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BOTTLETS JAPAN HOLDINGS INC.

# Paint it RED!

## 未来を塗りかえろ。

### Mission

すべての人にハッピーなひとときをお届けし、  
価値を創造します

*Deliver happy moments to everyone  
while creating value*

### Vision

■ すべてのお客さまから選ばれる  
パートナーであり続けます

■ *We are the preferred partner for our customers*

■ 持続可能な成長により、市場で勝ちます

■ *We win in the market through sustainable growth*

■ 常に学びながら成長します

■ *We lead a learning culture with commitment to grow*

■ コカ・コーラに誇りを持ち、  
誰もが働きたいと思う職場をつくれます

■ *We are the best place to work with pride for Coca-Cola*

### Values

■ 学ぶ向上心を忘れません

■ *Learning*

■ 変化を恐れず機敏に行動します

■ *Agility*

■ 結果を見据え最後までやりきります

■ *Result-orientation*

■ 誠実と信頼に基づいた気高い志で行動します

■ *Integrity*

## Improving corporate value even in difficult times



Representative Director &amp; President

**Calin Dragan**

For the beverage industry, 2020 was a year of difficulties unlike any other in our experience. Our Company, too, was affected by the novel coronavirus (COVID-19) pandemic, with a clear impact on our financial performance. Under these trying circumstances, we emphasized "Safety & Security," "Agility," and "Resilience" with priority on the safety and peace of mind of our stakeholders, as we made every effort to supply the beverages that have become lifestyle necessities. We were able to navigate this unprecedented challenge by focusing on areas we can control, such as continuing and accelerating major transformation initiatives aimed at future business performance, while minimizing the effects of sharp changes in the current environment through cost savings and other mitigation measures.

### Delivering happy moments through beverages

Our mission is to deliver happy moments to everyone, while creating value. Beverages are both lifestyle necessities and small luxuries to enjoy. As a "total beverage company", we deliver safe products that customers can drink with peace of mind, and we are working to create new market opportunities while meeting the diversifying needs of customers through innovation. Despite Japan having a declining birthrate and aging population, the soft drink market in Japan has been gradually growing for the past 25 years. Even with coronavirus restrictions, the market in 2020 was about 23% larger than in 1995. This is due to expansion of consumption opportunities, meaning the appearance of new sales channels, beverage categories, and packages. Through such innovations, we want to contribute to the sustainable growth of our Company and to the development of the soft drink market. This, we believe, will further support our Company mission to deliver happy moments to everyone while creating value.

### Our strengths in value creation, and the role of our business model

Our Company is committed to the continued creation of value for our stakeholders by leveraging our assets, our capital, and other strengths such as brand power, cost leadership, competitive human resources, a solid financial position and deep connections in our communities. To this end, we have built a robust value chain in close collaboration with The Coca-Cola Company. As a member of the global Coca-Cola system, we are part of network in

which we can tap into success stories, experiences, and knowledge from across Japan and the world. Through this robust value chain and our scale as a bottler, we will work to maximize the value that we provide in the Japan market.

### Strengthening collaboration with The Coca-Cola Company to achieve innovation

We are working more closely and effectively as one Coca-Cola system with The Coca-Cola Company and other partner companies in Japan as we have scaled up in size and capabilities. Before 1998, there were 17 Coca-Cola bottlers in Japan. The launch of Coca-Cola Bottlers Japan in 2017, which now represents about 90% of Coca-Cola Company sales volumes in Japan, contributes to strengthened collaboration across the Coca-Cola system, faster decision-making, stronger innovation and better marketplace execution.

### Focusing on fundamental business transformation for sustainable growth

We are fundamentally transforming our business to achieve innovation and sustainable growth over the medium- to long-term. This includes reviewing cost structures across our value chain, including in the key vending channel, which is an important profit driver, rebuilding the route sales model across retail channels, strengthening our manufacturing system to meet diversifying consumer needs and achieve innovation, and rolling out the Shinsei Project that aims to build a supply network that achieves high quality, low cost, and stable supply. We are also standardizing business processes, promoting digital transformation, and prioritizing people development as we work to establish a resilient cost structure that can respond in an agile way to changes in the environment. The key to achieving such transformation is prioritizing management resources to leverage the scale of our business. To return to a growth path, we are undertaking fundamental transformation based on the concept that "business as usual is not an option".

### Keeping our sights on medium- to long-term growth while delivering results in the near term

In 2020, our net sales fell significantly from the previous year due to the COVID-19 pandemic.

Business income, however, was positive and exceeded the revised plan that we announced in October. We achieved this through actions committed to protecting the business in the current challenging environment, including major cost reductions in excess of 35 billion yen through the formulation and execution of flexible plans to address rapid changes in the business environment. At the same time, we are advancing transformation initiatives that will contribute to medium- to long-term growth, and we achieved fixed cost reductions and other results that will continue to deliver into the future. We expect to reach more profitable growth when the market situation starts to normalize. In February 2021, we sold our Healthcare and Skincare business, in line with our commitment to simplify and optimize our operations to focus on the core beverage business. Looking ahead, we will concentrate management resources on the beverage business to further strengthen our infrastructure for sustainable medium- to long-term growth.

### Our response to the COVID-19 pandemic and risk management initiatives

While enacting comprehensive countermeasures including measures to prevent the spread of infection, we worked toward ensuring business continuity. As we carried out our responsibility to supply the beverages that are lifestyle necessities, we protected our business against major drops in demand, quickly and flexibly formulated and executed plans to secure cash and profits, focused on cost reductions and curtailing some investments, and accelerated key transformation measures to hold down our cost base. As a company with roots in our communities, we also acted swiftly to support local communities by donating products through the Japan Medical Association and food banks. We have taken every measure possible to overcome this unprecedented crisis. Our Company has introduced an Enterprise Risk Management (ERM) function and is working to make appropriate decisions on the basis of risks and opportunities. With the current uncertain environment expected to continue, we will work to further strengthen our ERM system. We will undertake actions aimed at identifying and understanding company risks and putting in place countermeasures to ensure we are able to achieve our organizational goals and business plans and foster an overall culture of risk management.

We believe that it will take some time for the COVID-19



pandemic to draw to a close, and the uncertain business environment is expected to continue. In a "New Normal" period, what was earlier commonplace will no longer be so. We have to respond to all changes, including changes in consumer purchasing behavior. As we work to continue our business and secure profits, we will take these changes as opportunities, not threats, and will work to capture new needs and growth opportunities.

### Human resources and corporate governance that support business growth

To me, human resources and organizational strength constitute the most important infrastructure in business. In addition to training the local sales representatives who interact with consumers and customers as beverage professionals, we are also selectively making use of international talent by tapping into the global Coca-Cola network. Furthermore, we are making efforts to strengthen diversity and inclusion, promote varied work styles, and build an organizational structure that lets all individuals make the most of their abilities. We will continue actively investing in our people to further develop the competitive human resources that are the strength and the future of our Company.

From the standpoint of corporate governance, we have appointed seven outside directors among our nine Board of Directors members. Our intent here is to build a system that will improve management quality, efficiency and transparency in order to increase corporate value and shareholder value over time. Importantly, our board structure reflects diversity of gender, age, nationality, and relevant experience across multiple business domains. In the area of executive compensation, we have established a system that promotes improvement of medium- to long-term corporate value and the alignment of interests with shareholders, with performance-linked bonuses and stock-based compensation programs. We will continue such efforts to further improve our corporate governance.

### Creating Shared Value (CSV)

Our Company places Creating Shared Value (CSV) at the core of our management as we engage in initiatives to create shared value with society. In 2019, together with The Coca-Cola (Japan) Company, we formulated a sustainability framework that identified the three platforms of Inclusion, Communities and

Resources, and nine priority issues to be addressed. Each of these areas are linked to the Sustainable Development Goals (SDGs) and we are actively working to contribute to their achievement. To achieve the unique "2030 Packaging Vision" of the Coca-Cola system in Japan and The Coca-Cola Company's global goal of a "World Without Waste," we have set ambitious targets on using recycled and plant-derived PET resin in our packaging to encourage a closed loop "bottle-to-bottle" recycling system, reduce reliance on petroleum in packaging and address the issue of packaging waste. We have also set our own non-financial CSV Goals, and are taking action to achieve ESG-related targets.

### Dialog with stakeholders improves our management

I want to make use of the voices of our shareholders, investors, and other stakeholders to improve our management of this business. I view our interaction at events such as the General Meeting of Shareholders, earnings presentations, individual meetings, domestic and overseas events, and other opportunities as extremely valuable. In 2020, with few opportunities for face-to-face meetings, we began sending out short video messages from management to communicate updates on our Company, and we have leveraged various digital and online tools to facilitate regular communication. We want to continue deepening our engagement in order to make progress on our mission to deliver happy moments to everyone, while creating value.

I thank you for your continued support of our Company.

## Creating shareholder value by driving transformation and building an agile and resilient business foundation

Representative Director & Vice President, Chief Financial Officer

**Bjorn Ivar Ulgenes**



### Review of 2020

In 2020, the domestic soft drink market shrank versus the previous year due to a significant decrease in demand caused by the novel coronavirus (COVID-19) pandemic. Our Company has been affected by COVID-19 and by the decision to postpone the Tokyo 2020 Olympic and Paralympic Games until 2021. While enacting measures against these impacts, we drove fundamental transformation across our business as part of our medium-term management plan under the concept of "business as usual is not an option".

Looking at our business performance in 2020, revenue decreased due to declining sales volume caused by COVID-19 and other factors. However, by accelerating transformation and delivering cost reductions of over 35 billion yen, we achieved positive Business Income, better than the revised plan.

We focused on initiatives to respond quickly to changes in the market environment as a large decline in demand became apparent. People staying at home and refraining from going out as well as closures and shortened business hours for restaurants led to declines in sales volume in the retail & food, vending, and convenience store channels. Conversely, volume increased in the drugstore & discounter, supermarket, and online channels as we successfully captured growing demand in at-home consumption and buying in bulk. New products including the "Fanta Premier" series and "Georgia Latte Nista" also contributed to sales. Looking at market share, the value share of the vending channel has maintained growth momentum as our efforts to transform this important channel are showing results. Moreover, the value share of the over-the-counter channel showed an improving trend toward the end of the year as we started to recover marketing investments and targeted sales promotions in the fourth quarter after the initial COVID-19 impact in the second and third quarters. The Lemon-dou alcohol brand has performed well since its nationwide expansion in October 2019, while maintaining a sales price premium. In 2020, the sales volume of Lemon-dou greatly exceeded the initial plan and

represents a success story in our efforts to tap into new growth opportunities.

Our supply network is an important factor in returning to a growth trajectory. We have rapidly expanded our manufacturing capacity for aseptically filled products to meet growing consumer demand, and also to introduce new technologies to produce exciting and innovative new products. We have introduced seven new production lines in the past two years, including the new Hiroshima Plant that replaced the Hongo Plant which was flooded during the heavy rains in Western Japan in 2018. With this, we believe that our supply network has been normalized and fast, efficient and high-spec manufacturing infrastructure is in place.

As efforts to improve our infrastructure, we have transformed the cost structure of our key vending channel and back-office routines as well as organizational structure. We have also introduced work process standardization and digital transformation, promoted new work styles, and pushed forward the fundamental transformation of our business.

### The outlook for 2021

In 2021, some recovery in the domestic soft drink market is expected as we cycle the initial impact of COVID-19 in 2020 and after the effects of the pandemic have run their course. However, the timelines for vaccination and market recovery remain difficult to predict, and a period of uncertainty is expected to continue. Under these circumstances, we focus on initiatives in areas under our direct control and continue to drive fundamental business transformation initiatives aiming to return to a growth trajectory. These initiatives include ongoing organizational reforms, digitalization, further transformation of our cost structure, balanced sales promotion activities focused on priority "Big Bet" products and innovation, and continued consumer-oriented investments aimed at expanding selling space and growing market share.

Amid changing consumption trends and channel mix under the ongoing impact of COVID-19, we aim to "grow where the growth is" in close cooperation with our partners at The Coca-Cola (Japan) Company, to achieve sustainable growth even in the "New Normal". As one example of growth initiatives, we expanded our lineup in the Lemon-dou alcohol brand with the launch of "Lemon-dou Kamisori Lemon", at the end of 2020 to further enhance our presence in the alcoholic beverage category. We are also expanding our in-house production capacity for alcoholic beverages to meet the growing demand. We intend to further strengthen activities in other growth categories, including expansion of the "Fanta Premier" series lineup, the launch of high value-added functional products like "Karada Odayakacha W" (Food with Functional Claims) and the premium "Georgia Latte Nista" series, as well as the introduction of "COSTA COFFEE", Europe's largest\* café brand.

Looking at initiatives by sales channel, we continue to aim for sustainable growth in the key vending channel by increasing ROI-focused vending machine placements in locations with high profit potential, and through a digital strategy that leverages tools including our "Coke ON" smartphone app. In the online channel where demand is increasing, we will strengthen initiatives to launch of products that fit the channel's characteristics.

We will make selective investments in manufacturing, logistics and distribution infrastructure, including facilities to introduce new packages and new products such as alcoholic beverages. As a part of the "Shinsei Project" aimed at building a high-quality, low-cost, stable supply network, the new Saitama Mega Distribution Center, a high-capacity automated warehouse, began operations in February 2021, and the next "Mega DC" in Akashi is scheduled for completion at the end of 2022. We will continue our work to optimize inventory and sales center locations that will operate in sync with the commissioning of each Mega DC.

Moreover, we will continue activities aimed at achieving our ESG targets based on creating value together with communities, including the execution of a people strategy grounded in our mission, vision, and values, while also achieving our 2030 Packaging Vision that aims for a "World Without Waste".

## Financial framework for shareholder value creation

Under our medium-term business plan, our Company is working to improve its corporate value under three key financial strategies: "Investing for growth," "Good stewardship of capital," and "Creation of shareholder value". Initiatives that we consider key to this policy include the establishment of a resilient cost structure that can respond swiftly to changes in the environment, the enhancement of efficiency through standardization of business processes and promotion of digital transformation, and the improvement of our balance sheet from the perspective of good stewardship of capital.

In 2020, our focus was to ensure an appropriate cash position amid the uncertainty and volatility of COVID-19. We cut back on a planned investment including new purchases of vending machines in response to changes in the market environment, while we continued investments to drive fundamental business transformation for medium- to long-term growth. We secured cash of 15 billion yen through the sale of under-utilized assets and cross-shareholdings, and generated an additional 45 billion yen in cash in the first quarter of 2021 by selling our Healthcare and Skincare business Q'SAI CO., LTD. in February 2021.

This year too, we focus on good stewardship of capital to ensure a solid financial position, sufficient liquidity, and appropriate cash flows while evaluating priorities for capital allocation, including ROI-focused capital expenditures and dividends.

Since our integration in 2017, we have been optimizing our balance sheet with a view toward improving shareholder value, including stable dividend payments, establishment of a dividend policy, initiation of share repurchases and issuance of corporate bonds. In 2020 we reduced dividends due to the tough business environment and our financial results. For 2021, prioritizing stable dividend payout, we plan to return to the dividend level of 2019 for an annual dividend of 50 yen per share with an interim dividend of 25 yen and a year-end dividend of 25 yen.

While the uncertain business environment is expected to continue, we continue to drive the fundamental transformation of our business, establish an agile and resilient business foundation, improve profitability and ROE, and work toward the improvement of our corporate value. Also, I would like to continue active dialogue with our stakeholders, including shareholders and investors amid a period of uncertainty.



Representative Director and President  
**Calin Dragan**

Has worked with Coca-Cola bottlers, including in Japan, for about 20 years. Most recently, served as President of The Coca-Cola Company's Bottling Investments Group.



Representative Director and Vice President, Chief Financial Officer  
**Bjorn Ivar Ulgenes**

Has experience with finance in the Coca-Cola system in Europe, the Middle East, Africa, and Japan. Most recently, served as Deputy Finance Director of The Coca-Cola Company's Europe, Middle East, and Africa (EMEA) Group.



Outside Director, Independent Director  
**Hiroshi Yoshioka**

Has management experience with Sony Corporation and global insights. Previously served as an outside director of Coca-Cola East Japan.



Outside Director, Independent Director  
**Hiroko Wada**

Has abundant experience in marketing, management, and organization and human resource development in the consumer goods industry. Has served as a director of The Procter & Gamble Company(U.S.), and representative director and president of Dyson Ltd. and of Toys "R" Us-Japan, Ltd.



Outside Director, Independent Director  
**Hirokazu Yamura**

Has worked with Coca-Cola bottlers in Japan for about 15 years. Currently serves as Representative Director & President of Michinoku Coca-Cola Bottling Co., Ltd.



Outside Director (serving on the Audit & Supervisory Committee)  
**Irial Finan**

Has extensive management experience, with many years of involvement in the management of The Coca-Cola Company and in the Coca-Cola business as the representative of the Bottling Investments Group supervising Coca-Cola bottlers worldwide. Currently serves as Director of Coca-Cola European Partners.\*

\*Company name changed to Coca-Cola Europacific Partners.



Outside Director (serving on the Audit & Supervisory Committee), Independent Director  
**Celso Guiotoko**

Has IT and supply chain experience in multinational corporations, as well as a wealth of management experience at Nissan Motor Company Ltd. as well as Nishimoto Co., Ltd.



Outside Director (serving on the Audit & Supervisory Committee), Independent Director  
**Nami Hamada**

Has a wealth of experience in finance and accounting, including managing her own finance consulting company as well as management experience in Lehman Brothers Japan Inc.



Outside Director (serving on the Audit & Supervisory Committee)  
**Vamsi Mohan Thati**

Demonstrates strong leadership in a variety of fields within the Coca-Cola Company Bottling Investments Group, and has global corporate management experience in the Asian region. Currently serves as President of the Greater China and Mongolia Operating Unit.

## Governance & Independence

Executive Directors



Independent Directors



Outside directors in Audit & Supervisory Committee (ASC)



## Diversity and Professional Skillset

Women on the Board



Nationalities



Finance/Audit



FMCG



IT/Supply Chain



Coca-Cola System Experience



Figures in circles represent the corresponding number of directors. The figure for nationality represents the number of nationalities of the directors.

\*Source: Based on 2019 Euromonitor survey, number of stores.





## Our response to the novel coronavirus (COVID-19) pandemic

In response to the COVID-19 pandemic, our Company is taking actions that prioritize the safety and health of consumers, customers, employees and our local communities. Despite the challenges of these times, we are undertaking comprehensive countermeasures and maintaining the safe and secure supply of products to deliver happy moments to everyone, and are striving to provide products and services essential to daily living, as stated in our mission. We are also continuing initiatives by which we offer support to local communities through our beverage products.



## Sales activity during the pandemic

To meet increased at-home consumption demand during the COVID-19 pandemic, we quickly introduced new measures such as offering case sales and bulk purchasing, and labelless packaging for the rapidly growing online channel.

In the vending channel, we covered the product selection buttons and other high-touch parts of vending machines with antiviral and antibacterial film to increase consumers' peace of mind.



## Flexible work styles

We provided all employees with smartphones and web camera-equipped PCs. Through the use of information and communications technology, we were able to make a smooth transition to working from home. We actively worked to introduce programs and improve the environment to promote flexible ways of working. Our efforts included the introduction of Super Flextime with no core time, the establishment of satellite offices in about 100 locations, expansion of "direct to client, direct to home" commuting for sales staff, and promotion of bicycle commuting.



## Product donations

As support for local communities during the pandemic, we donated 80,000 cases (about 1.92 million bottles) of our beverages to medical institutions, food banks, and other organizations. Our company is acting swiftly to support communities in times of need.



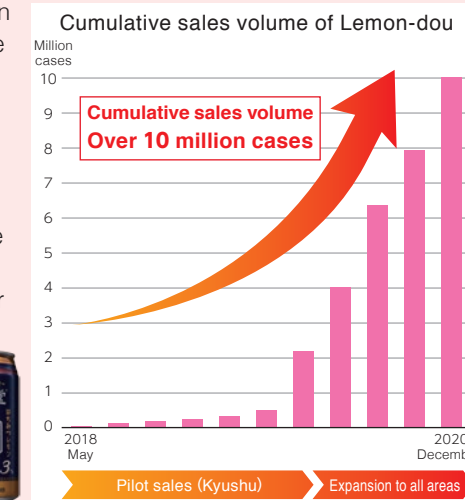
## Start of operations at the new Hiroshima Plant

In June 2020, we began operations at our new Hiroshima Plant, replacing the Hongo Plant in Hiroshima Prefecture that was shut down due to flooding damage caused by heavy rains in western Japan in July 2018. The Hiroshima Plant is equipped with two aseptic lines (manufacturing lines for aseptic filling) capable of high-speed production of small and large PET bottle soft drinks, about 1.5 times the production capability of the Hongo Plant. The plant is capable of automated transport of preforms (the basis for PET bottles), caps, case cartons, and other materials from an automated warehouse, along with monitoring of overall line operational status through remote surveillance systems. It is working to achieve low-cost operations through the introduction of the latest IoT technology and the automation of equipment. The Hiroshima Plant plays a core role in product supply in the Chugoku/Shikoku area.



## Expansion of Lemon-dou alcoholic beverage

Our alcohol beverage Lemon-dou, which launched nationwide in October 2019, is a select lemon sour inspired by the great taste of sours found in bars. In 2020, Lemon-dou Teiban Lemon achieved the top market share\* in the lemon sour category, and has been very well received by consumers. In December 2020, we launched the sugar-free, non-sweet Lemon-dou Kamisori Lemon featuring 9% alcohol and 9% lemon juice. We launched 500ml cans of Teiban Lemon and Kamisori Lemon under the name Lemon-dou Home Run Size in April 2021, and are working to grow the number of loyal consumers and fans. We will further expand our presence in the alcohol category by enhancing our brand portfolio and in-house production capacity in the future.



## New package sizes to drive growth (350ml PET, 700ml PET)

In 2020, we test marketed new 350ml and 700ml PET bottle sizes to replace 500ml bottles for brand Coca-Cola in supermarkets, drugstores, and discount stores in the Tokyo area. This differentiates the price and package size offering in these channels and better serves consumers' needs for single-serve immediate consumption and sharing options among smaller households. We have seen promising results and an increase in the number of purchase transactions in the pilot test. From 2021, we are offering these new package sizes nationwide across our full sparkling beverage portfolio to also include Fanta, Sprite, and Canada Dry Ginger Ale.

