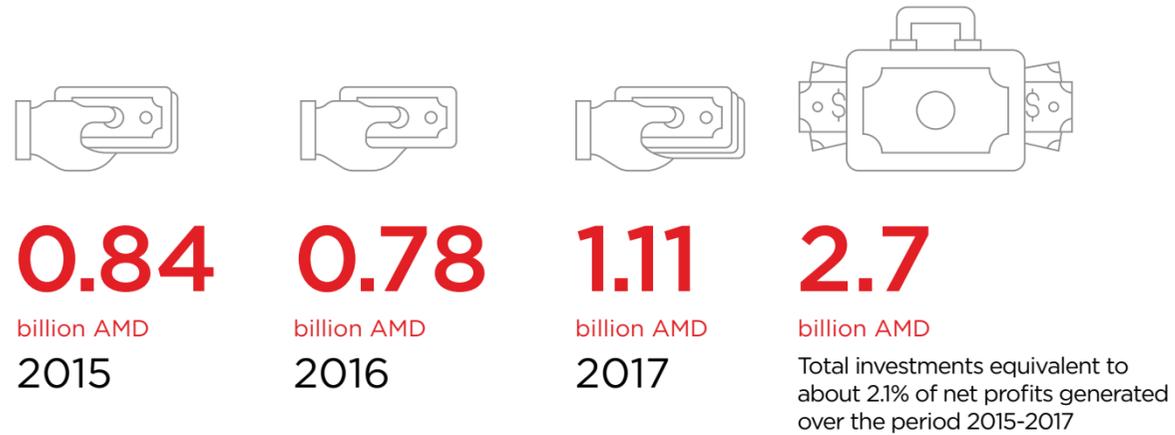
Coca-Cola HBCA employees, 2017



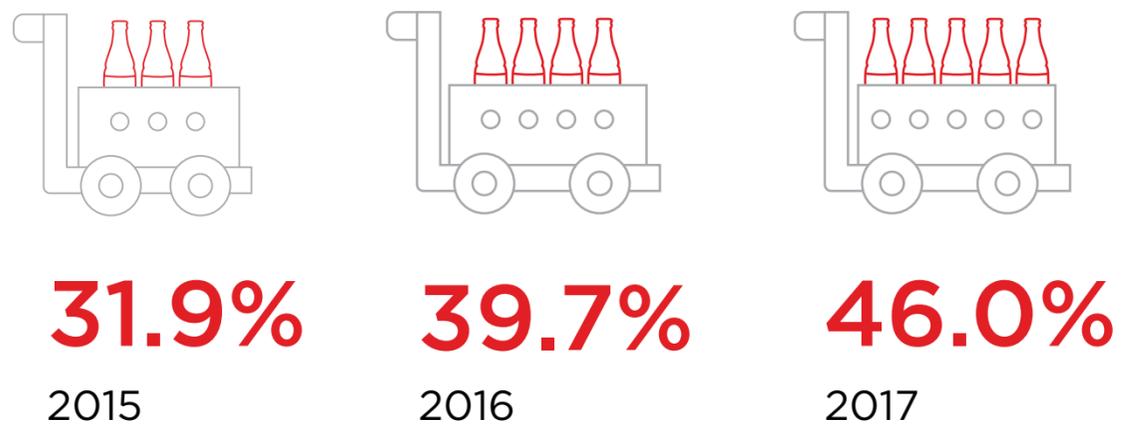
Total employment contribution, FTE^(4,20)



Total investments made 2015-2017^(1,2)



Proportion of total supplier spending (by value) with local suppliers, 2015-2017^(2, 20)



APPENDIX 3

List of interview participants

The interviews were conducted among high-level officials and the top management of the companies/organisations.

Decision makers

- Ministry of Economic Development and Investments of the RA
- Ministry of Nature Protection of the RA
- Ministry of Territorial Administration and Development of the RA
- Ministry of Education and Science of the RA
- Ministry of Culture of the RA
- State Commission for the Protection of Economic Competition of the RA
- State Committee of the Water System
- RA State Revenue Committee
- Yerevan Municipality

Social Influencers

- European Business Association
- The Union of Manufacturers and Businessmen of Armenia
- American Chamber of Commerce in Armenia
- U.S. Agency for International Development
- Greece Embassy
- IAB International Business Academy
- Urban Foundation
- ME&A, ASPIRED Armenia

Business interest companies

- Anar LLC
- APAVEN Co. Ltd
- Arsmine LLC
- Azatyan Group LLC
- Colastic LLC
- DTS LLC
- Gabi Group LLC
- Hytex Plastic CJSC
- M's-L's LLC
- Mel-Lev LLC
- Narek Hakobyan PE
- Zepyur Trading LLC

APPENDIX 2

Sector, final demand, and primary input classifications in input - output table

Sector classification (Eora 26):

1. Agriculture
2. Fishing
3. Mining and quarrying
4. Food and beverages
5. Textiles and wearing apparel
6. Wood and paper
7. Petroleum, chemical and non-metallic mineral products
8. Metal products
9. Electrical and machinery and transport equipment
10. Other manufacturing
11. Recycling
12. Electricity, gas and water
13. Construction
14. Maintenance and repairs
15. Wholesale trade
16. Retail trade
17. Hotels and restaurants
18. Transport
19. Post and telecommunications
20. Financial intermediation and business activities
21. Public administration
22. Education, health and other services
23. Private households
24. Others
25. Re-export & re-import

Final demand classification:

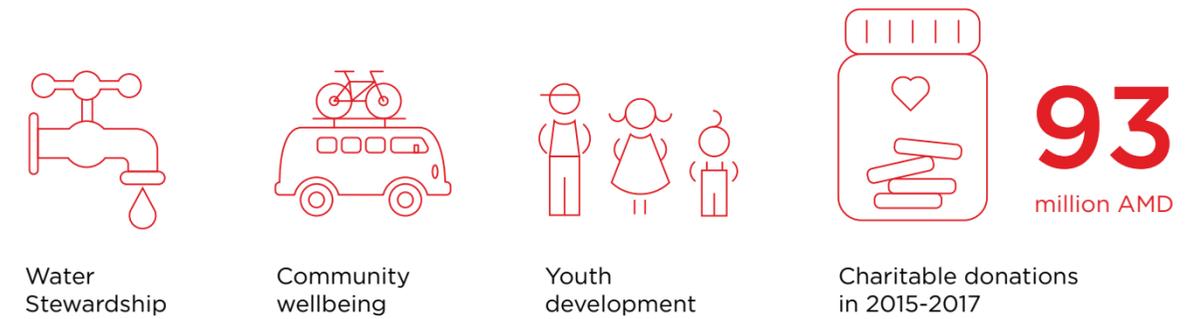
1. Household final consumption
2. Non-profit institutions serving households
3. Government final consumption
4. Gross fixed capital formation
5. Changes in inventories
6. Acquisitions less disposals of valuables

Primary input classification:

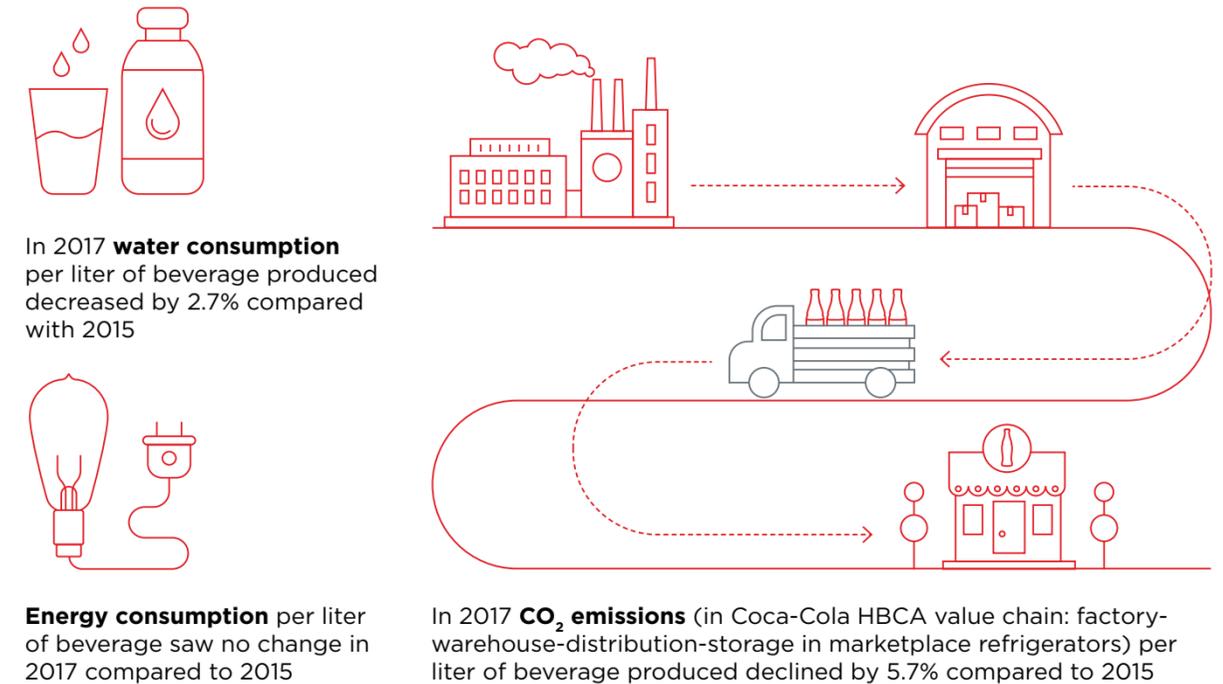
1. Compensation of employees
2. Taxes on production
3. Subsidies on production
4. Net operating surplus and net mixed income
5. Consumption of fixed capital

Social contribution, 2015-2017⁽²⁾

Giving back to communities in 3 main areas:



Consistent reduction in water consumption and carbon emissions per liter of beverage produced, 2015-2017⁽⁶⁾



Gradual transition to environmentally friendly and energy saving equipment⁽⁵⁾

27.5% < 31.2%

Share of environmentally friendly cold drink equipment in **2015**

Share of environmentally friendly cold drink equipment in **2017**

COCA-COLA SYSTEM IN ARMENIA

APPENDIX 1

Sources of Information

1. Coca-Cola HBCA audited financial statements, 2016, 2017.
2. Financial management accounts (total procurement: local, imported, investments, etc.), Coca-Cola HBCA information, 2015–2017.
3. Income tax, profit tax and VAT calculation reports, Coca-Cola HBCA information, 2015–2017.
4. HR data relating to employee characteristics and payroll, Coca-Cola HBCA information, 2017.
5. Cold drink sustainability data, Coca-Cola HBCA information, 2015–2017.
6. Energy, water consumption, and CO2 emissions data, Coca-Cola HBCA information, 2015–2017.
7. Coca-Cola HBCA Annual Sustainability Reports, 2016, 2017 (draft).
8. Yerevan Half Marathon Reports 2016, 2017.
9. Interviews with key individuals from Coca-Cola HBCA's Finance, People, Marketing, and other teams.
10. Face-to-face interviews with key stakeholders of Coca-Cola HBCA, including business interest companies, industry decision makers and social impact makers (the full list of interview participants is presented in Appendix 3).
11. Focus groups conducted among the beneficiaries of social projects implemented by Coca-Cola HBCA (two focus groups with the beneficiaries of the Youth Empowered project and one focus group with the beneficiaries of the Rehabilitation of the Hayanist village irrigation network project).
12. <http://worldmrio.com>.
13. State Revenue Committee: www.petekamutner.am.
14. Statistics Committee of the Republic of Armenia: www.armstat.am.
15. Central Bank of Armenia: www.cba.am.
16. Ministry of Sport and Youth Affairs: www.msy.am.
17. Yerevan city sustainable energy action plan, www.yerevan.am.
18. The Canadean.
19. AmCham Business Magazine, CSR in Armenia, winter 2017–2018.
20. KPMG calculations.
21. UNESCO. 2015. 'Creating a baseline for Corporate CSR Spend on Global Education Initiatives'. A report by EPG Economic and Strategy Consulting.
22. Department for Business, Innovation and Skills. 2014. 'Corporate Responsibility: Good for business & society: government response to call for views on corporate responsibility'.
23. E-mail from Yerevan Municipality to KPMG Armenia, dated 3 July 2018.
24. Coca-Cola HBCA Stakeholders Management and Engagement Planning Report, 2017.
25. Memorandum of Understanding signed among the United States Agency for International Development (USAID), Coca-Cola HBCa CJSC, and the RA Ministry of Nature Protection, 20 July 2016.
26. Alliance of Water Stewardship, <http://a4ws.org>.

APPENDICES

INTRODUCTION

Coca-Cola Hellenic Bottling Company Armenia CJSC is a subsidiary of one of the world's largest producers of soft drinks, the Coca-Cola Hellenic Bottling Company. Coca-Cola HBCA began its operations in Armenia in 1995 and is one of the largest companies in the non-alcoholic beverage industry in the country. It is the sole authorised bottler of The Coca-Cola Company products in Armenia and the only distributor of other brands of Coca-Cola Hellenic Bottling Company, such as Dobriy and Rich juices and nectars, Nestea teas, Burn energy drinks, and Powerade sports drinks.

Back in 1995 Coca-Cola HBCA purchased damaged premises at the Yerevan Lemonade Plant and established a new production facility in accordance with The Coca-Cola Company standards and requirements.

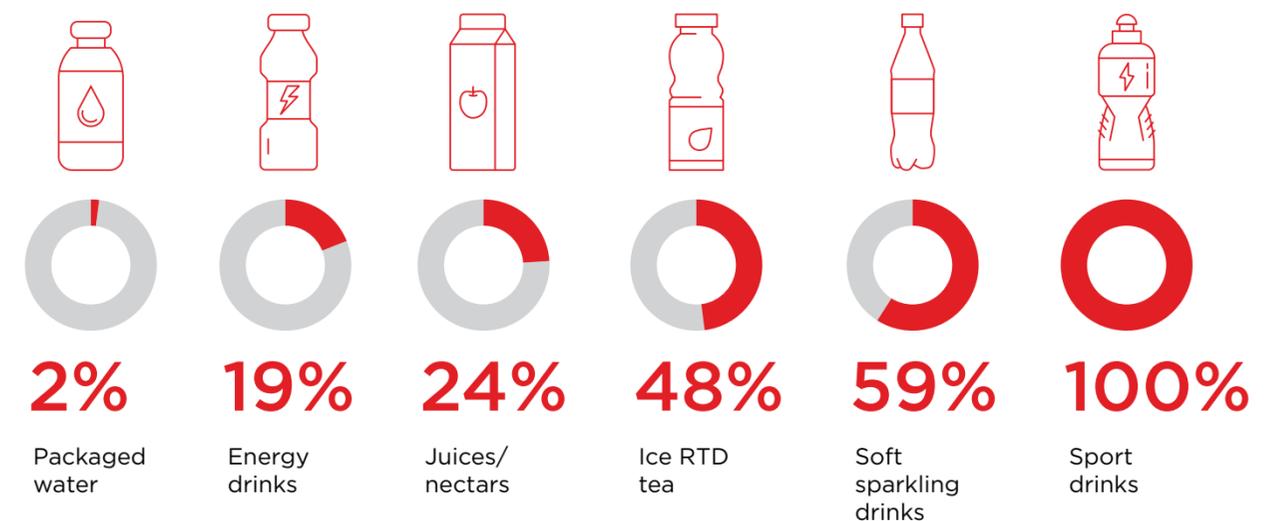
Coca-Cola HBCA operates one bottling plant in the country, which is located in Yerevan. The distribution system of Coca-Cola HBCA covers the capital city and all the regions of Armenia (there are no exports of products from Armenia). Coca-Cola HBCA directly employs around 360 people.

In 2017 Coca-Cola HBCA generated revenue of AMD18 billion, up 21% on 2015⁽¹⁾. Coca-Cola HBCA revenue is generated from sales of locally manufactured goods and purchased/imported goods. The share of Coca-Cola HBCA revenue from sales of locally manufactured goods was 75% for the period 2015-2017⁽²⁾.

Coca-Cola HBCA's revenue share within the Armenian soft drink production industry stood at 58.4% in 2017. The revenue share in the total beverage industry of the country was 12.1% in 2017^(1,14).

Based on Canadean Report data⁽¹⁸⁾, in 2017 Coca-Cola HBCA was the market leader in the soft drinks market in Armenia.

Coca-Cola HBCA Armenian market share in volume terms in different soft drink (SD) market subsectors:

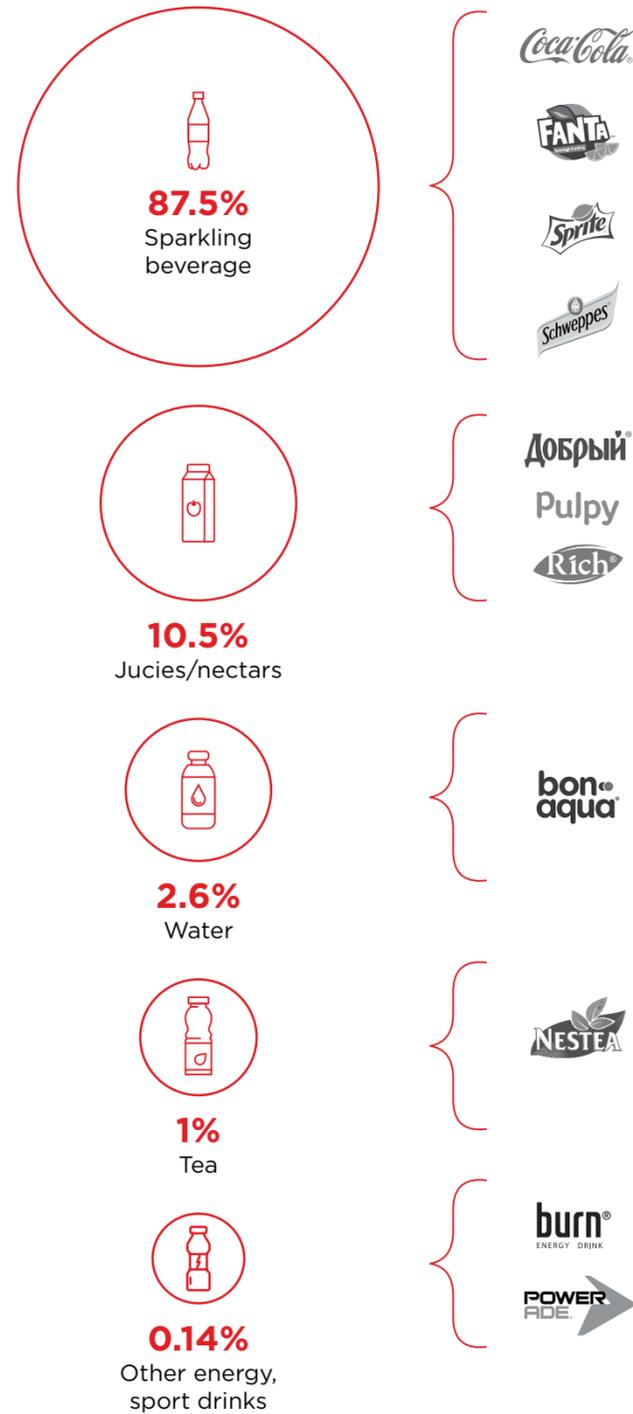


Source: The Canadean

PRODUCT PORTFOLIO

Coca-Cola HBCA produces and distributes to the Armenian market a wide variety of soft drinks under the trademarks: Coca-Cola, Coca-Cola Zero, Sprite, Fanta, Schweppes, BonAqua, Nestea, Burn, Powerade, Dobriy, Dobriy Pulpy, and Rich.

The sales product portfolio structure of Coca-Cola HBCA in volume terms, 2017



Source: Coca-Cola HBCA data

Decision makers



8.03

Average score for economic impacts (average)

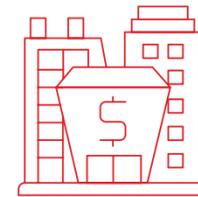
6.72

Average score for social impacts (average)

5.13

Average score for environmental impacts (low)

Business interest companies



9.66

Average score for economic impacts (high)

9.74

Average score for social impacts (high)

9.13

Average score for environmental impacts (high)

Social influencers



8.27

Average score for economic impacts (average)

8.88

Average score for social impacts (high)

7.19

Average score for environmental impacts (average)

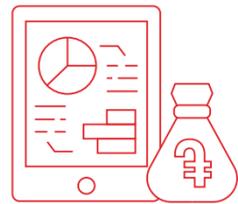
SURVEY RESULTS

Survey methodology

To assess the opinions of external stakeholders (decision makers, social influencers, and business interest companies)¹¹ regarding economic, social, and environmental impacts, Coca-Cola HBCA requested KPMG to conduct interviews among ministries, other state organisations, NGOs, international organisations, embassies, and business partners based on a preliminary questionnaire¹².

The lists of interview participants are presented in Appendix 3. The interviewee list was drawn up by KPMG based on the Coca-Cola HBCA Stakeholders Management and Engagement Planning Report, 2017⁽²⁴⁾ and agreed with Coca-Cola HBCA. These results are unlikely to be representative of all stakeholders, in view of the limited sample size used for the interviews.

The questionnaire comprised three main sections: Economic impacts, Social impacts, and Environmental impacts. The interviewees were asked to provide an estimate for each question in a 1-10 range (1-5 low; 6-8 average, 9-10 high)¹³. For each question we also asked to add comments, if any. The full questionnaire is presented in Appendix 4. The main areas discussed comprise:



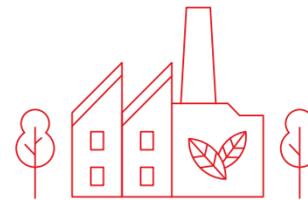
Economic impacts

- taxes: income tax, profit tax, VAT
- employment
- gross value added
- investments
- the supply chain of food and drink products
- impacts on the economic environment



Social impacts

- social projects implemented and their efficiency
- the impact of Coca-Cola HBCA on the image of Armenia
- social responsibility and business ethics
- product quality



Environmental impacts

- investments directed towards environmental protection
- environmental impacts in terms of carbon emissions, packaging, water use, energy use, transportation and cooling equipment
- Coca-Cola HBCA sustainability targets

11. Decision makers - the government, ministries, etc.

Social Influencers - NGOs, international organisations, social media, healthcare professionals, etc.

Business interest companies - suppliers, customers, retailers, etc.

12. The survey results were not considered in the economic, social, and environmental impacts assessment analysis, they are presented separately in this section, to provide the opinion of external stakeholders regarding Coca-Cola HBCA's economic, social, and environmental impacts.

13. The average scores per each area were calculated as an average of scores provided by each participant to each question in the section.

APPROACH

APPROACH

Economic output in terms of gross value added (GVA)

The core measure of economic activity generated by the Company is its overall contribution to Armenia in terms of GVA (gross value added). GVA is a measure of the economic value of the goods and services produced at an individual company, industry or sector level, net of intermediate consumption (e.g. goods and services used in the production process). It estimates the difference between the value of goods and services produced and the cost of inputs, such as unprocessed materials, that are used to create those goods and services. A nation's gross domestic product (GDP) includes the sum of the GVA of all economic agents in the economy².

The GVA contribution of Coca-Cola HBCA is assessed via three main routes:

Direct: first-round effects, where demand for Coca-Cola HBCA products generates business activity/output

Indirect: second-round effects through activities and output, supported by the Coca-Cola HBCA supply chain as a result of its procurement³ of inputs of goods and services for its own operations

Induced: multiplier effects which arise in the Armenian economy as a result of Coca-Cola direct employees and those employees in Coca-Cola HBCA's Armenian supply chain spending their Coca-Cola-related wages in Armenia. This spending generates additional economic activity for those businesses from which these employees buy goods and services and these businesses' own wider supply chains.

Direct GVA impacts are measured using the production approach to calculation. Indirect and induced impacts are assessed based on an input-output modelling approach^{4,5}. Our analysis is based on the specific structure of the Coca-Cola HBCA supply chain and uses Armenia- specific input-output table (the structure of input-output table, particularly the sectors, final demand and primary inputs classifications, are presented in Appendix 2) and the Tier-I and Tier-II multipliers derived from the table. This table shows, in matrix form, the interlinkages between sectors of the economy in terms of the value of goods and services (inputs) that are required to produce each unit of the output in given sectors of the economy.

2. GVA is a key component of gross domestic product (GDP), which is a measure of the value of production and is a key indicator of the state of the economy. GVA is used in the estimation of GDP, by aggregating GVA across all industries and sectors in the economy and adjusting for taxes / subsidies at the whole economy level.

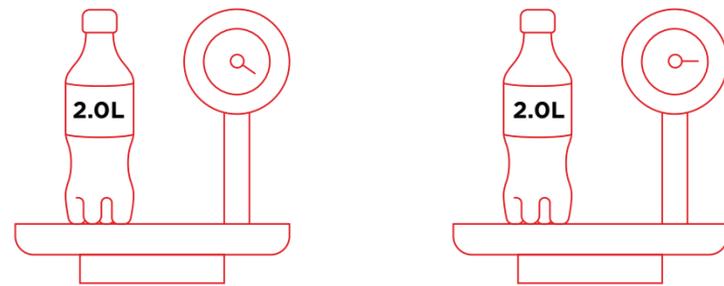
3. Any expenditure outside Armenia is considered a 'leakage'. The economic multipliers used in our analysis only account for spending within Armenia.

4. This approach was developed by the economist Wassily Leontief. Leontief, W. 1986. 'Input-output economics'. Oxford University Press.

5. The input - output table is taken from the Eora database(12). The data of the Eora table were compared with the statistics provided by the Statistics Committee of the Republic of Armenia. Primary input data (the structure is presented in Appendix 2) were adjusted to bring it into line with the official statistics of the RA. While making the adjustments, the structure of the Eora table and the shares per each sector were kept unchanged.

SURVEY

Collection and recycling activities also form part of the Company's actions to reduce environmental impacts. Coca-Cola HBCA seeks to raise awareness among its consumers concerning waste management and strongly encourages them to not pollute the environment.



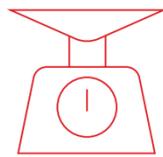
47gr

33gr

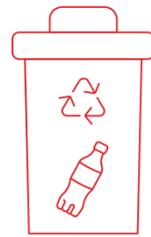
In 2017 the BonAqua 2.0L bottle weight was decreased on 30%⁽⁹⁾

Company targets for 2020⁽⁷⁾

↓25%



Reduce the primary packaging weight by 25% per litre of beverage produced



Recover around 20% of total PET packaging introduced to the market for recycling



Source 20% of total PET used in production from recycled PET and/or PET from renewable materials

Employment contribution

Generating employment is one of the important channels through which Coca-Cola HBCA contributes to the economy. Employment is reported in full-time equivalent (FTE) terms.

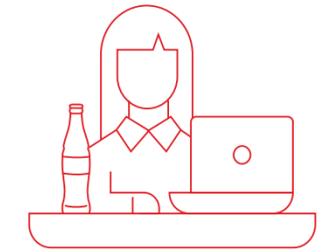
Employment impacts are also assessed in direct, indirect, and induced terms:



Direct: the individuals that Coca-Cola HBCA employs directly.



Indirect: employment supported as a result of economic activity generated through Coca-Cola HBCA's supply and distribution chains.



Induced: employment supported through additional economic activity generated in Armenia by direct and indirect employees spending their Coca-Cola HBCA-related wages in Armenia.

Indirect and induced employment impacts are assessed in a similar way to the GVA contributions, adopting an input-output modelling approach.

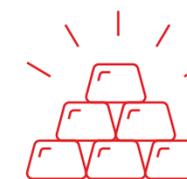
Investment

Investment activity is an important determinant of economic contribution, given that it is recognised as an important driver of economic growth.

Coca-Cola HBCA's level of investment is captured through:



Its own capital expenditure ('capex') in FY 2015-2017

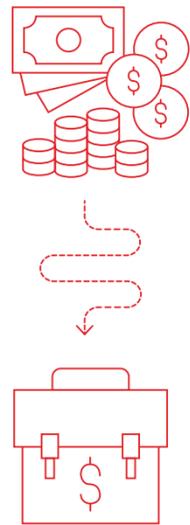


Its capex intensity

Capex intensity estimates the ratio of a company's Capex to the direct GVA it generates. This is compared to the national average Capex intensity using the national Gross Fixed Capital Formation as a proportion of national GVA.

Fiscal contribution

The total fiscal contribution generated by Coca-Cola HBCA comprises:



Direct fiscal contribution: fiscal contributions directly made by Coca-Cola HBCA, which is the total paid to the federal budget by Coca-Cola HBCA annually.

Fiscal contribution through the supply chain and induced economic activity: fiscal contribution through the supply chain and induced economic activity, which estimates:

- fiscal contributions generated through the Coca-Cola HBCA supply and distribution chain
- fiscal contribution generated through the wider supply chain

Employee fiscal contribution: the employee fiscal contribution estimates the total fiscal contribution generated through Coca-Cola HBCA's direct employees, as well as the contributions made by the indirect and induced employees that Coca-Cola HBCA generates in the wider economy.

For details of the economic impacts calculation see Appendix 5.

Social and environmental contribution

To assess the social and environmental contribution we:



- Conducted desk research, the full list of sources of information is presented in Appendix 1.
- Analysed the data provided by Coca-Cola HBCA. KPMG did not verify the provided data.
- Created focus groups among the beneficiaries of social projects conducted by Coca-Cola HBCA.

A quantitative impact assessment was not performed, as it was not part of the scope of the study. Our analysis was performed based on the above-mentioned sources, with no full impact assessment quantifying specific impacts. The areas and specific case studies under review were agreed with Coca-Cola HBCA.

Waste management, packaging, and recycling

At each production stage Coca-Cola HBCA seeks to reduce potential environmental impacts from packaging. This is achieved by applying the three Rs Principle⁽⁷⁾:



Reduce

Recover

Reuse

Improving waste management is another of the Company's environmental objectives⁽⁷⁾.



96.8%

Solid waste generated at the Coca-Cola HBCA plant was recycled

2016

98.6%

Solid waste generated at the Coca-Cola HBCA plant was recycled

2017

All waste that poses a hazard to the environment, including oil, petrol, diesel, and various chemical materials is separated at the Company's premises and recycled at Coca-Cola HBCA approved recycling companies, thus minimising the impact on the environment.

Near loss programme cases reported⁽⁷⁾

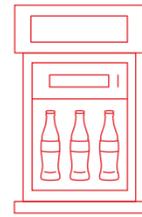


In particular, employees are encouraged to report any water, energy, or waste loss/improper use as part of the Near Loss programme. Although there were no significant changes to the Coca-Cola HBCA working environment, number of cases reported has increased during 2015-2017 period. This may be due to increased environmental awareness on the part of employees.

Each year Coca-Cola HBCA organises campaigns to clean river basins of plastic waste. For example, 220 bags of non-degradable waste were collected from the Dalar river basin in 2016.

Cold drink equipment

In order to fulfill corporate requirements, in 2011 Coca-Cola HBCA began transitioning to environmentally friendly cold drink equipment (CDE). Since then it has not purchased cold drink equipment using hydrofluorocarbons (HFCs), and has moved over to using hydrocarbon (HC) and CO₂ cold drink equipment with zero ozone depletion potential⁽⁷⁾.

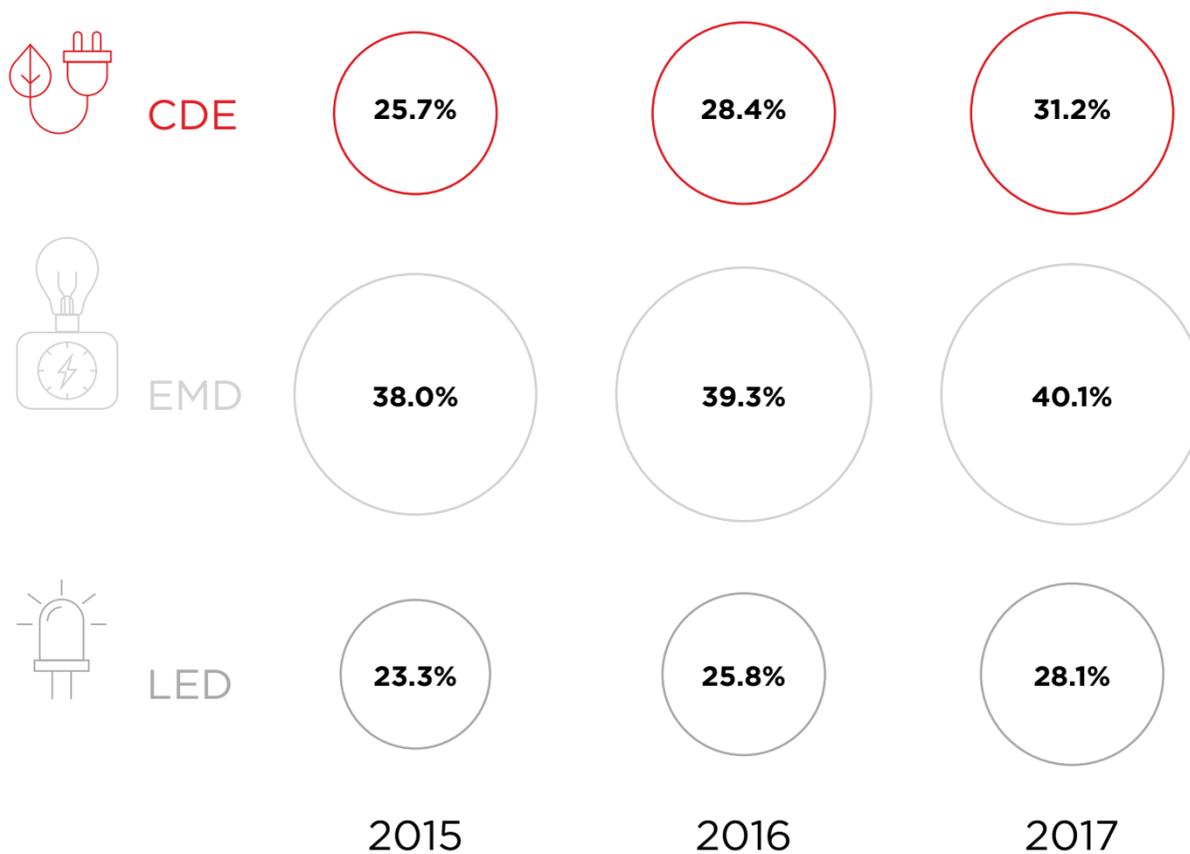


100%

The Company's 2030 target is to use 100% environmentally friendly cold drink equipment⁽⁵⁾.

In cold drink equipment Coca-Cola HBCA also uses energy saving equipment, in particular EMD (an energy management device) and LED (light-emitting diode) lamps.

Share of the environmentally friendly equipment and share of equipment that contains EMD and LED⁽⁵⁾



Source: Coca-Cola HBCA data

COCA-COLA HBCA'S CONTRIBUTION TO THE ARMENIAN ECONOMY

ECONOMIC IMPACT IN TERMS OF GVA

GVA contribution

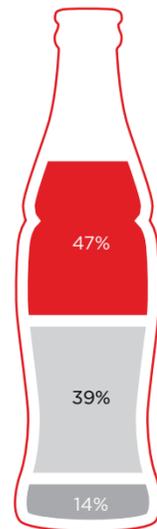


29.5

billion AMD
in total GVA generated in Armenia

We estimated that over the period 2015–2017 Coca-Cola HBCA generated a total of **AMD29.5 billion** GVA in the Armenian economy, including indirect and induced effects. This accounted for **0.21% of the total GVA** generated in Armenia⁽¹⁴⁾ over the mentioned period.

Out of this AMD29.5 billion:



13.7

billion AMD

Direct GVA generated through own activities^(1,20).

11.6

billion AMD

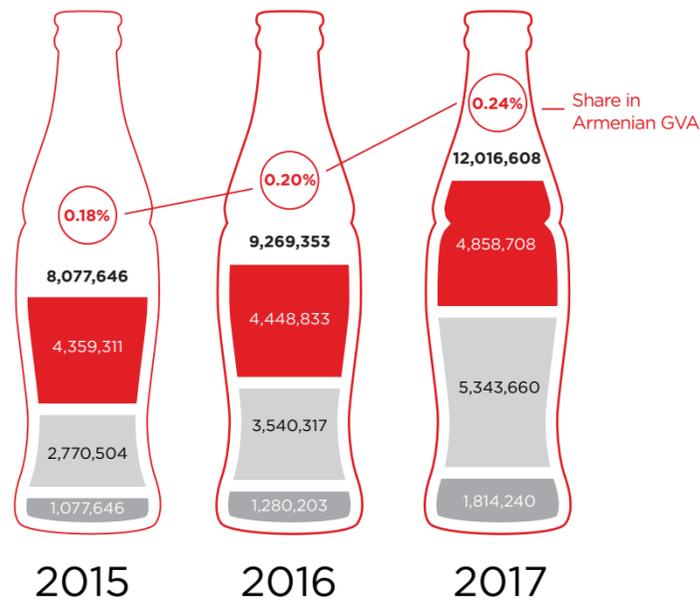
Indirect GVA generated through its spending with Armenian Tier-1 (direct) suppliers and the activity generated in the wider supply chain^(2,20).

4.2

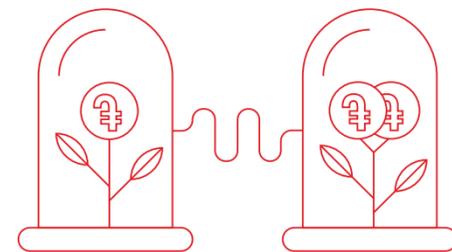
billion AMD

Induced GVA generated by the Company resulting from spending of wages in Armenia by individuals employed directly and indirectly as a result of Coca-Cola HBCA's activities^(2,20).

Detailed structure of annual GVA contribution for 2015–2017, AMD'000



Source: Coca-Cola HBCA data, SCRA, KPMG calculations



In 2017, for every **1 dram** of direct GVA generated by CCHBCA, an additional **1.5 dram** of indirect and induced GVA was generated in the Armenian economy^(2,20).

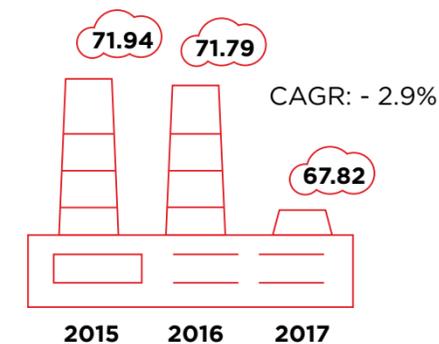
The share of total GVA generated by Coca-Cola HBCA in Armenia's GVA rose from 0.18% to 0.24% in 2015–2017.

- direct GVA
- indirect GVA
- induced GVA

Carbon emissions and climate change

Coca-Cola HBCA has adopted an approach to address the issue of climate protection. Over the past five years the Company has taken measures to gradually reduce its intensity of direct carbon emission (CO₂)⁽⁷⁾. From 2015 to 2017 the Company reduced its CO₂ emissions per litre of produced beverage by 5.7%⁽⁶⁾.

CO₂ emissions per litre of beverage produced, gram CO₂



Source: Coca-Cola HBCA data

Due to the **15.2%** increase in total Coca-Cola HBCA beverage production in 2015–2017, total CO₂ emissions rose by **8.6%** in 2017 compared to 2015.

As a result of saving initiatives, the level of CO₂ emissions in 2017 was **0.5%** lower than budgeted⁽⁶⁾.

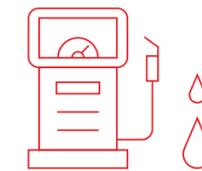
The Company's 2020 target is to achieve **45g** of CO₂ emissions per litre of beverage, which would be a **33.6%** drop on the 2017 level⁽⁶⁾.

In order to reduce carbon emissions from its fleet, Coca-Cola HBCA encourages an eco-friendly culture among its drivers. Bespoke trainings and presentations were developed to teach more efficient driving skills⁽⁷⁾.



5.1%

Increase in driven kilometres in 2017



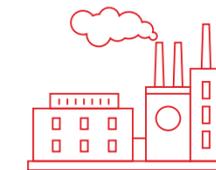
8.7%

Drivers used less fuel overall compared to 2015



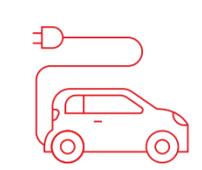
13.1%

Drivers used less fuel per 100 km driven compared to 2015



↓9.9%

Total carbon emissions from the Coca-Cola HBC fleet fell compared to 2015⁽⁷⁾



↓14.9%

Carbon emissions per 100 kilometres driven declined compared to 2015⁽⁷⁾

Energy use efficiency

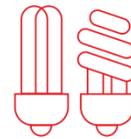
Sustainable energy use is another priority environmental area for Coca-Cola HBCA. The Company is able to boost its energy use efficiency by switching to more energy efficient sources and developing low carbon footprint technology⁽⁷⁾.



The factory adopted the ISO 14001 international environmental management system. The plant is also subject to an annual compliance audit according to Coca-Cola quality system standards



New cooling models as well as power management equipment was delivered, thus boosting the efficiency of freezing equipment



Old equipment was replaced in order to reduce the amount of energy consumed during production



Travel to the market is optimised by using vehicles that emit a low level of carbon emissions

The Company's 2020 target is to have **40%** of the total energy it uses coming from renewable and clean energy sources.

The slight rise in energy use in 2016 was due to the launch of a new state-of-the-art technological system for filtering sugar syrup. The system refines white syrup, thereby improving the quality of products. As a result of parallel energy consumption saving actions implemented, in 2017 the Company managed to reduce energy consumption to the level of 2015.

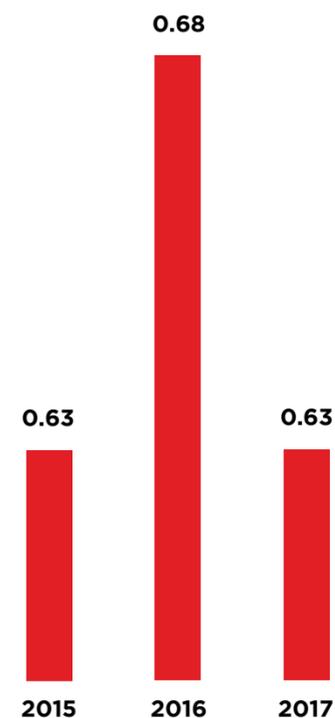
Due to a **15.2%** rise in total Coca-Cola HBCA beverage production during 2015–2017, total energy use in 2017 went up by **15.2%** compared to 2015.

As a result of saving initiatives, energy consumption in 2017 was **10%** lower than budgeted⁽⁶⁾.

The Company's 2020 target is to achieve **0.54 MJ** energy consumption per litre of beverage produced, which would be a **14.3%** drop on the 2017 level⁽⁶⁾.

Case study: The strategy of boosting energy use efficiency adopted by Coca-Cola HBCA accords with the commitments of the city of Yerevan on reducing greenhouse emissions. On 9 September 2014 the Yerevan Municipality joined the EU Covenant of Mayors for Climate & Energy initiative. By doing this the city of Yerevan, within the framework of its responsibilities and guided by the principles laid down in the Sustainable Energy Action Plan⁽¹⁷⁾, committed to achieving by the year 2020 a reduction of at least 20% in greenhouse gas emissions in the city compared to the baseline figures for 2012⁽¹⁷⁾.

Consumption of energy per litre of beverage produced, MJ



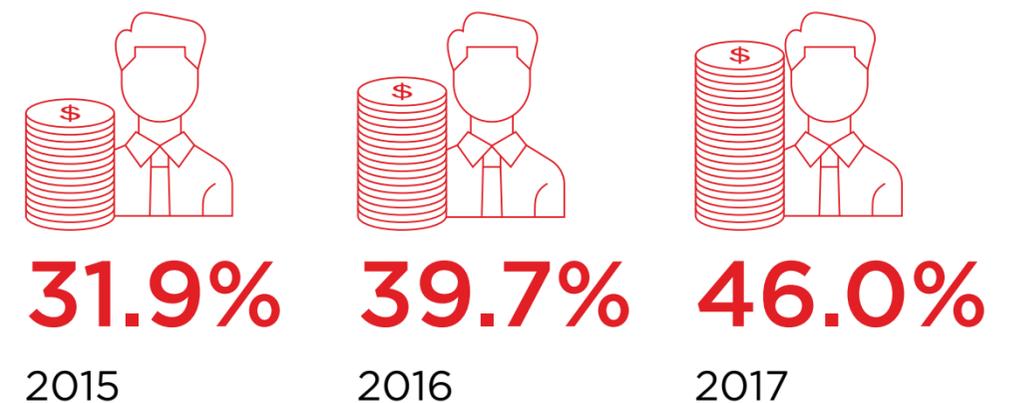
Source: Coca-Cola HBCA data

In its production Coca-Cola HBCA mainly uses the following: syrup, preforms, water, sugar, and packaging. Currently the Company procures locally preforms, water, sugar and part of packaging materials.

Over 2015-2107 Coca-Cola HBCA increased its proportion of total supplier spending (by value) with local suppliers, which had a positive impact on its total GVA via the multiplier effect.

Local sugar use: In 2016 Coca-Cola HBCA granted local sugar producer certification to Akhuryan Sugar Plant. The use of locally produced sugar allows the total GVA generated by Coca-Cola HBCA to be increased. The share of spending on locally produced sugar out of total local purchases was 0.1%, 5.1%, and 8.8% in 2015, 2016, and 2017, respectively.

Proportion of total supplier spending (by value) with local suppliers, 2015–2017



Source: Coca-Cola HBCA data; KPMG calculations

Coca-Cola HBCA revenue is generated from the sales of manufactured goods and purchased/imported goods. The share of revenue from sales of manufactured goods was 75% in the period 2015–2017.

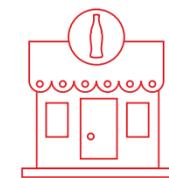
We also analysed the direct, indirect, and induced GVA contribution of Coca-Cola HBCA per sector; details are presented in the charts below. Based on the financial information provided by Coca-Cola HBCA⁽²⁾, the main drivers of the GVA increase in 2015–2017 were the following sectors:



Food and beverages – mainly due to local purchases of sugar for production

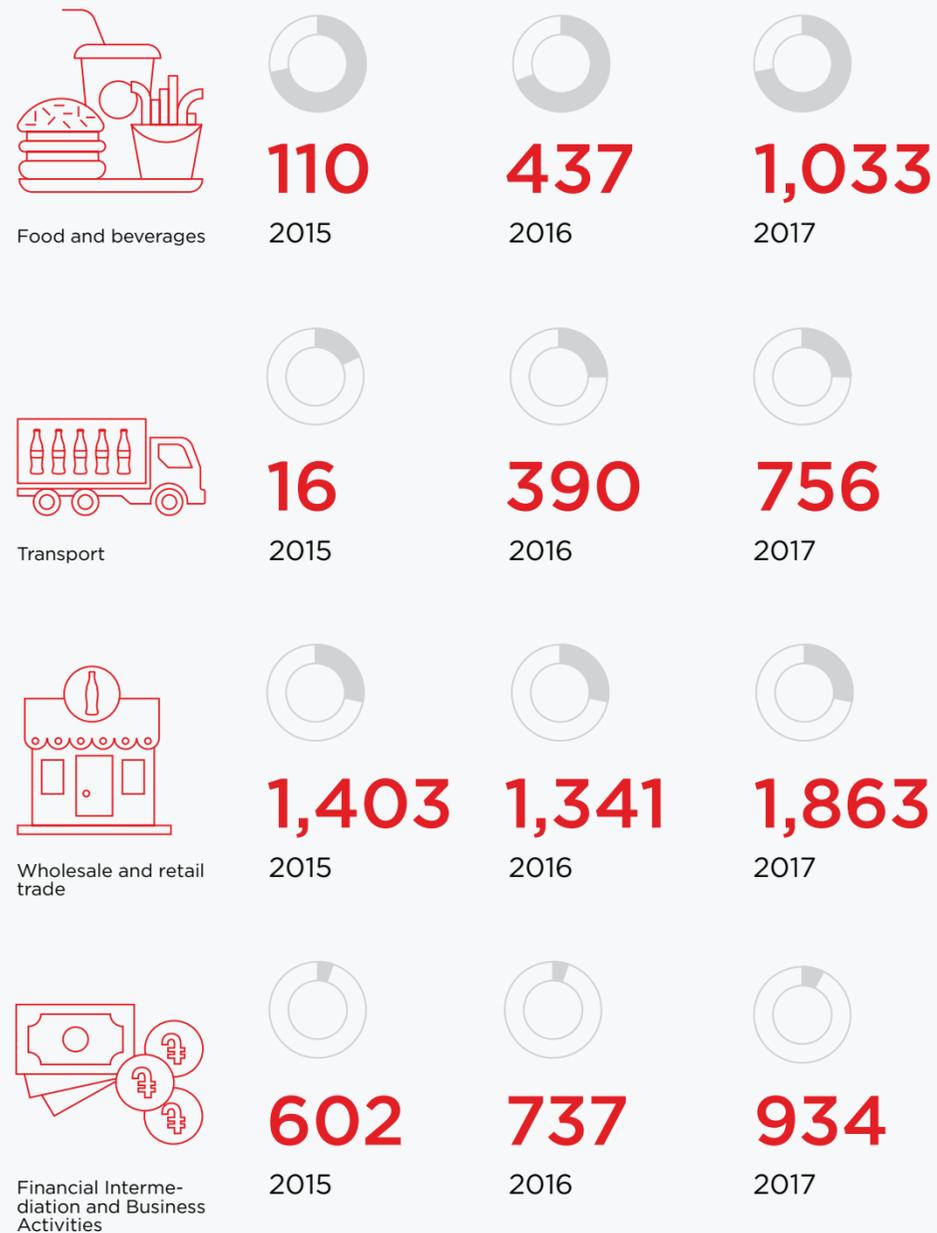


Transport – primarily due to changes to the location of import countries and imported product types



Wholesale and retail trade – chiefly due to an increase in local distribution levels

Direct and indirect GVA contribution of Coca-Cola HBCA in Armenia per sector, 2015-2017, AMD million

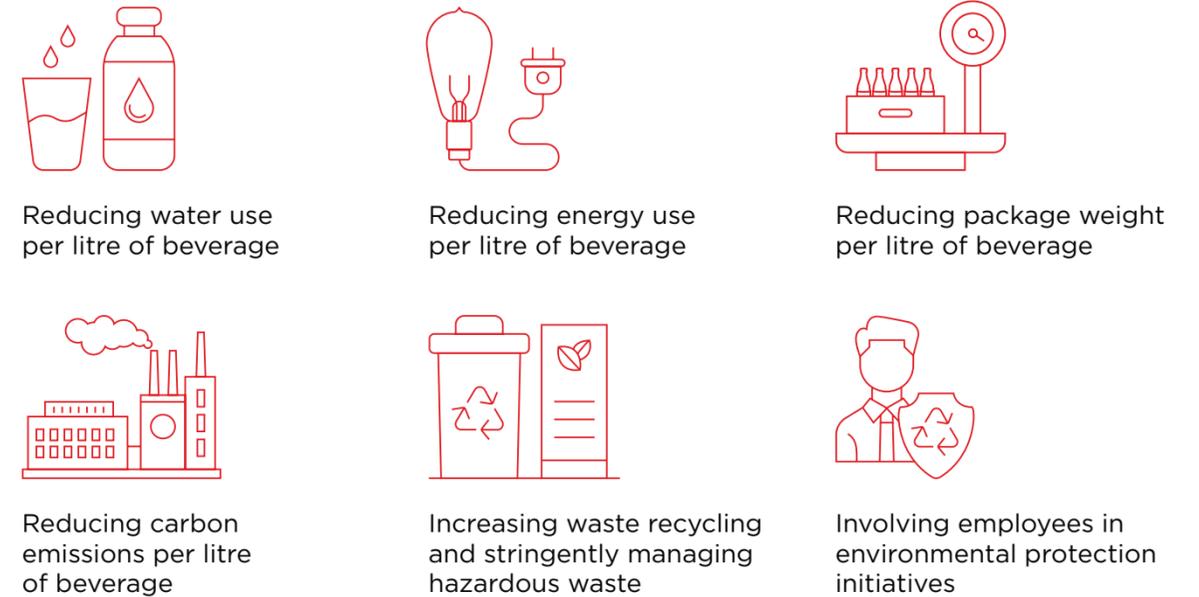


- Direct GVA
- Indirect GVA, Tier-1 Supplier GVA
- Indirect GVA, Wider supply chain GVA

ENVIRONMENTAL IMPACTS

Main areas

Minimising environmental impacts across the entire value chain is one of the core targets of Coca-Cola HBCA. The main areas set for minimising these impacts are⁽⁷⁾:



Water use efficiency

Coca-Cola HBCA places high priority on the conservation and efficient use of water resources, which is the main ingredient in the production process. Water use per litre of product in 2017 fell by **2.7%** compared with 2015.

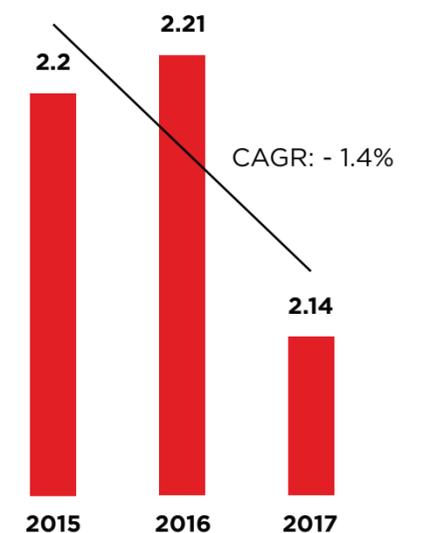
Although total Coca-Cola HBCA beverage production rose by **15.2%** during 2015-2017, total water use increased by only **12.1%** in 2017 vs 2015.

As a result of saving initiatives, water consumption in 2017 was **5.3%** lower than budgeted⁽⁶⁾.

The Company's 2020 target is to achieve **1.95** litre water consumption per litre of beverage produced, which would be a **8.9%** drop on the 2017 level⁽⁶⁾.

Case study: In 2017 Coca-Cola HBCA joined the International Alliance for Water Stewardship scheme. Membership is open to organisations motivated to tackling water-related challenges collectively. The alliance serves as a platform to exchange learning and as a vehicle to advance water-related goals. Knowledge acquired through the Alliance for Water Stewardship helps members refine and improve their water stewardship practices.

Consumption of water per litre of beverage produced, litres



Source: Coca-Cola HBCA data

COCA-COLA HBCA'S ENVIRONMENTAL IMPACTS ON ARMENIA



Petroleum,
Chemical
and Non-Metallic
Mineral Products



251

2015



232

2016



325

2017



Utilities (electricity,
gas, water,
communi-cations)



211

2015



202

2016



233

2017



Other



178

2015



165

2016



199

2017



Coca-Cola



4,359

2015



4,449

2016



4,859

2017

Note: The Coca-Cola HBCA direct GVA contribution is shown separately, but it is also the part of the food and beverages industry

Source: Coca-Cola HBCA data, KPMG calculations

Induced GVA contribution of Coca-Cola HBCA presented per sectors generated from^(2,20) 2015-2017, AMD million

	Food and beverages	17	72	156
	Transport	6	152	295
	Wholesale and retail trade	543	519	721
	Financial Intermediation and Business Activities	112	138	174
	Petroleum, Chemical and Non-Metallic Mineral Products	62	58	81
	Utilities (electricity, gas, water, communications)	38	36	42
	Other	66	63	75
	Coca-Cola	223	242	270
		2015	2016	2017

Note: The Coca-Cola HBCA induced employment contribution is shown separately, but is also the part of the food and beverages industry

Source: Coca-Cola HBCA data, KPMG calculations

Other CSR projects implemented¹⁰



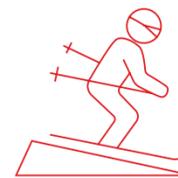
Annual New Year Initiative – sweets, candies, and other presents for the children of an orphanage.



Support for the International Festival of Puppet Theatres, 2016.



In 2017 Coca-Cola Hellenic Armenia signed a memorandum of understanding with the charitable non-governmental organisation Orran, expanding the scope of their long-term working relationship. In accordance with the agreement, Coca-Cola HBCA employees did voluntary work to help Orran children with their homework, and also participated in cultural and extracurricular initiatives run by the charity.



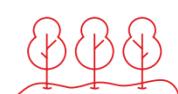
The organisation of a two-year multidirectional programme entitled Be Active, Live Healthy (2014-2015). The project was implemented jointly with the RA Ministry of Sport and Youth Affairs, the Global Sheyperz NGO, and the MAROG Creative Agency, with support from the Municipality of Yerevan. The project aimed to raise awareness within Armenia about active and healthy lifestyles, by involving the public in regular physical activities and sports competitions⁽¹⁶⁾.



Make Armenia Clean Again, 2017.



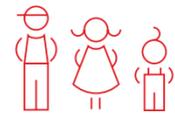
Sustainability practice sharing for other companies, 2017.



Tree planting project, 2017.

10. The impact/contribution from these initiatives has not yet been assessed

Youth development



Unemployment among young people remains a major challenge in Armenia. Coca-Cola HBCA's social contribution in this area aims to develop life and business skills through training sessions that support young people as they transition from school to the professional world⁽⁷⁾.

Youth Empowered

To help in the elimination of this problem, in 2017 Coca-Cola HBCA launched a Youth Empowered programme, aimed at supporting young people aged 18-30 in achieving their professional aspirations. The programme's beneficiaries are young people from vulnerable groups, especially from the regions, as well as recent university graduates and potential young entrepreneurs.

Within this programme, trainings on interview and CV writing skills, and self-development and self-assessment skills held by professional mentors have been organised. The implementation of the project is carried out by the International Academy of Business, with support from the RA Ministry of Education and Science. Trainings were organised in Yerevan, Lori, Shirak, Kotayk, Armavir, Ararat, Aragatsotn, Tavush, Gegharkunik, Vayots Dzor and Syunig marzes. 2,000 young individuals have already participated in the programme. The Company's target by the end of 2018 is to involve 2,100 participants (500 from Yerevan and 1,600 from marzes) and 8,000 by 2020. In the next phase of the programme, organising trainings on business skills, specifically for young entrepreneurs, is planned.

To assess the impact of the Youth Empowered programme on the beneficiaries' career development, KPMG conducted focus group discussions among the beneficiaries in Yerevan (21 participants) and Vanadzor (19). The focus group results indicated that the programme had been successful. The focus group participants were mostly satisfied with the skills and knowledge they obtained from the trainings, and some mentioned that they had found a job after passing the training.

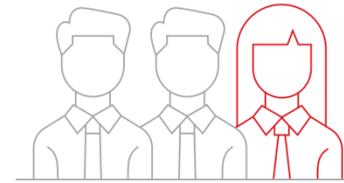
Some of the comments and suggestions from the beneficiaries:

- "The trainings were practical and motivating"
- "It would be better to reduce the number of participants per group"
- "It would be better to reduce the number of training hours per day, so that the trainings are more efficient"
- "They will be happy to participate in other similar trainings"
- "The interactions with the mentors were very effective, as they shared their experience"
- "They would appreciate having better prepared mentors, so as to ensure standardised trainings per group"

At this stage we will not provide a quantified assessment of the actual impact of the trainings on the participants' career development, since they were conducted only a few months ago.

EMPLOYMENT CONTRIBUTION

Coca-Cola staff structure⁽⁴⁾



361

Coca-Cola employees at the end of 2017, FTE

19%

Female employees of Coca-Cola HBC



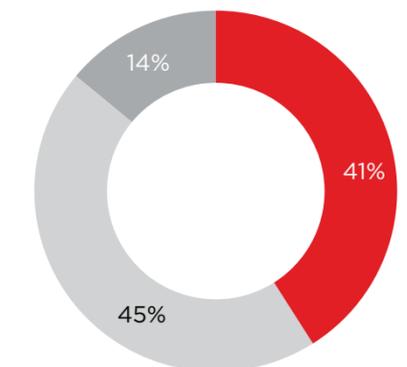
14%

Female top management of the Company



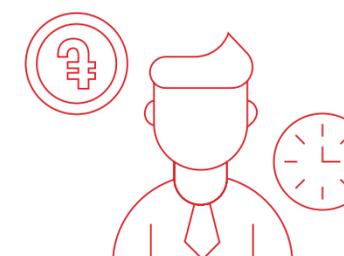
31%

of total staff in Coca-Cola with a secondary education



- 20-29 years of age
- 30-44 years of age
- 45 and above

Wages

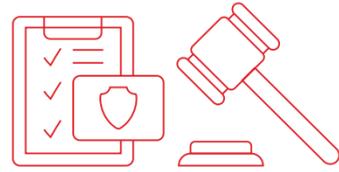


Coca-Cola HBCA provides a high level of wages in Armenia.

Average monthly wages provided by Coca-Cola HBCA⁽⁴⁾ in 2017 were **45% higher** than the average monthly wages in Armenia⁽¹⁴⁾. In addition to fixed wages, Coca-Cola HBCA also provides bonuses based on employee performance. If we also include bonuses, the total average monthly pay of a Coca-Cola HBCA employee is **1.3 times** higher than the average monthly salary level in Armenia.

Health and safety⁽⁷⁾

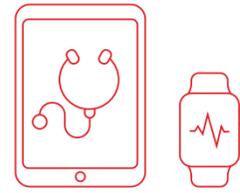
The health and safety (H&S) of employees is a primary focus for Coca-Cola HBCA. In order to ensure employee workplace safety, the Company uses a three-pillar approach:



Compliance with applicable local and international H&S laws and regulations



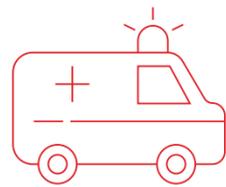
Training and education for all employees



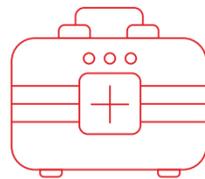
Improving the H&S culture companywide

Each year Coca-Cola HBCA has to pass an audit of compliance with International OHSAS 18001 Occupational Health and safety Standards by SGS and has been consistently successful in this regard.

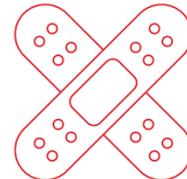
The Company works continuously to renovate its car fleet and to provide knowledge about safe driving methods to its drivers.



Accidents per million kilometers driven in 2017 was 5.5, compared with 11.5 in 2016⁶

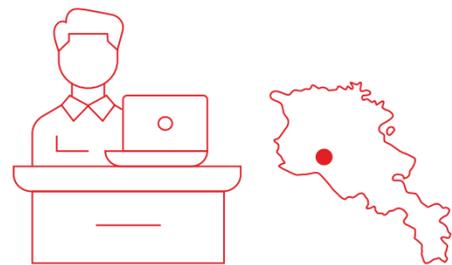


There were 4 first-aid cases in 2017, compared with 11 in 2016⁶



No severe injuries to employees or contractors were recorded in 2015-2017

Jobs created



We estimated that through its activities in FY 2017, Coca-Cola HBCA generated **2,341 jobs**^(2,4,20) in annual FTE terms, which comprised **0.23% of the total employed** population of Armenia in 2017⁽¹⁴⁾. This comprised:

2,341 jobs

6. Information about the number of accidents and first-aid cases in 2015 was not provided.

Active lifestyles



Community welfare is one of the cornerstones of the Company's CSR strategy. To promote active and healthy lifestyles in Armenia, Coca-Cola HBCA implements various sport programmes⁽⁷⁾.

Case study: Yerevan half-marathon (YHM)

For two consecutive years, in 2016 and 2017, the Company, together with the Repat Armenia Foundation and the Yerevan Municipality, organised the Coca-Cola Yerevan Half Marathon project, open both for professional and recreational runners, regardless of their level.

The project comprised two components: a running development programme (a series of open trainings for runners) and a major running event. The main goal of the project was to encourage a culture of running in the country. Each year the marathon attracted 1,500-1,700 participants. 30% of these were from abroad, representing approximately 40 countries.

The winners of the YHM projects were awarded with cash and in-kind prizes.

The project also had a charity component – part of the funds collected from the registration and sponsorship was donated to a number of benevolent programmes (Teach for Armenia, Bari Mama – rehabilitation centre for children with disabilities, AGBU, Orran NGO), and runners with disabilities had a chance to participate in the race.

The YHM project attracted a number of volunteers, who helped with preparing and conducting the event.

The above information has been confirmed by the Yerevan Municipality⁽²³⁾.

Water stewardship



In 2016 Coca-Cola HBCA signed a Memorandum of Understanding with the United States Agency for International Development (USAID) and the Ministry of Nature Protection of the Republic of Armenia⁽²⁵⁾. The partnership is aimed at improving water stewardship across Armenia and, in particular, contributing to conservation and the effective use and management of water resources in Ararat Valley, an important community in terms of its agriculture and fish production industry.

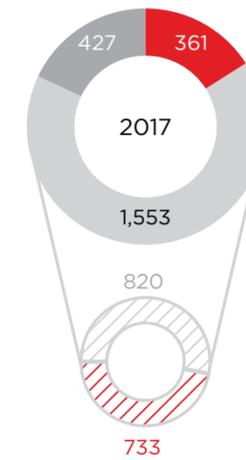
Case study: Rehabilitation of Hayanist village (Ararat Region) irrigation network

One water projects within this partnership was the rehabilitation of the Hayanist village (Ararat Region) irrigation network, implemented jointly by Coca-Cola HBCA, the United States Agency for International Development (USAID), and the Global Environment Facility's Small Grants Programme in Armenia (implemented by the UNDP).

Hayanist was one of 30 communities in the Ararat and Armavir provinces without reliable access to drinking or irrigation water, due to decreasing groundwater reserves and the use of artesian water by fish farms, which posed a threat to the long-term sustainability of the region's groundwater resources. Hayanist is a medium-sized community in the Masis Region of the Ararat Province, with a population of 2,500. It is close to the capital and has fertile land which is suitable for agriculture. Around 160 hectares of agricultural land in Hayanist was not irrigated.

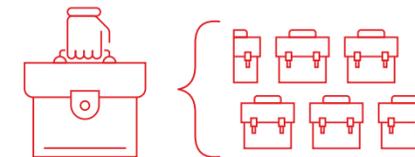
The project's aim was to address this issue by building a new pumping station at the water discharge point of the fishery, installing a new, more efficient irrigation pipe network. The target was to irrigate 40ha land in the Hayanist community.

To assess the impact of the Hayanist project on the community members' quality of life and well-being, KPMG conducted a focus group with the project's beneficiaries. The group was conducted in Hayanist among six beneficiaries. The results indicated that the irrigation system has been successfully built and that the inhabitants of the Hayanist community no longer have an irrigation water shortage on 40ha of land. However, due to a number of issues and drawbacks present in the community (e.g. lack of equipment), as of 2018 the irrigation has not yet been fully implemented. Currently around 5 ha is being irrigated.



- Direct FTE jobs.
- Indirect FTE jobs in Coca-Cola HBCA's supply chain, generated through the Tier-1 supply chain and the wider supply chain.
- Induced FTE jobs generated as a result of the spending of wages in Armenia by individuals employed directly and indirectly as a result of Coca-Cola HBCA's activities.
- ▨ Generated through Tier-1 supply chain
- ▨ Generated through the wider supply chain

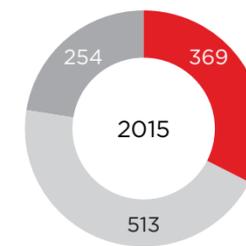
Source: Coca-Cola HBCA data, KPMG calculations



For **each direct job** created by Coca-Cola HBCA an additional **5.5 jobs** (both indirect and induced) were generated in Armenia in 2017⁽²⁰⁾

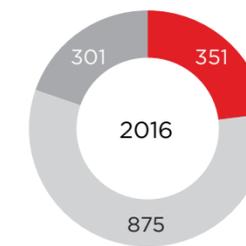
The results for 2015-2016 are presented in the chart below:

Employment contribution of Coca-Cola HBCA in Armenia, 2015-2016, FTE



1,136

Total employment impact



1,527

Total employment impact

- direct employment
- indirect employment
- induced employment

Source: Coca-Cola HBCA data, KPMG calculations

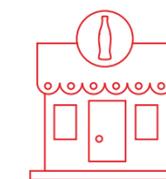
We also analysed the employment contribution of Coca-Cola HBCA per sector; for details see the chart below. Based on the financial information provided by Coca-Cola HBCA⁽²⁾ the main drivers of the employment contribution increase during 2015-2017 were the following sectors:



Food and beverages - mainly due to local purchases of sugar for production

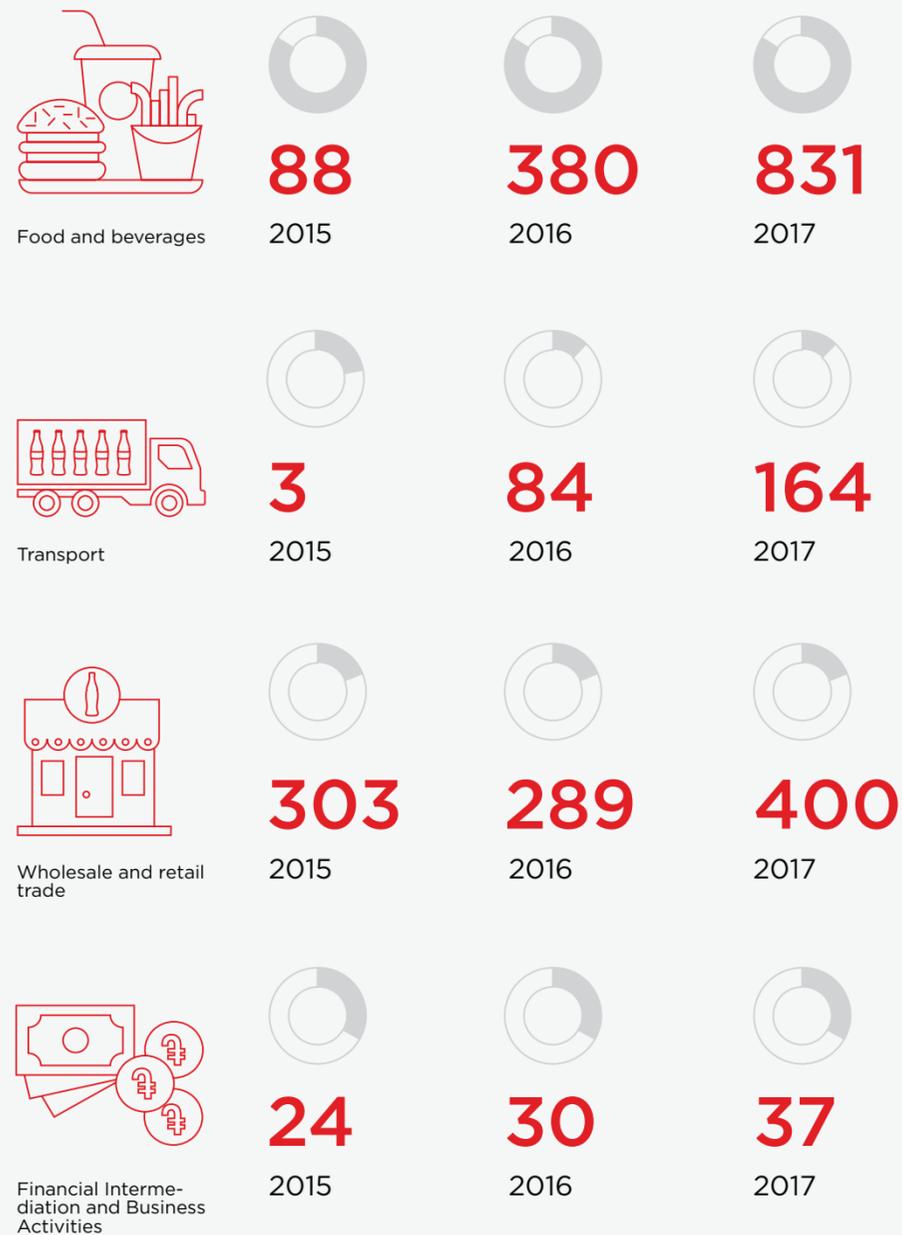


Transport - primarily due to changes to the location of import countries and imported product types



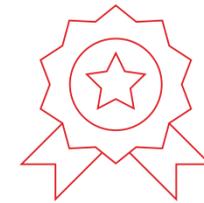
Wholesale and retail trade - chiefly due to an increase in local distribution levels

Direct and indirect employment contributions of Coca-Cola HBCA in Armenia per sector ^(2,4,20), 2015–2017, FTE



- Direct employment
- Indirect employment, Tier-1 supplier employment
- Indirect employment, Wider supply chain employment

Coca-Cola HBCA's achievements in the field of food quality and safety in 2015–2017⁽⁷⁾ include:



It reached a leading position in the product quality Index among all Coca-Cola HBC plants in the first quarter of 2016.



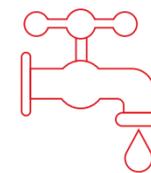
A new cross-functional programme, Customer Complaints Management, was rolled out in 2016.



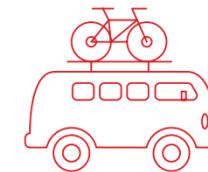
In 2016 the Coca-Cola HBCA plant successfully underwent an external audit for compliance with the International Food Safety FSSC 22000 Standard.

Giving back to communities

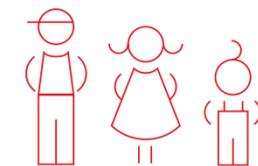
Over 2015–2017 the Company made charitable donations of AMD93 million in the following main areas of social development initiatives⁽²⁾:



Water Stewardship



Community wellbeing



Youth development

Donations in 2015–2017 stood at 1.7% of the profit (before tax) generated by the Company during this period^(1,2).

The Company's target for 2020 is to achieve:

2%

A community investment level of pre-tax profits

10%

Of the Company's staff volunteering during working hours⁽⁷⁾

Food Quality and safety⁽⁷⁾



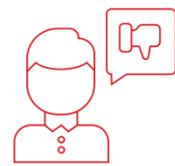
Coca-Cola HBCA complies with international standards on soft drink manufacturing, continuously applies new technologies, conducts regular and robust monitoring of production processes, and constantly enriches its product portfolio.

In its production facility Coca-Cola HBCA has established Food Quality and Safety compliance programmes, including:

- good manufacturing practices and quality control compliance for each production cycle
- compliance with ISO 9000
- implementation of Hazard Analysis of Critical Control Points (HACCP) principles
- compliance with applicable local laws and regulations
- compliance with the worldwide FSSC 22000 standard
- compliance with the Company's internal specifications

The Company places great important on ensuring that its products are of a consistent and reliable quality. It tracks and manages the quality of its products by monitoring consumer complaints and product freshness.

Number of product quality complaints:



17

2015

35

2016

8

2017

Freshness index⁸:

Carbonate products: the percentage of products above freshness age



12.8%

2015

6.8%

2016

5.7%

2017

Juices⁹: the percentage of products above freshness age



14.9%

2016

7.1%

2017

8. Product freshness is expressed as a percentage of products found on the shelf with an age of above half their shelf life (for example, the shelf life of Coca Cola 0.5 PET is four months, hence any product found on the shelf above two months old is regarded as less fresh).

9. The Juices freshness index was not calculated in 2015



Note: The Coca-Cola HBCA direct GVA contribution is shown separately, but it is also the part of the food and beverages industry

Source: Coca-Cola HBCA data, KPMG calculations

Induced employment contribution of Coca-Cola HBCA presented per sectors generated from^(2,4,20), 2015-2017, FTE

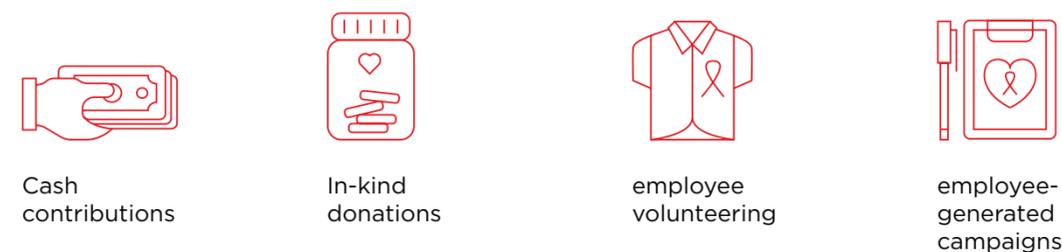
	Food and beverages	4	17	37
	Transport	1	36	69
	Wholesale and retail trade	128	122	170
	Financial Intermediation and Business Activities	26	32	41
	Petroleum, Chemical and Non-Metallic Mineral Products	15	14	19
	Utilities (electricity, gas, water, communi-cations)	9	9	10
	Other	16	15	18
	Coca-Cola	55	57	64
		2015	2016	2017

Note: The Coca-Cola HBCA induced employment contribution is shown separately, but is also the part of the food and beverages industry

Source: Coca-Cola HBCA data, KPMG calculations

CONTRIBUTION TO THE SOCIAL DEVELOPMENT AND WELL-BEING OF THE ARMENIAN COMMUNITY

In general, there is evidence to suggest that corporate social responsibility is being increasingly recognised by companies as a way to invest in the communities that make their success possible⁽²¹⁾. This can be in the form of cash contributions, in-kind donations, employee volunteering and/or employee-generated campaigns.



The exact approach varies and is influenced by factors such as business size, sector, and locality⁽²²⁾.

Coca-Cola HBCA has stated that since the very beginning of its journey in Armenia it has adopted sustainability targets and commitments. Corporate social responsibility plays a considerable role in Coca-Cola HBCA's business plans - it is committed to inspiring a better future for the people and communities it serves⁽⁷⁾.

The four strategic objectives at the core of Coca-Cola HBCA's sustainability approach are:



We analysed the main activities conducted by Coca-Cola HBCA to meet its sustainability objectives. A detailed description of the activities performed and their contribution assessment results are presented below. We did not quantify outcomes or impacts, but only performed a high-level qualitative review.

COCA-COLA HBCA'S CONTRIBUTION TO THE SOCIAL DEVELOPMENT AND WELL-BEING OF THE ARMENIAN COMMUNITY

FISCAL CONTRIBUTION

Payments to the state budget

As a large producer, importer, and employer operating in Armenia, Coca-Cola HBCA is a major contributor to Armenian public finances. According to a report on the 1,000 largest taxpayers in Armenia, published by the Armenian Tax Service⁽¹³⁾, in 2015-2017 Coca-Cola HBCA was a **top-50 taxpayer** in Armenia.

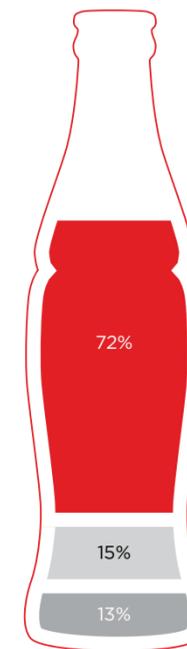
Coca-Cola HBCA contributes to Armenia public finances via a wide range of taxes: profit tax, the taxes paid by its employees, the business partners that it supports, and taxes collected on behalf of the government, such as value-added tax (VAT).



15.6

billion AMD
total fiscal contribution

We estimate that over the period 2015-2017 Coca-Cola HBCA total fiscal contribution to state budget was **AMD15.6 billion**. This accounted for **0.47%** of the total tax revenues of RA over the mentioned period^(3,13,20).



11.3

billion AMD

Out of this AMD15.6 billion:

Direct fiscal contribution^(3,13)

2.3

billion AMD

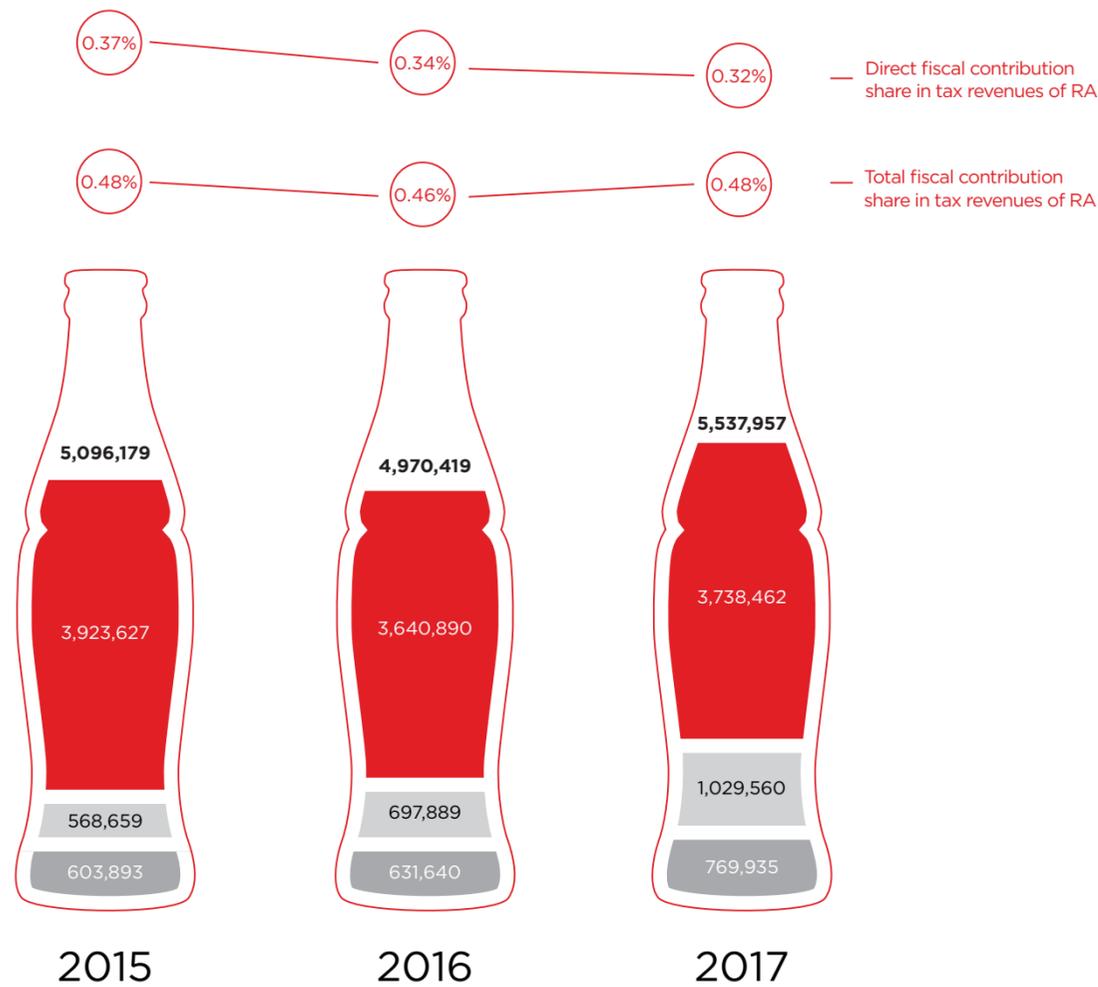
Fiscal contribution to the government through its network of business partners and subsequent economic activity^(3,13,20)

2.0

billion AMD

Fiscal contributions to the government was generated through its direct, indirect, and induced employees' earnings-related income taxation^(3,13,20)

Detailed structure of annual fiscal contributions, 2015-2017, AMD'000



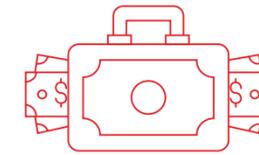
- Direct fiscal contributions
- Fiscal contributions through the supply chain / induced economic activity
- Employee fiscal contributions

Source: Coca-Cola HBCA data, SCRA, KPMG calculations

INVESTMENTS

In this section we look at Coca-Cola HBCA's capital expenditure ('Capex') in FY 2015-2017.

Capital expenditure ('Capex') is the spending made by a company to acquire or upgrade infrastructure. Investment activity is an important determinant of any economic contribution, given that it is recognised as being an important driver of economic growth.



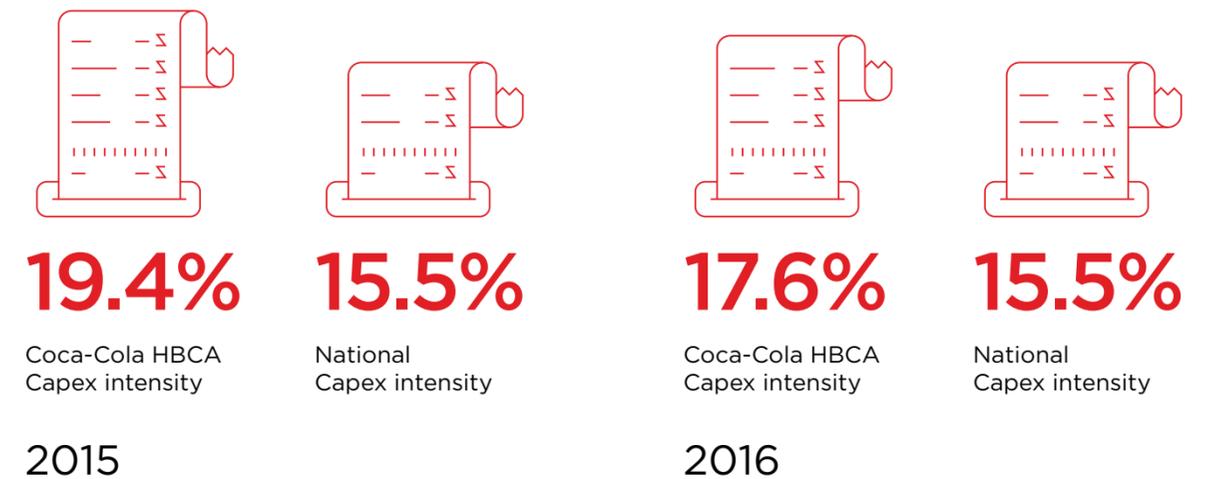
In Capex terms, Coca-Cola HBCA invested **AMD2.7billion** in FY 2015-2017⁽²⁾ in Armenia. During 2015-2016⁷ Coca-Cola HBCA's investments made up 0.1 per cent of total business investments in the country⁽¹⁴⁾.

Coca-Cola HBCA capital expenditure, 2015-2017, AMD'000



Source: Coca-Cola HBCA data

Coca-Cola HBCA's 2015 and 2016⁷ Capex intensity was above the national average level⁽¹⁴⁾: 3.9 and 2.1 percentage points, respectively.



7. Data for 2017 were not available as at the date of the Report preparation