

# Risk management

Carlsberg aims always to keep track of strategic, operational, insurable and financial risk factors so that the Group can achieve its goals, including by mitigating their potential severity and countering their possible consequences. The following presentation of significant risk factors is not exhaustive, and the risk factors are not listed in order of priority.

## Official regulation of sales

Several of the Carlsberg Group's markets feature restrictions on advertising and other communication to consumers or regulation of behaviour in places where products are used. There can also be restrictions on sales, for example based on consumers' age. Changes in these rules can, in isolation, entail a risk of a decrease in sales in these markets.

Carlsberg works both independently and together with other breweries to limit the negative consequences of inappropriate use of alcoholic products, and actively promotes responsible sales and consumption. While taking account of this, Carlsberg also works to avoid unnecessary sales restrictions.

## Competition

Carlsberg competes both with other breweries and with suppliers of other beverages. The companies in the industry compete on brands, price, service, quality and distribution. From time to time, or even for longer periods, competition in the Group's various markets results in pressure on prices, which impacts on operating results. In order to strengthen and maintain its position in these markets and so counter these risks, the Group's companies aim to maintain competitiveness through dynamic marketing and positioning of their products, constant innovation and continued efficiency gains.

## Taxes and excise duties

As beer consumption is price-sensitive, changes in taxes and excise duties may have a significant impact on demand. Here too the Group's emphasis on

marketing, innovation and efficiency can help to offset any negative trend in sales.

## Dependence on particular customers, products or markets

Significant consolidation of customers is under way, and products are increasingly being marketed under customers' private labels. This is affecting demand and pricing in the market. Carlsberg is involved in this process and considers it to be both a risk and an opportunity. No one customer accounts for more than 5% of Carlsberg's overall revenue, but in some markets individual customers may account for a larger share.

It is an important part of Carlsberg's strategy to build up strong positions in the markets in which the Group is active. As part of the constant adjustment and renewal of the product range, sales are also being channelled increasingly through a smaller number of brands. Both of these strategies are increasing the concentration of sales and so engender a potential risk in the event of setbacks. The Group is countering this risk by also working on continued diversification and building up new activities in terms of both products and markets.

## Partnerships

In some markets Carlsberg's activities are organised into partnerships or based on minority holdings, where control is shared with other owners. Joint ownership allows the partners to contribute in different ways and to different extents to their joint undertaking, but can also entail a risk of moving in a direction or at a speed not sufficiently aligned with Carlsberg's wishes.

The Group develops such activities in collaboration with the other owners with a view to obtaining good results, while seeking to control and limit potential risk factors. In these endeavours, the Group's management and individual units can draw on experience of collaborative models, agreements and management structures built up over many years all around the world.

## IT

Like other companies, Carlsberg is increasingly using IT in its everyday activities and in their development. The Group is therefore exposed to the risk of the loss or unauthorised use of important data, communication lines and systems, which are increasingly important parts of the individual units' customer-oriented and internal processes and of the overall organisation's infrastructure and knowledge. IT-related operational disruption or security failures therefore engender a significant risk of operational, reputational and financial losses. The Group strives constantly to maintain high levels of hardware, process and data security. These efforts take the form of guidelines, surveillance and physical measures, and in principle cover all of the employees and partners involved.

## Raw materials and packaging

Carlsberg's policy is to have more than one supplier of raw materials and packaging to its production units around the world. In some areas within cans, glass and plastic bottles, there is a certain dependence on individual suppliers because of their market position. However, most raw materials are traded at market prices and have many national and international suppliers.

## Weather and season

Beer consumption is significantly affected by weather and season. When climatic factors coincide in several markets, they may have a substantial impact on the Group's earnings. The Group's presence in more than one region reduces this risk.

## Quality

As a food and branded-product business, the Group is exposed to the risk of defects and impurities in its products and thus deviations from established quality requirements, which may result in product recalls and operating losses. Consequently, quality management and assurance are important elements in the Group's business procedures and processes in order to maintain the value of its brands.

## Legal risks

The Group regularly enters into agreements concerning both operations and strategy, such as acquisitions and disposals. Entering into agreements brings not only opportunities but also risks, which the Group aims to manage as best possible. The Group has developed policies and activities to ensure compliance with applicable laws and competition rules in all of the markets in which it operates. A general programme for ensuring compliance has been developed at Group level.

## Insurance cover

Risk cover in the form of insurance is evaluated in relation to the significance of the individual risk as well as Carlsberg's overall risk profile. Carlsberg has taken out the insurance deemed to be relevant and usual in the industry and for undertakings of Carlsberg's size. Given its ability to control a number of risks, the Group has chosen not to take out insurance in some areas but to be self-insured through the subsidiary Carlsberg Insurance A/S. Hence a small part of the Group's all-risk programme has been placed with Carlsberg Insurance. The chosen level of retained risk does not exceed that which is usual in the industry or for undertakings of Carlsberg's size.

## Financial risks

Carlsberg's activities mean that the Group's profit and equity may be exposed to a variety of financial risks, primarily relating to changes in exchange rates and interest rates. The Group's financial risks are managed centrally by Group Treasury, which is responsible to the business's Executive Board and Board of Directors, on the basis of principles approved by the Board of Directors. The Group's foreign exchange, interest rate, credit and liquidity risks are presented in the notes to the consolidated financial statements.

## Other risks

Factors such as demand, competition, innovation, reputation, environment, employees and management also entail risks in terms of the Group's strategy and operations. These are presented in other sections of this Annual Report.