

Risk management

RISK MANGEMENT FRAMEWORK

Carlsberg views effective risk management as an integral part of running its business operations in order to reduce uncertainty, achieve the strategic objectives of the Group and ensure value creation for all stakeholders.

Risk management in Carlsberg is based on the assumption that risk is something that can and should be managed, and that managed risk can be turned into opportunities.

Risk management framework

The Board of Directors and the Executive Committee of Carlsberg have reviewed the overall risk exposure associated with the Group's activities and developed a "heat map" which assesses the likelihood and impact of these risks. In relation to risks of a high likelihood and impact, members of the Executive Committee have identified risk owners who have operational responsibility for monitoring and controlling the risk through a programme of risk-reducing activities. The Board of Directors and the Executive Committee of Carlsberg will monitor these activities to ensure that action taken is acceptable and happens by the deadlines set.

The current high risks identified are as follows:

Rouble devaluation

The Carlsberg Group derives a substantial part of its revenue streams from Baltika in Russia and as such is susceptible to an economic downturn in the country, which could result in a significant devaluation of the Russian rouble and a corresponding negative impact on revenue and earnings for the Carlsberg Group. The Group closely monitors the economic environment in the Russian market and

Group Treasury is actively involved in a range of measures including scenario planning to counteract the effect of a significant rouble devaluation on the Carlsberg Group. The Group's foreign exchange risks are presented in note 35 to the consolidated financial statements.

Economic downturn

Despite the fact that beer is a resilient consumer category compared to other goods, a downturn in the macroeconomic environment will to some extent affect the demand for Carlsberg's products. A general decline in consumption of beer and soft drinks can be seen in connection with a general downturn in the economy, particularly in growth and emerging markets where beer consumption tends to move with changes in disposable income. An economic downturn can also negatively change consumption patterns resulting in consumers shifting away from premium products. The Group closely monitors the economic environment in the markets in which it operates and develops contingency plans including sensitivity-based action plans in order to be able to react, adapting the organisation and daily business operations in the face of any negative changes in demand.

Public regulations

Several of the Carlsberg Group's markets operate with restrictions on advertising and other communication to consumers or regulation of behaviour in places where products are used, e.g. smoking bans. In such markets, changes in these rules can, in isolation, come with the risk of a decrease in sales. Carlsberg works 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.

Social and environmental risks

The Carlsberg Group operates in highly differentiated markets, among other things characterised by different cultures and standards. As such, risks exist in the form of compliance with social and environmental matters. In order to mitigate these risks, the Carlsberg Group is actively involved in monitoring its responsibilities and ensuring compliance with these risks through the establishment of a Corporate Social Responsibility (CSR) function. The activities of the CSR function are disclosed in a separate section of the Annual Report.

Loss of critical IT

Like other companies, Carlsberg is increasingly using IT in its everyday activities and in its 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 an important part 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 bring a significant level of operational, reputational and financial loss risk. The Group strives constantly to maintain high levels of hardware, processes 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.

Price risk – materials

Carlsberg's policy is to have more than one supplier of raw materials and packaging to its production units around the world in order to mitigate the risk of increasing prices. In some areas within cans, glass and plastic bottles, there is a certain dependence on individual suppliers because of their market position. In order to mitigate these risks, procurement in Carlsberg is becoming increasingly centralised. Hedging of both volume and price is actively used when deemed appropriate, and this includes the management of long-term Group agreements with key suppliers and fixed price policies.

Financial risks

Carlsberg's activities mean that the Group's profit and equity may be exposed to a variety of financial risks, primarily related to changes in exchange rates and interest rates. The Group's financial risks are managed centrally by Group Treasury, which is responsible to the 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.

Taxes and excise duties

As beer consumption is price-sensitive, changes in taxes and excise duties may have a significant impact upon demand. The Carlsberg Group places emphasis on marketing, innovation and efficiency to offset any negative trend in sales.

Other risks

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

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