

Responsible Investment in Myanmar

Second Report

June 30th, 2014

The Coca-Cola Company
Myanmar Investment Due Diligence 2014 Annual Update Report

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Executive Summary

In June 2012, The Coca-Cola Company (“TCCC”) announced plans to re-enter Myanmar after more than 60 years. The first plant was inaugurated in June 2013. As part of the re-entry, the Company completed a rigorous and in-depth due diligence process which is described in detail in the [2013 Responsible Investment Report](#). This is the first annual update and focuses on mitigation, as well as new engagement efforts, since the December 12th, 2013 report submission.

The majority of issues identified during the initial due diligence by the Company have been addressed, although there are some outstanding issues, particularly those that have required capital investment and ongoing training. Progress made since the December 2013 report submission includes:

- The wastewater treatment system at one plant is under construction and testing is anticipated to be completed in August 2014. The wastewater treatment at the other plant will be ready for testing and validation in November 2014.
- Onsite medical clinics are operational.
- Worker committees are in place and meet regularly.
- Code of Business Conduct and Anti-Bribery Policy training is delivered as part of the onboarding process.
- A community engagement plan was formalized and ongoing dialogue has been established.
- A plan to reduce overtime hours through increased shifts, scheduling changes and new hires is in place.
- Company commitments regarding land rights have led to policy and protocol enhancements. A review of land rights has been built into the planned due diligence process to identify potential sites for a new plant.
- The Swan Yi project, which is funded by The Coca-Cola Company Foundation and implemented by PACT, met targets for 2014. The program, which aims to empower women through village-based banking and microenterprise development, has reached 13,642 women and has led to \$302,299 USD in total savings by participating women and \$412,468 USD in loans.

The re-entry into Myanmar has highlighted the immense opportunity for capacity building at all levels – from job skills training to managerial training to human and workplace rights training. The Company has, and will continue to, invest great time and effort to build the local capacity and talent and to develop a local supply base. One of the primary challenges for the Company over the last 6 months has been attracting, training and retaining talent in an increasingly competitive labor market. This has had a ripple effect on various issues, including implementing the planned reduction of work hours through new hires.

Overall, significant progress has been made to address issues identified during initial due diligence activities. There are outstanding and new issues outlined in this report and

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underlying these is a necessity for ongoing training and community partnership to support sustainable compliance.

Submitter

The Coca-Cola Company

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Overview of Operations in Myanmar

- a. Name(s) of companies, including all subsidiaries, operating in Myanmar covered by this report.
- Coca-Cola Pinya Beverages Myanmar Ltd.
 - Coca-Cola Limited
- b. Nature of business in Myanmar;
- Non-alcoholic packaged beverage production and distribution. Location(s) of operations in Myanmar:

Plant/Office/ Branch	Address
Coca-Cola Limited.	16th Floor, Centrepont Towers, No. 65, Corner of Sule Pagoda Road and Merchant Road, Kyauktada Township, Yangon, Myanmar
Coca-Cola Pinya Beverages, Ltd.	50 Myoe Shaung Road Hmawbi Township Yangon, Myanmar
Coca-Cola Pinya Beverages Limited (head office)	No. 37/38 Bamaw Atwin Wun Street, Zone (3), City of Industry Hlaing Thar Township Yangon, Myanmar

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Hlaing Thar Yar	37/38 Bamaw Atwin Wun Street, Zone 3, Hlaing Thar Yar Township, Yangon.
Hmawbi	No. 50, Myoe Shaung Road, Hmawbi Township, Yangon.
Mandalay	H-252,U Paing 34,I Quarter,Pyigyitakhun Township, Mandalay Division.
Nyaunglaypin	Yangon-Mandalay Road, Pha Aung Village, Nyaung Lay Pin Township, Bago Division.
Taungngu	Electronic Engineer Military,19-Quarter, Yangon-Mandalay Road, Taungngu Township, Bago Division.
Meikhtila	Nal Myae(8),Yangon-Mandalay Road,Onetawpyae Toechar Quarter, Meikhtila Twonship, Mandalay Division.
Pathein	Kune No (163.B),Yayaka (15) Nan Myae, htan Kone, Pathein-Monywa-Yay Oo Road, Pathein Township, Ayeyarwaddy Division.
Mawlamyaing	38/43, Kyaikkhami Street, Zayarmyaing Quarter, Zaygyo nal myae, Mawlamyine Township, Mon State.
Magway	A-22,Taungtwin Street, Aung Zayya Quarter(Ahtoo), Magway Township, Magway Division.
Nyaung Oo	Ka/1,Anawyahtar Street,Aung Myae Tha Quarter, Nyaung Oo Township, Mandalay Division.
Pyinmana	Pa159-160,Bawgathiri High Way complex, Pyinmana Township, Naypyitaw Division.
Thahton	343,Natsin Street,Theingone Quarter, Thahton Township, Mon State.
Pyay	Yangon-Mandalay Road, Pha Aung Village, Nyaung Lay Pin Township, Bago Division.
Taunggyi	60/61,Pyihtaungsu Street,Aye Thar Yar, Taunggyi Township, Shan State.

- c. Approximate maximum number of employees in Myanmar during the reporting period (broken down by Myanmar and non-Myanmar employees).
- Coca-Cola Pinya Beverages Myanmar, Ltd. (CCPBM) and Coca-Cola Limited have 1159 employees including nine employees of non-Myanmar descent.

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Anti-Bribery Compliance Update

The Company's Code of Business Conduct, Trade Sanctions Compliance Program, and Anti-Bribery Policy continue to serve as primary pillars of our strong commitment to doing business in an ethical and transparent manner. Our Myanmar employees are held to the same high integrity standards as the rest of our global associates. As a result, we implemented these important policies as a part of integrating the Myanmar bottling operations into our Company.

Our continued efforts in this area include:

- Training on the Code of Business Conduct and Anti-Bribery Policy to employees upon hire.
- Consistent communication of our hotline, EthicsLine, in all Company facilities via posters translated in Myanmar language.
- Continued screening of all potential third-party business partners to ensure that no potential partners are identified as Specially Designated Parties.
- Implemented monitoring of petty cash transactions and other controls in order to identify any transactions requiring additional support or follow-up.
- In 2014, we will perform a risk assessment of the Myanmar operation's compliance with our Anti-Bribery Policy and other key compliance requirements, identifying any potential gaps and/or opportunities for improvement.
- Implementation of other key compliance training, including launch of online training in local language to employees with computers.
- Employees who have been trained on the Code will be asked to participate in the Company's annual certification process in the later part of 2014, verifying their compliance with requirements of the Code and Workplace Rights Policy.
- The operation is undertaking a thorough assessment of the state of our fleet to ensure it meets all local requirements and is road-worthy. Furthermore, a review is underway to evaluate whether traffic violations received by our fleet are standard and accurate fines.

Human and Workplace Rights Due Diligence Update

The foundation of our corporate commitment to respect human rights is grounded in four key human rights policies which apply to our operations in Myanmar: our Human Rights Statement, our Global Mutual Respect Policy, our Workplace Rights Policy and our Supplier Guiding Principles. Independent, third party assessments are conducted on a regular basis to confirm ongoing compliance at bottling, office and supplier sites. Each year, over 2,000 independent assessments are conducted at our request and over 17,000 assessments have been conducted since the program began.

In October 2012, a human and workplace rights audit was conducted at the bottling plants in Myanmar. During the assessment, the third party auditors completed a document review, a facility walk-through, confidential employee interviews and an opening and closing meeting with

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the management to discuss the process and findings. The initial audit in 2012 identified a variety of issues, including gender and age based discrimination and poor wastewater treatment. The majority of findings were resolved in 2013; the findings as well as mitigation listed below are those that remained outstanding at the time of the [December 2013 report](#) submission:

- **Hours of Work:** During the initial audit, overtime above legal limits was observed and rest days as well as annual leave were not properly provided. To address this, shift patterns were changed in some functional areas, a third shift was added, and additional staff have been hired. Follow-up audits confirmed that this led to an overall downward trend of staff working in excess of the maximum overtime law and working on their rest days. Unfortunately, due to challenges with hiring and retaining skilled labor, during peak season a follow-up audit uncovered a number of instances in which workers continued to work more than the overtime limits. A comprehensive plan is being implemented which includes a prioritized recruitment plan for the those roles where overtime limits were exceeded, a review of scheduling and shifts by function, a retention plan including improved induction, onboarding and people leadership training together with a company-wide, comprehensive salary review
- **Wages and Benefits:** The initial audit indicated that overtime payments were either not provided or improperly calculated. To address this issue, the facility has been moving piece rate workers into prescribed shifts to eliminate excessive overtime. The follow-up audits in 2013 and again in 2014 confirmed this process is ongoing.
- **Medical Clinic:** During the initial review, there was no medical clinic at either plant site per local law. Since that time, the medical clinics at both sites have become operational.
- **Childcare facilities:** The initial audit in 2012 revealed that there were no onsite childcare facilities as required by local regulation. Childcare facilities remain as work in progress due to the renovations and construction at the sites. Facilities are planned to be operational by Q4 2014.
- **Health and Safety:** Access to potable water has been expanded through an increase in water stations. Other required improvements, including handrails and better seating for workers, remain outstanding as the plant undergoes renovations.

Grievance Mechanisms: The Coca-Cola Company believes that workplace issues are best resolved through open communication, and that early resolution of disagreements is the best way to maintain a positive, productive work environment. Company-wide grievance mechanisms were described in detail in the initial report.

Below are actions and initiatives underway to support employee engagement in Myanmar and to further develop a strong operational level grievance mechanism:

- A comprehensive grievance policy has been introduced as part of the CCPBM employee handbook. This handbook has been translated to local language and will be distributed and made available to all staff in July 2014.
- At one plant, an elected Workplace Coordinating Committee (WCC) was formed for employees to channel their suggestions, raise issues and make recommendations to management. The WCC meets once per month with Management. The WCC is registered

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with the Township Labour Office and also meets regularly with the Township Labour Unions, Township Administrative Office, and other departments such as the Township Health Office on subjects including conditions of employment, occupational health and safety, welfare and productivity.

- At the other plant, employees have formed a Labour Union Committee (LUC), also registered with the Township Labour Office which, to date has 104 members. The LUC meets offsite once per month and meets with Management once every two months. Similar to the WCC discussed above, the LUC also meets with local Township officers on a regular basis.
- In March of 2014, training was provided to Human Resource Managers as well as all Supervisors and Line Managers on labor relations including workplace rights, communication, grievance mechanisms and conflict resolution as well as processes for continuous improvement.

To support a culture of compliance, all new hires at management level are trained on the Company's Workplace Rights Policy and Supplier Guiding Principles standards. In addition, the Company invested more than 20,000 hours since June 2013 in learning and development initiatives such as training on the Company's mission, vision and values, talent performance management systems, coaching and feedback, building and managing effective teams, communications skills, food safety and defensive driving. A Women's Council and Network was formed at CCPBM to help empower women in the workplace and support the objective of having more women in management and senior management positions.

An expanded orientation program is currently being developed and will be implemented in the second half of 2014. The new program will include Workplace Rights Policy training for all new hires, at all levels. This content is also being refreshed in training and information sessions for current employees as well.

As part of its journey in Myanmar, the Company sees a unique opportunity to set a new standard not only for our local operations, but also for the fast moving consumer goods industry as a whole. In light of this, we initiated an evaluation of tea shops - common gathering places in Myanmar to enjoy refreshments - to better understand potential human rights impacts across the value chain. We have also initiated plans to work with peer companies to conduct a local supplier training workshop in Q4 2014 focused on responsible sourcing standards and expectations.

Environment Due Diligence Update

The Coca-Cola Company understands that our environmental performance is critical to our success and sustainability as a company. As described in the previous report, consideration for the environment is reflected in various areas including water stewardship efforts, greenhouse gases reduction goals, sustainable agriculture targets and packaging innovations. At an

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overarching level, the Company has an established environmental policy built into our operating requirements which is applicable to all bottlers and authorized suppliers.

As a Company, our stated goal is to balance an amount of water equal to what we use in all of our products and their production by 2020 including through comprehensive wastewater treatment. \ Our global wastewater treatment standards and water resource sustainability requirements as well as our other environmental policies and performance requirements are applicable to Company operations in Myanmar.

In 2012, The Coca-Cola Company retained an independent, external expert to conduct two phases of environmental due diligence on the operations of the potential partner in Myanmar to assess the potential environmental impacts of the past and current activities at the sites. The Company also conducted observations of the host communities, including the local village around one plant and the residential and industrial areas near the other.

The initial audits in 2012 identified a variety of issues, including secondary containment, chemical handling, wastewater treatment and air quality monitoring. The majority of findings were resolved in 2013; the findings listed below are those that remained outstanding at the time of the December 2013 report submission:

- **Wastewater Treatment System:** At the time of the 2012 assessment, wastewater was being discharged without proper treatment. By July 2014, one of the plants will have upgraded wastewater treatment in place and ready for testing. It is expected to be fully operational by August 2014. The other plant is under renovation and the construction of the wastewater treatment system will be completed in November 2014. This delay was primarily due to renovation plans being revised. A further challenge was identifying a partner with the local capacity to build the wastewater treatment system to Company specifications.
- **Water quality and sensitivity:** Both plant sites were historically selected in part for the local groundwater supply and quality. Both plants have a network of groundwater extraction wells extending over 100 meters in depth. The Company chose to conduct a water source vulnerability assessment and appointed a contractor for this work in February 2014. The full report for both plants, including any recommended remediation is expected in December 2014.
- **Air quality assessment:** Air quality (including noise and dust) and emissions were not adequately monitored at the time of the initial assessment. A contractor has been appointed and monitoring will commence in July 2014.

Community and Stakeholder Engagement

The Coca-Cola Company maintains ongoing dialogue with a wide-range of external stakeholders as we believe stakeholder engagement is critical to respecting human and workplace

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rights within our system. In the case of Myanmar, we recognized that stakeholder engagement was at the very center of our due diligence activities. We conducted extensive stakeholder engagement and ongoing dialogue with international and multi-lateral organizations, socially responsible investors, human rights civil society at the national level, and community members and workers impacted by potential business operations. A list of stakeholders contacted is included in the initial report.

Stakeholder engagement continues to be an integral part of our work in Myanmar. The Company shared the initial Responsible Investment report with local civil society and government agencies to solicit feedback and to share the Company's commitment to Myanmar. In addition, the Company maintains regular dialogue with local community leaders as part of a recently formalized community engagement plan. Through such community engagement The Coca-Cola Pinya Beverages Myanmar (CCPBM) team worked with the Township Office and local residents to listen to and work through concerns raised regarding plant renovations. As a result of the dialogue, actions taken to date include the construction of noise reduction barriers for the generators, management of water flow from the building works and implementation of a parking plan to keep the road clear. The fact that concerns were raised and a constructive dialogue followed is a positive indication that local communication channels are functioning.

Recent discussions between the CCPBM Communications Managers and the local Township Administrator, Chief of Monastery and various township authorities touched on a number of topics, including annual flooding in the area and donations of emergency drinking water, if needed. There was also an agreement to collaborate on training programs with local government offices, to post job opportunities on community notice boards and agreements regarding regular meetings and updates. Outreach at the other plant will resume once the office reopens following renovations.

In addition to direct community engagement, a customer contact number is now included on all products and will be included on all refurbished and new trucks going forward. The accessibility and visibility of the number will help facilitate community comments and/or concerns. The Company has also established a local Facebook page which has provided an additional forum for consumers' questions to be addressed.

Through a \$3 million grant, the Coca-Cola Foundation is engaging with and supporting local communities. The Coca-Cola Foundation has partnered with PACT, a respected international non-governmental organization, to empower nearly 25,000 Myanmar women through village-based banking and microenterprise development. The project, called Swan Yi, operates by gathering 20-25 women in small groups, across hundreds of villages, to undertake financial literacy training, and develop community banks that lend money to fund business start-ups and entrepreneurial efforts. Now in its second year of implementation, 13,642 women have participated in 520 groups in eight townships Yangon and Mandalay. Nearly all of the women have started saving, with an average of 16,900 kyats (\$18 USD) per woman through weekly savings. The total amount of savings by the women is \$302,299 USD. A total of 13,474 loans have been taken out, with an overall value of \$412,468 USD.

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Although purely philanthropic, the Swan Yi project is consistent with The Coca-Cola Company's existing global commitment to enable the economic empowerment of five million women across its global value chain by 2020 through the 5by20 initiative. Furthermore, by enhancing economic strength of women in villages, there is a potential for the entire family to benefit. This, in turn, may reduce the likelihood that their children enter the workforce to augment family income.

In addition to such initiatives, a wide stakeholder engagement program has been developed, which encourages open dialogue with stakeholders on our activities, opportunities for collaboration and areas for improvement. Since the last report the Company has participated in multi-stakeholder forums and discussions in Myanmar on topics including responsible investment, child labor and workplace rights.

Security Providers

As outlined in the previous report, the only security utilized in Company operations in Myanmar is at the plant sites. These are full-time employees. No third party security firm is currently or will be utilized. The role of security personnel is to safe guard the facility as well as the workers. Currently TCCC is not operating in known zones of conflict in Myanmar and, as such, the role of security employees is limited.

As part of our human and workplace rights assessments, third party auditors verified that security personnel employed by the Company do not infringe on the privacy and dignity of employees or conduct themselves in a way that is intimidating, threatening or which oversteps their authority. The assessment reviewed whether policies and procedures are in place to ensure security guards undergo criminal background checks, receive training on the use of force, and that their duties are limited to protecting workers, the facility, and equipment only. The human and workplace rights assessments also reviewed security workers are provided the same treatment and benefits as other Company employees. No non-compliances related to security guards were identified.

Property Acquisition

In 2013, The Coca-Cola Company announced a set of industry-leading commitments to protect the land rights of farmers and communities. Download the Company commitments [here](#). In these commitments, The Coca-Cola Company outlined a concrete action plan to address land rights in its supply chain, including zero tolerance for land grabs. The focus is on the world's top cane sugar-producing regions, but the Company strives to uphold the principles across our supply chain.

Although no land acquisition has been made since the December 2013 report submission, the Company is currently starting the process of identifying potential areas for a new plant. Once

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these areas have been identified, a long list of possible plant sites will be developed. Land rights will be an important component of this ongoing plant siting due diligence process. One of the tools used in the process will be the Plant Siting Checklist, one of seven such checklists published on our [website](#), which is used internally as an early issue identification tool. In addition, suppliers in Myanmar undergoing a Supplier Guiding Principles audit will be assessed against the land rights provisions, including Free, Prior and informed consent of any land acquisition.

Payments to Government Entities

Not applicable.

Military Contact

There have been no meetings or communications by any representative of TCCC with the armed forces of Myanmar or other armed groups related to our investment in Myanmar. Furthermore, no third parties have been contracted to contact military or government officials. This has and will continue to be our consistent practice.

Conclusion

In December 2013, The Coca-Cola Company submitted the Myanmar [Responsible Investment Report](#) outlining the Company's extensive due diligence efforts. This report is the first annual update and reflects on the ongoing due diligence and mitigation efforts conducted since the initial report submission. Key efforts completed in 2014 to date include:

- Anti-corruption Issues: Code of Conduct training is provided for every new hire and refresher training is being developed for all existing employees. Fleet safety and standards are being reviewed so as to avoid traffic police stopping our vehicles to request facilitating payments.
- Workplace Rights Issues: Training on labor relations and workplace rights was conducted for managers in March 2014. Medical clinics at both plants are operational. The facilities are aware of the wages and hours of work issues, but, due to staff retention and hiring challenges, progress to close these gaps is ongoing.
- Environmental Issues: A wastewater treatment system is nearing completion at one plant and will be fully operational in August 2014 following testing. Construction of the wastewater treatment system at the second plant will be completed in November 2014 with testing and validation expected to be completed by the end of the year.
- Community and Stakeholder Engagement: A structured community engagement plan has been introduced and plant and community level grievance mechanisms have been established.

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- Land Rights Issues and Policy Enhancements: In 2013, the Company made commitments related to land rights which are guiding the planned plant siting process. Download the Company commitments [here](#). Although no new land acquisitions were made in 2014, the Company will be reviewing land rights as part of the third party audit process as well as part of the current plant siting due diligence process.

While significant progress has been made in many critical areas, work remains in some areas and new issues may be identified as we move forward with plant siting and supplier development. There have been challenges related to attracting and retaining talent in a recently opened and increasingly competitive labor market. The Company has focused significant resources on training and capacity building and remains committed to investing in local talent and to contributing to an industry-wide respect for human rights.