

## Carlsberg Breweries A/S

| Rating Type    | Rating | Outlook | Last Rating Action   |
|----------------|--------|---------|----------------------|
| Long-Term IDR  | BBB+   | Stable  | Affirmed 16 May 2019 |
| Short-Term IDR | F1     |         | Upgrade 16 May 2019  |

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### Financial Summary

| (DKKm)                        | Dec 2016 | Dec 2017 | Dec 2018 | Dec 2019F | Dec 2020F | Dec 2021F |
|-------------------------------|----------|----------|----------|-----------|-----------|-----------|
| Revenue                       | 62,614   | 60,655   | 62,503   | 64,598    | 68,303    | 69,637    |
| Operating EBITDAR             | 13,265   | 13,618   | 13,688   | 14,143    | 14,631    | 15,039    |
| Operating EBITDAR Margin (%)  | 21.2     | 22.5     | 21.9     | 21.9      | 21.4      | 21.6      |
| Free Cash Flow Margin (%)     | 6.4      | 9.8      | 8.1      | 3.3       | 4.0       | 3.2       |
| FFO Adjusted Net Leverage (x) | 3.4      | 2.1      | 2.0      | 2.3       | 2.4       | 2.4       |

Source: Fitch Ratings, Fitch Solutions

The ratings reflect Carlsberg Breweries A/S's strong business profile as the third-largest international brewer globally and Fitch Ratings' expectation that the company will be able to maintain the improved credit metrics it achieved after deleveraging in 2016-2018. This expectation is underpinned by the company's conservative financial policy and clear capital allocation principles. The rating continues to incorporate some room for bolt-on M&A as we believe the group will continue to pursue growth opportunities in Asia.

Based on our assessment of Carlsberg's financial flexibility, we assigned the higher of the two short-term options (F1) for the current rating profile in May 2019. Any material weakening in financial flexibility, financial structure or operating environment conditions could lead to the assignment of the lower of the two short-term rating options for the current long-term profile.

### Key Rating Drivers

**Deceleration in Organic Growth:** Carlsberg's organic sales growth is likely to decelerate in 2019-2022 from an exceptionally high 6.5% reported in 2018. This is due to the absence of one-off supporting factors, such as favourable weather in Northern Europe, the World Cup in Russia, and a volumes rebound in India, and our conservative expectation on increasing competitive pressures in some of Carlsberg's markets. We forecast organic growth of around 3% in 2019, gradually moving towards the lower end of the 2%-4% range targeted by the company's SAIL'22 strategy.

**Growing Asian Markets:** Fitch expects Carlsberg's organic growth to come primarily from Asia due to more favourable market fundamentals than in mature western Europe and sluggish eastern European markets. We project organic growth in the region in the mid- to high-single-digits over 2019-2022, supported by the premiumisation of demand and growing per-capita consumption in certain markets. The forecast also assumes increasing competition in Vietnam and potentially higher competitiveness of Chinese market leader China Resources Beer (Holdings) Company Limited (NR) after it forms a strategic partnership with Heineken NV (NR) to exclusively use its brands in China.

**Scope for M&A:** Carlsberg's rating allows for an increase in bolt-on M&A due to the company's conservative capital structure and healthy free cash flow (FCF) generation. We believe most of this will take place in Asia, where Carlsberg aims to exploit opportunities. Our rating case assumes it acquires a controlling stake in Vietnamese brewer Habeco in 2020, which would strengthen Carlsberg's position in this promising market and would be a defensive move in light of growing competition from Heineken and Thai Beverage Public Company Limited (BBB-/Negative) after it acquired Sabeco in 2017. We would consider any larger, debt-funded M&A as event risk; if it materialised, it could put downward pressure on the rating.

**Stable to Improving Profit Margins:** We expect Carlsberg to maintain or improve its medium-term EBITDA margin, despite a 50bp contraction in 2018, due to cost discipline and a more profitable sales mix. Despite the end of its three-year efficiency programme, the group is likely to focus on savings and internal resources to support brands and improve profit margins. However, the dilutive impact of bolt-on M&A could distort projected profit margins. For instance, Habeco's 10.6% EBITDA margin is much lower than Carlsberg's 21.4% (2018). We would expect Carlsberg to improve Habeco's profitability after taking a controlling stake, but the group margin is likely to stay below 2018 levels for two to three years.

**Conservative Financial Policy:** Carlsberg's ratings benefit from the company's commitment to a conservative capital structure. Adherence to its financial policy enhances Carlsberg's financial flexibility to reduce shareholder remuneration if the internal leverage target is being endangered. The maximum net debt/EBITDA ratio of 2x corresponds to Fitch's FFO adjusted net leverage of 2.7x, which is comfortably below our negative rating sensitivity of 3x.

**Potential for Increased Shareholder Distributions:** In the absence of appropriate M&A targets, we expect Carlsberg to continue to return excess cash to shareholders through share buybacks and dividends to avoid leverage declining below a targeted minimum 1.5x. In 2019, Carlsberg announced a DKK4.5 billion share buyback programme and a 13% increase in dividends to move its internally calculated leverage to 1.5x in 2019 from 1.3x in 2018. The programme is in two tranches and we believe that the second one could be put on hold or cancelled in the event that M&A opportunities materialise and push leverage beyond the higher end of management's target range.

**Moderate Leverage:** After three years of deleveraging, Carlsberg now has one of the lowest leverage ratios among Fitch-rated alcoholic beverages producers. We expect FFO adjusted net leverage (2018: 2.0x) to remain below 2.5x over the medium term thanks to the company's healthy cash flow generation, which is sufficient to cover increasing shareholder remuneration and bolt-on M&A.

**Third-Largest International Brewer:** Carlsberg's rating reflects its market position and scale as the third-largest international brewing company globally with operations in Europe and Asia. We view as credit-positive the company's ability to diversify geographically over the past five years and decrease its dependence on the Russian beer market, which has been challenged by stringent industry regulation and decreasing consumer spending. In 2018, Carlsberg generated only 12% of its revenue and 16% of its operating profit in Russia (2012: 21% and 40%, respectively). The revenue contribution from Russia is now on par with China.

## Rating Derivation Relative to Peers

| Rating Derivation Versus Peers |  |
|--------------------------------|--|
| Peer Comparison                | Carlsberg is smaller and less geographically diversified than Anheuser Busch InBev NV/SA (ABI, BBB/Stable), the world's largest beer company that has a comparatively stronger business profile and superior profitability. However, Carlsberg is rated one notch higher than ABI due to its more conservative financial policy and capital structure, while ABI's leverage is more representative of a 'B' category rated issuer. Furthermore, Carlsberg exhibits a more conservative financial structure than US-based beer producer Molson Coors Brewing Company (BBB-/Stable) and global spirits companies Diageo plc (A-/Stable) and Pernod Ricard S.A. (BBB/Positive). Diageo is rated one notch higher than Carlsberg, despite higher leverage, as it has a stronger business profile. Diageo is the largest spirits company globally with geographically diversified operations and strong brands across different spirits categories. |
| Parent/Subsidiary Linkage      | No Parent/Subsidiary Linkage is applicable.  |
| Country Ceiling                | No Country Ceiling constraint was in effect for these ratings.   |
| Operating Environment          | No operating environment influence was in effect for these ratings.  |
| Other Factors                  | Not applicable   |
| Source: Fitch Ratings          |  |

## Navigator Peer Comparison

| Issuer                       | Business profile |             |                       |                                     |                              |                            |                 | Financial profile |               |                     |                       |      |   |      |   |      |   |      |   |
|------------------------------|------------------|-------------|-----------------------|-------------------------------------|------------------------------|----------------------------|-----------------|-------------------|---------------|---------------------|-----------------------|------|---|------|---|------|---|------|---|
|                              | Name             | IDR/Outlook | Operating Environment | Management and Corporate Governance | Industry Operational Profile | Quality of Brand Portfolio | Market Position | Diversification   | Profitability | Financial Structure | Financial Flexibility |      |   |      |   |      |   |      |   |
| Carlsberg Breweries A/S      | BBB+/Sta         | a           | ■                     | a                                   | ■                            | bbb                        | ■               | bbb               | ■             | a-                  | ■                     | bbb+ | ■ | a    | ■ |      |   |      |   |
| Diageo plc                   | A-/Sta           | aa-         | ■                     | aa-                                 | ■                            | a-                         | ■               | a+                | ■             | a                   | ■                     | a    | ■ | bbb+ | ■ | a    | ■ |      |   |
| Beck's, S.A.B. de C.V.       | BBB+/Sta         | bb+         | ■                     | bbb                                 | ■                            | bbb                        | ■               | bbb               | ■             | bbb-                | ■                     | bbb- | ■ | a-   | ■ | a-   | ■ |      |   |
| Pernod Ricard S.A.           | BBB/Pos          | aa-         | ■                     | a                                   | ■                            | bbb+                       | ■               | a                 | ■             | a-                  | ■                     | a    | ■ | bbb- | ■ | bbb+ | ■ |      |   |
| Anheuser Busch InBev NV/SA   | BBB/Sta          | a+          | ■                     | a-                                  | ■                            | bbb+                       | ■               | a-                | ■             | a+                  | ■                     | a-   | ■ | a    | ■ | b+   | ■ | bbb- | ■ |
| Molson Coors Brewing Company | BBB-/Sta         | aa          | ■                     | bbb+                                | ■                            | bbb-                       | ■               | bbb               | ■             | bbb                 | ■                     | bbb  | ■ | bbb+ | ■ | bb   | ■ | bbb- | ■ |

Source: Fitch Ratings

Importance: Higher (Red), Moderate (Blue), Lower (Light Blue)

## Rating Sensitivities

### Developments That May, Individually or Collectively, Lead to Positive Rating Action

We do not envisage any positive rating action in the foreseeable future unless Carlsberg further materially strengthens its business profile. Below are the parameters we would consider for an upgrade:

- Maintenance of leading positions in core markets and mid-single-digit organic revenue growth;
- Group EBITDAR margin above 25% (2018: 21.9%) and FCF margin sustained above 5% (2018: 8.1%);
- FFO-adjusted net leverage sustained below 2.0x (2018: 2.0x).

### Developments That May, Individually or Collectively, Lead to Negative Rating Action

- A severe decline in operating performance from key markets or much stronger remuneration of shareholders, coupled with an increased M&A appetite, causing FFO adjusted net leverage to increase on a sustained basis above 3.0x;
- An erosion of the FCF margin below 3.0%;
- A shift in financial policy towards higher levels of net debt/EBITDA from the current target of below 2x.

## Liquidity and Debt Structure

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**Strong Liquidity:** Liquidity was strong at end-2018 as DKK7.4 billion of short-term debt was well-covered by undrawn committed credit lines of DKK15.0 billion, cash and cash equivalents of DKK5.6 billion and expected positive FCF in 2019. Any near-term refinancing needs are also supported by Carlsberg's good access to debt capital markets.

## Debt Maturities and Liquidity at end-December 2018

|  | Restated         | Restated         |
|--|------------------|------------------|
| (DKKm)   | 31 December 2017 | 31 December 2018 |
| Total Cash and Cash Equivalents                                  | 3,462            | 5,589            |
| Short-Term Investments   |                  |                  |
| Less: Not Readily Available Cash and Cash Equivalents            | 0                | 0                |
| <b>Fitch-Defined Readily Available Cash and Cash Equivalents</b> | <b>3,462</b>     | <b>5,589</b>     |
| Availability Under Committed Lines of Credit                     | 18,687           | 15,009           |
| <b>Total Liquidity</b>   | <b>22,149</b>    | <b>20,598</b>    |
| <b>LTM EBITDA After Associates and Minorities</b>                | <b>12,764</b>    | <b>12,748</b>    |
| <b>LTM Free Cash Flow</b>  | <b>5,949</b>     | <b>5,042</b>     |
| Source: Fitch Ratings, Fitch Solutions, Carlsberg                |                  |                  |

| Scheduled Debt Maturities                         | Original         |
|---|------------------|
| Statement Date                                    | 31 December 2018 |
| 2019  | 7,364            |
| 2020  | 21               |
| 2021  | -5               |
| 2022  | 5,595            |
| 2023  | 3,712            |
| Thereafter  | 7,427            |
| <b>Total</b>                                      | <b>24,114</b>    |
| Source: Fitch Ratings, Fitch Solutions, Carlsberg |                  |

## Key Assumptions

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### Fitch's Key Assumptions Within Our Rating Case for the Issuer

- average USD/EUR rate of 0.88 in 2019-2022;
- low-single-digit annual organic revenue growth, supported mostly by price-mix effect;
- EBITDA margin broadly stable, excluding the potential dilutive impact from M&A;
- capex at DKK4.5 billion a year over 2019-2022;
- dividend pay-out of DKK2.7 billion in 2019, increasing by 15% annually over 2020-2022;
- share buyback of DKK4.5 billion in 2019;
- acquisition of a stake in Habeco in 2020 and small M&A of DKK2.0 billion a year, including acquisition of additional stakes in associates or subsidiaries (partly offset by disposal proceeds in 2019).

## Financial Data

| (DKKm)  | Historical |          |          | Forecast  |           |           |
|---|------------|----------|----------|-----------|-----------|-----------|
|   | Dec 2016   | Dec 2017 | Dec 2018 | Dec 2019F | Dec 2020F | Dec 2021F |
| <b>Summary Income Statement</b>   |            |          |          |           |           |           |
| Gross Revenue   | 62,614     | 60,655   | 62,503   | 64,598    | 68,303    | 69,637    |
| Revenue Growth (%)  | -4.2       | -3.1     | 3.0      | 3.4       | 5.7       | 2.0       |
| Operating EBITDA (Before Income from Associates)                        | 12,815     | 13,296   | 13,362   | 13,806    | 14,275    | 14,676    |
| Operating EBITDA Margin (%)   | 20.5       | 21.9     | 21.4     | 21.4      | 20.9      | 21.1      |
| Operating EBITDAR   | 13,265     | 13,618   | 13,688   | 14,143    | 14,631    | 15,039    |
| Operating EBITDAR Margin (%)  | 21.2       | 22.5     | 21.9     | 21.9      | 21.4      | 21.6      |
| Operating EBIT  | 8,081      | 8,727    | 9,308    | 9,761     | 10,053    | 10,443    |
| Operating EBIT Margin (%)   | 12.9       | 14.4     | 14.9     | 15.1      | 14.7      | 15.0      |
| Gross Interest Expense  | -1,034     | -775     | -579     | -1,060    | -1,060    | -1,104    |
| Pretax Income (Including Associate Income/Loss)                         | 7,327      | 3,573    | 8,562    | 8,906     | 9,198     | 9,544     |
| <b>Summary Balance Sheet</b>  |            |          |          |           |           |           |
| Readily Available Cash and Equivalents                                  | 2,002      | 3,462    | 5,589    | 5,140     | 5,057     | 5,092     |
| Total Debt with Equity Credit   | 30,335     | 24,271   | 24,114   | 27,750    | 29,429    | 29,534    |
| Total Adjusted Debt with Equity Credit                                  | 34,366     | 27,322   | 27,233   | 30,956    | 32,790    | 32,951    |
| Net Debt  | 28,333     | 20,809   | 18,525   | 22,610    | 24,372    | 24,442    |
| <b>Summary Cash Flow Statement</b>                                      |            |          |          |           |           |           |
| Operating EBITDA  | 12,815     | 13,296   | 13,362   | 13,806    | 14,275    | 14,676    |
| Cash Interest Paid  | -1,184     | -565     | -1,019   | -1,060    | -1,060    | -1,104    |
| Cash Tax  | -1,847     | -1,937   | -2,410   | -2,494    | -2,576    | -2,672    |
| Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow) | -402       | -532     | -614     | -550      | -625      | -708      |
| Other Items Before FFO  | -1,422     | 143      | 97       | -100      | -100      | -100      |
| Funds Flow from Operations  | 8,156      | 10,567   | 9,577    | 9,757     | 10,069    | 10,247    |
| FFO Margin (%)  | 13.0       | 17.4     | 15.3     | 15.1      | 14.7      | 14.7      |
| Change in Working Capital   | 1,043      | 756      | 1,912    | -348      | 365       | 131       |
| Cash Flow from Operations (Fitch Defined)                               | 9,199      | 11,323   | 11,489   | 9,408     | 10,434    | 10,378    |
| Total Non-Operating/Non-Recurring Cash Flow                             | 0          | 0        | 0        |           |           |           |
| Capital Expenditure   | -3,814     | -3,848   | -4,006   |           |           |           |
| Capital Intensity (Capex/Revenue) (%)                                   | 6.1        | 6.3      | 6.4      |           |           |           |
| Common Dividends  | -1,373     | -1,526   | -2,441   |           |           |           |
| Free Cash Flow  | 4,012      | 5,949    | 5,042    |           |           |           |
| Net Acquisitions and Divestitures                                       | 2,436      | 670      | -2,216   |           |           |           |
| Other Investing and Financing Cash Flow Items                           | -113       | -252     | -269     | -300      | -300      | -300      |
| Net Debt Proceeds   | -5,929     | -6,407   | -430     | 3,636     | 1,679     | 105       |
| Net Equity Proceeds   | 0          | 0        | 0        | -4,500    | 0         | 0         |
| Total Change in Cash  | 406        | -40      | 2,127    | -449      | -83       | 35        |
| <b>Calculations for Forecast Publication</b>                            |            |          |          |           |           |           |
| Capex, Dividends, Acquisitions and Other Items Before FCF               | -2,751     | -4,704   | -8,663   | -8,693    | -11,897   | -10,148   |

|  |       |       |       |      |        |      |
|--|-------|-------|-------|------|--------|------|
| Free Cash Flow After Acquisitions and Divestitures | 6,448 | 6,619 | 2,826 | 715  | -1,462 | 230  |
| Free Cash Flow Margin (After Net Acquisitions) (%) | 10.3  | 10.9  | 4.5   | 1.1  | -2.1   | 0.3  |
| <b>Coverage Ratios</b>                             |       |       |       |      |        |      |
| FFO Interest Coverage (x)                          | 7.7   | 19.4  | 10.2  | 10.1 | 10.4   | 10.1 |
| FFO Fixed-Charge Coverage (x)                      | 5.9   | 12.7  | 8.0   | 7.9  | 8.0    | 7.9  |
| Operating EBITDAR/Interest Paid + Rents (x)        | 7.9   | 14.8  | 9.7   | 9.7  | 9.9    | 9.8  |
| Operating EBITDA/Interest Paid (x)                 | 10.5  | 22.6  | 12.5  | 12.5 | 12.9   | 12.6 |
| <b>Leverage Ratios</b>                             |       |       |       |      |        |      |
| Total Adjusted Debt/Operating EBITDAR (x)          | 2.7   | 2.1   | 2.1   | 2.3  | 2.3    | 2.3  |
| Total Adjusted Net Debt/Operating EBITDAR (x)      | 2.5   | 1.8   | 1.7   | 1.9  | 2.0    | 1.9  |
| Total Debt with Equity Credit/Operating EBITDA (x) | 2.4   | 1.9   | 1.9   | 2.1  | 2.2    | 2.1  |
| FFO Adjusted Leverage (x)                          | 3.6   | 2.4   | 2.5   | 2.8  | 2.9    | 2.9  |
| FFO Adjusted Net Leverage (x)                      | 3.4   | 2.1   | 2.0   | 2.3  | 2.4    | 2.4  |
| Source: Fitch Ratings, Fitch Solutions             |       |       |       |      |        |      |

**How to Interpret the Forecast Presented**

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.



Ratings Navigator

FitchRatings

Carlsberg Breweries A/S



Corporates Ratings Navigator  
Alcoholic Beverages

| Factor Levels | Operating Environment |                                     |                              | Business Profile           |                 | Financial Profile |               |                     | Issuer Default Rating |
|---------------|-----------------------|-------------------------------------|------------------------------|----------------------------|-----------------|-------------------|---------------|---------------------|-----------------------|
|               | Sector Risk Profile   | Management and Corporate Governance | Industry Operational Profile | Quality of Brand Portfolio | Market Position | Diversification   | Profitability | Financial Structure |                       |
| aaa           |                       |                                     |                              |                            |                 |                   |               |                     | AAA                   |
| aa+           |                       |                                     |                              |                            |                 |                   |               |                     | AA+                   |
| aa            |                       |                                     |                              |                            |                 |                   |               |                     | AA                    |
| aa-           |                       |                                     |                              |                            |                 |                   |               |                     | AA-                   |
| a+            | █                     | █                                   | █                            |                            |                 |                   |               | █                   | A+                    |
| a             | █                     | █                                   | █                            |                            |                 | █                 |               | █                   | A                     |
| a-            | █                     | █                                   | █                            | █                          | █               | █                 | █             | █                   | A-                    |
| bbb+          | █                     | █                                   |                              | █                          | █               |                   | █             |                     | BBB+ Stable           |
| bbb           | █                     | █                                   |                              | █                          | █               |                   | █             |                     | BBB                   |
| bbb-          | █                     | █                                   |                              | █                          | █               |                   | █             |                     | BBB-                  |
| bb+           | █                     | █                                   |                              |                            |                 |                   |               |                     | BB+                   |
| bb            | █                     | █                                   |                              |                            |                 |                   |               |                     | BB                    |
| bb-           | █                     | █                                   |                              |                            |                 |                   |               |                     | BB-                   |
| b+            | █                     | █                                   |                              |                            |                 |                   |               |                     | B+                    |
| b             | █                     | █                                   |                              |                            |                 |                   |               |                     | B                     |
| b-            | █                     | █                                   |                              |                            |                 |                   |               |                     | B-                    |
| ccc+          |                       |                                     |                              |                            |                 |                   |               |                     | CCC+                  |
| ccc           |                       |                                     |                              |                            |                 |                   |               |                     | CCC                   |
| ccc-          |                       |                                     |                              |                            |                 |                   |               |                     | CCC-                  |
| cc            |                       |                                     |                              |                            |                 |                   |               |                     | CC                    |
| c             |                       |                                     |                              |                            |                 |                   |               |                     | C                     |
| d or rd       |                       |                                     |                              |                            |                 |                   |               |                     | D or RD               |

Operating Environment

|      |                      |     |   |
|------|----------------------|-----|---|
| a+   | Economic Environment | bbb | Average combination of countries where economic value is created and where assets are located.  |
| a    | Financial Access     | aa  | Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.            |
|      | Systemic Governance  | aa  | Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'. |
| b-   |                      |     |   |
| ccc+ |                      |     |   |

Industry Operational Profile

|      |                                   |     |   |
|------|-----------------------------------|-----|---|
| a-   | Industry Structure                | a   | Majority of operations in oligopolistic markets.                          |
| bbb+ | Relative Power in the Value Chain | bbb | Balanced relative bargaining power with suppliers and customers.          |
| bbb  | Organic Growth Potential          | bb  | Moderate, low single-digit annual growth potential for company's products |
| bbb- | Seasonality/Cyclical of Demand    | bbb | Stable demand, subject to slow-downs.                                     |
| bb+  |                                   |     |   |

Market Position

|      |                      |     |   |
|------|----------------------|-----|---|
| a+   | Market Share         | bbb | Top-three player in most markets.   |
| a    | Routes to Market     | a   | Well developed, far reaching distribution network, capable of accessing all distribution channels and predominantly managed directly. |
| a-   | Operating Efficiency | bbb | Gross margin aligned with peers.  |
| bbb+ | Size                 | a   | EBITDAR > \$1.5 billion   |
| bbb  |                      |     |   |

Profitability

|      |                             |     |  |
|------|-----------------------------|-----|--|
| a    | FFO Margin                  | a   | 14%  |
| a-   | FCF Margin                  | bbb | 3.5%   |
| bbb+ | Volatility of Profitability | bbb | Volatility of profits in line with industry average. |
| bbb  | EBITDAR Margin              | bbb | 20%  |
| bbb- |                             |     |  |

Financial Flexibility

|      |   |     |   |
|------|---|-----|---|
| aa-  | Financial Discipline                    | a   | Clear commitment to maintain a conservative policy with only modest deviations allowed.   |
| a+   | Liquidity                               | aa  | Very comfortable liquidity; no need to use external funding in the next 24 months. Well-spread debt maturity. Diversified sources of funding. |
| a    | FFO Fixed Charge Cover                  | a   | 7x  |
| a-   | FX Exposure                             | bbb | Some FX exposure on profitability and/or debt/cash flow match. Effective hedging in place.  |
| bbb+ | Operating EBITDAR/Interest Paid + Rents | a   | 10x   |

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

|      |                        |   |  |
|------|------------------------|---|--|
| aa-  | Management Strategy    | a | Coherent strategy and good track record in implementation.   |
| a+   | Governance Structure   | a | Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders. |
| a    | Group Structure        | a | Group structure shows some complexity but mitigated by transparent reporting.  |
| a-   | Financial Transparency | a | High quality and timely financial reporting.   |
| bbb+ |                        |   |  |

Quality of Brand Portfolio

|      |                            |     |  |
|------|----------------------------|-----|--|
| a-   | Brand Awareness            | bbb | Globally known brands, with image consistent with product/consumers but available in selected countries. |
| bbb+ | Pricing Power              | bbb | Good track record of price mix benefits from price increases, product premiumization and innovation.     |
| bbb  | Ability to Leverage Brands | bbb | Good track record of adding new products under same brand.   |
| bbb- |                            |     |  |
| bb+  |                            |     |  |

Diversification

|      |                            |     |   |
|------|----------------------------|-----|---|
| a    | Geographic Diversification | bbb | Good geographical diversification but some imbalance between stable, declining and growth markets.                                |
| a-   | Product and Brands         | bbb | Well balanced exposure to at least three beverage categories with exposure to different consumption patterns and consumer groups. |
| bbb+ | Price Points               | a   | Very wide breadth of pricing points.  |
| bbb  |                            |     |   |
| bbb- |                            |     |   |

Financial Structure

|      |                                   |   |      |
|------|-----------------------------------|---|------|
| aa-  | Lease Adjusted FFO Gross Leverage | a | 3.0x |
| a+   | Lease Adjusted FFO Net Leverage   | a | 2.5x |
| a    | Net Debt/(CFO - Capex)            | a | 3.5x |
| a-   | Lease Adjusted Net Debt/EBITDAR   | a | 2.0x |
| bbb+ | Lease Adjusted Gross Debt/EBITDAR | a | 2.5x |

Credit-Relevant ESG Derivation

|  |    |        |   | Overall ESG |
|--|----|--------|---|-------------|
| Carlsberg Breweries AS has 10 ESG potential rating drivers |    |        |   |             |
| key driver   | 0  | issues | 5 |             |
| driver   | 0  | issues | 4 |             |
| potential driver   | 10 | issues | 3 |             |
| not a rating driver  | 2  | issues | 2 |             |
|  | 2  | issues | 1 |             |

- Water usage
- Impact of packaging; supply chain management - product
- Crop yield affected by climate change
- Responsible alcohol consumption; product labeling and marketing
- Impact of labor negotiations and employee (dis)satisfaction
- Regulatory impact from lack of responsible drinking

Showing top 6 issues  
For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

Carlsberg Breweries A/S has 10 ESG potential rating drivers

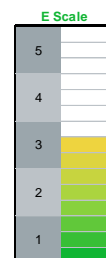
- ➔ Carlsberg Breweries A/S has exposure to water management risk but this has very low impact on the rating.
- ➔ Carlsberg Breweries A/S has exposure to waste & impact management risk and supply chain management risk but this has very low impact on the rating.
- ➔ Carlsberg Breweries A/S has exposure to extreme weather events but this has very low impact on the rating.
- ➔ Carlsberg Breweries A/S has exposure to customer accountability risk but this has very low impact on the rating.
- ➔ Carlsberg Breweries A/S has exposure to labor relations & practices risk but this has very low impact on the rating.
- ➔ Carlsberg Breweries A/S has exposure to responsible drinking regulatory risk but this has very low impact on the rating.

Showing top 6 issues

|                     |    |        | Overall ESG Scale |
|---------------------|----|--------|-------------------|
| key driver          | 0  | issues | 5                 |
| driver              | 0  | issues | 4                 |
| potential driver    | 10 | issues | 3                 |
| not a rating driver | 2  | issues | 2                 |
|                     | 2  | issues | 1                 |

Environmental (E)

| General Issues   | E Score | Sector-Specific Issues                                 | Reference  |
|--|---------|--|--|
| GHG Emissions & Air Quality                                | 2       | Emissions from distribution operations                 | Market Position; Profitability; Financial Structure; Financial Flexibility |
| Energy Management  | 2       | Energy use in manufacturing and distribution           | Market Position; Profitability; Financial Structure; Financial Flexibility |
| Water & Wastewater Management                              | 3       | Water usage  | Diversification; Profitability; Financial Structure; Financial Flexibility |
| Waste & Hazardous Materials Management; Ecological Impacts | 3       | Impact of packaging; supply chain management - product | Market Position; Profitability; Financial Structure; Financial Flexibility |
| Exposure to Environmental Impacts                          | 3       | Crop yield affected by climate change                  | Diversification; Profitability; Financial Structure; Financial Flexibility |



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

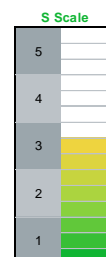
The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

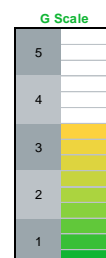
Social (S)

| General Issues   | S Score | Sector-Specific Issues  | Reference   |
|--|---------|---|---|
| Human Rights, Community Relations, Access & Affordability  | 1       | n.a.  | n.a.  |
| Customer Welfare - Fair Messaging, Privacy & Data Security | 3       | Responsible alcohol consumption; product labeling and marketing | Market Position; Diversification; Profitability; Financial Structure; Financial Flexibility |
| Labor Relations & Practices                                | 3       | Impact of labor negotiations and employee (dis)satisfaction     | Market Position; Diversification; Profitability; Financial Structure; Financial Flexibility |
| Employee Wellbeing   | 1       | n.a.  | n.a.  |
| Exposure to Social Impacts                                 | 3       | Regulatory impact from lack of responsible drinking             | Market Position; Diversification; Profitability; Financial Structure; Financial Flexibility |



Governance (G)

| General Issues         | G Score | Sector-Specific Issues  | Reference                           |
|------------------------|---------|---|-------------------------------------|
| Management Strategy    | 3       | Strategy development and implementation                       | Management and Corporate Governance |
| Governance Structure   | 3       | Board independence and effectiveness; ownership concentration | Management and Corporate Governance |
| Group Structure        | 3       | Complexity, transparency and related-party transactions       | Management and Corporate Governance |
| Financial Transparency | 3       | Quality and timing of financial disclosure                    | Management and Corporate Governance |



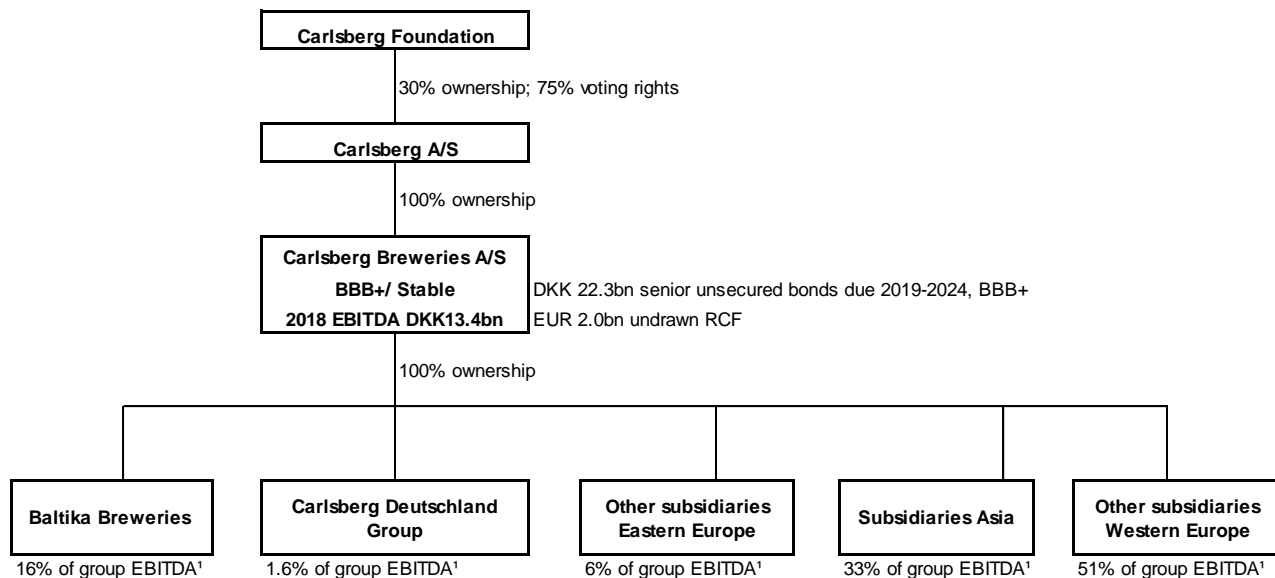
CREDIT-RELEVANT ESG SCALE

| How relevant are E, S and G issues to the overall credit rating? |  |
|--|--|
| 5  | Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.                          |
| 4  | Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.                  |
| 3  | Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "low er" relative importance within Navigator. |
| 2  | Irrelevant to the entity rating but relevant to the sector.  |
| 1  | Irrelevant to the entity rating and irrelevant to the sector.  |

Click here to enter text.

## Simplified Group Structure Diagram

Group structure at end-December 2018



<sup>1</sup> before central costs

Source: Fitch Ratings, Fitch Solutions, Carlsberg

## Peer Financial Summary

| Company                              | IDR  | Financial Statement Date | Revenue (USDm) | Operating EBITDAR (USDm) | Operating EBITDAR Margin (%) | FFO Adjusted Net Leverage (x) | Free Cash Flow Margin (%) |
|--------------------------------------|------|--------------------------|----------------|--------------------------|------------------------------|-------------------------------|---------------------------|
| Carlsberg Breweries A/S              | BBB+ |                          |                |                          |                              |                               |                           |
|                                      |      | 2018                     | 9,886          | 2,165                    | 21.9                         | 2.0                           | 8.1                       |
|                                      |      | 2017                     | 9,258          | 2,079                    | 22.5                         | 2.1                           | 9.8                       |
|                                      |      | 2016                     | 9,301          | 1,970                    | 21.2                         | 3.4                           | 6.4                       |
| Anheuser Busch InBev NV/SA           | BBB  |                          |                |                          |                              |                               |                           |
|                                      |      | 2018                     | 54,619         | 22,325                   | 40.9                         | 6.2                           | 3.3                       |
|                                      |      | 2017                     | 56,444         | 22,243                   | 39.4                         | 6.1                           | 2.5                       |
|                                      |      | 2016                     | 45,517         | 16,988                   | 37.3                         | 10.0                          | -7.3                      |
| Molson Coors Brewing Company         | BBB- |                          |                |                          |                              |                               |                           |
|                                      |      | 2018                     | 10,770         | 2,558                    | 23.8                         | 3.7                           | 12.3                      |
|                                      |      | 2017                     | 11,003         | 2,646                    | 24.1                         | 5.1                           | 8.3                       |
|                                      |      | 2016                     | 4,885          | 907                      | 18.6                         | 9.4                           | 8.8                       |
| Thai Beverage Public Company Limited | BBB- |                          |                |                          |                              |                               |                           |
|                                      |      | 2018                     | 7,098          | 1,049                    | 14.8                         | 8.3                           | -1.5                      |
|                                      |      | 2017                     | 5,511          | 968                      | 17.6                         | 1.2                           | 5.5                       |
|                                      |      | 2016                     | 5,368          | 902                      | 16.8                         | 1.6                           | 5.4                       |
| Diageo plc                           | A-   |                          |                |                          |                              |                               |                           |
|                                      |      | 2018                     | 16,384         | 5,922                    | 36.1                         | 2.9                           | 6.9                       |
|                                      |      | 2017                     | 15,280         | 5,117                    | 33.5                         | 2.8                           | 7.7                       |
|                                      |      | 2016                     | 15,533         | 5,206                    | 33.5                         | 3.5                           | 3.8                       |
| Pernod Ricard S.A.                   | BBB  |                          |                |                          |                              |                               |                           |
|                                      |      | 2018                     | 10,723         | 3,208                    | 29.9                         | 3.8                           | 8.9                       |
|                                      |      | 2017                     | 9,820          | 2,926                    | 29.8                         | 4.4                           | 7.8                       |
|                                      |      | 2016                     | 9,628          | 2,834                    | 29.4                         | 5.1                           | 6.4                       |
| Beckle, S.A.B. de C.V.               | BBB+ |                          |                |                          |                              |                               |                           |
|                                      |      | 2018                     | 1,465          | 331                      | 22.6                         | -0.1                          | -11.5                     |
|                                      |      | 2017                     | 1,374          | 392                      | 28.5                         | -1.5                          | -5.8                      |
|                                      |      | 2016                     | 1,306          | 336                      | 25.7                         | 1.1                           | 8.6                       |

Source: Fitch Ratings, Fitch Solutions

## Reconciliation of Key Financial Metrics

| (DKK Millions, As reported)  | 31 Dec 2018    |
|--|----------------|
| <b>Income Statement Summary</b>  |                |
| Operating EBITDA   | 13,362         |
| + Recurring Dividends Paid to Non-controlling Interest   | (1,186)        |
| + Recurring Dividends Received from Associates   | 572            |
| + Additional Analyst Adjustment for Recurring I/S Minorities and Associates  | 0              |
| <b>= Operating EBITDA After Associates and Minorities (k)</b>  | <b>12,748</b>  |
| <b>+ Operating Lease Expense Treated as Capitalised (h)</b>  | <b>326</b>     |
| <b>= Operating EBITDAR after Associates and Minorities (j)</b>   | <b>13,074</b>  |
| <b>Debt &amp; Cash Summary</b>   |                |
| <b>Total Debt with Equity Credit (l)</b>   | <b>24,114</b>  |
| + Lease-Equivalent Debt  | 2,608          |
| + Other Off-Balance-Sheet Debt   | 511            |
| <b>= Total Adjusted Debt with Equity Credit (a)</b>  | <b>27,233</b>  |
| Readily Available Cash [Fitch-Defined]   | 5,589          |
| + Readily Available Marketable Securities [Fitch-Defined]  | 0              |
| <b>= Readily Available Cash &amp; Equivalents (o)</b>  | <b>5,589</b>   |
| <b>Total Adjusted Net Debt (b)</b>   | <b>21,644</b>  |
| <b>Cash-Flow Summary</b>   |                |
| <b>Preferred Dividends (Paid) (f)</b>  | <b>0</b>       |
| Interest Received  | 161            |
| <b>+ Interest (Paid) (d)</b>   | <b>(1,019)</b> |
| <b>= Net Finance Charge (e)</b>  | <b>(858)</b>   |
| <b>Funds From Operations [FFO] (c)</b>   | <b>9,577</b>   |
| + Change in Working Capital [Fitch-Defined]  | 1,912          |
| <b>= Cash Flow from Operations [CFO] (n)</b>   | <b>11,489</b>  |
| <b>Capital Expenditures (m)</b>  | <b>(4,006)</b> |
| <b>Multiple applied to Capitalised Leases</b>  | <b>8.0</b>     |
| <b>Gross Leverage</b>  |                |
| <b>Total Adjusted Debt / Op. EBITDAR* [x] (a/j)</b>  | <b>2.1</b>     |
| <b>FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))</b>   | <b>2.5</b>     |
| <i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>                             |                |
| <b>Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)</b>   | <b>1.9</b>     |
| <b>Net Leverage</b>  |                |
| <b>Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)</b>  | <b>1.7</b>     |
| <b>FFO Adjusted Net Leverage [x] (b/(c-e+h-f))</b>   | <b>2.0</b>     |
| <i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>                         |                |
| <b>Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))</b>  | <b>2.5</b>     |
| <b>Coverage</b>  |                |
| <b>Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)</b>   | <b>9.7</b>     |
| <b>Op. EBITDA / Interest Paid* [x] (k/(-d))</b>  | <b>12.5</b>    |
| <b>FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))</b>   | <b>8.0</b>     |
| <i>(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i> |                |
| <b>FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))</b>  | <b>10.2</b>    |
| <i>(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)</i>                                 |                |
| * EBITDAR after Dividends to Associates and Minorities   |                |
| Source: Fitch Ratings, Fitch Solutions, Carlsberg  |                |

## Fitch Adjustment Reconciliation

| (DKK Millions, As reported)   | Reported Values<br>31 Dec 18 | Sum of Fitch<br>Adjustments | Preferred Dividends,<br>Associates and<br>Minorities Cash<br>Adjustments | Other<br>Adjustment | Adjusted<br>Values |
|---|------------------------------|-----------------------------|--|---------------------|--------------------|
| <b>Income Statement Summary</b>   |                              |                             |  |                     |                    |
| Revenue   | 62,503                       | 0                           |  |                     | 62,503             |
| Operating EBITDAR   | 13,688                       | 0                           |  |                     | 13,688             |
| Operating EBITDAR after<br>Associates and Minorities  | 13,688                       | (614)                       | (614)  |                     | 13,074             |
| Operating Lease Expense   | 326                          | 0                           |  |                     | 326                |
| Operating EBITDA  | 13,362                       | 0                           |  |                     | 13,362             |
| Operating EBITDA after Associates<br>and Minorities   | 13,362                       | (614)                       | (614)  |                     | 12,748             |
| Operating EBIT  | 9,308                        | 0                           |  |                     | 9,308              |
| <b>Debt &amp; Cash Summary</b>  |                              |                             |  |                     |                    |
| Total Debt With Equity Credit   | 24,114                       | 0                           |  |                     | 24,114             |
| Total Adjusted Debt With Equity<br>Credit   | 24,625                       | 2,608                       |  | 2,608               | 27,233             |
| Lease-Equivalent Debt   | 0                            | 2,608                       |  | 2,608               | 2,608              |
| Other Off-Balance Sheet Debt  | 511                          | 0                           |  |                     | 511                |
| Readily Available Cash &<br>Equivalents   | 5,589                        | 0                           |  |                     | 5,589              |
| Not Readily Available Cash &<br>Equivalents   | 0                            | 0                           |  |                     | 0                  |
| <b>Cash-Flow Summary</b>  |                              |                             |  |                     |                    |
| Preferred Dividends (Paid)  | 0                            | 0                           |  |                     | 0                  |
| Interest Received   | 161                          | 0                           |  |                     | 161                |
| Interest (Paid)   | (1,019)                      | 0                           |  |                     | (1,019)            |
| Funds From Operations [FFO]   | 10,191                       | (614)                       | (614)  |                     | 9,577              |
| Change in Working Capital [Fitch-<br>Defined]   | 1,912                        | 0                           |  |                     | 1,912              |
| Cash Flow from Operations [CFO]   | 12,103                       | (614)                       | (614)  |                     | 11,489             |
| Non-Operating/Non-Recurring Cash<br>Flow  | 0                            | 0                           |  |                     | 0                  |
| Capital (Expenditures)  | (4,006)                      | 0                           |  |                     | (4,006)            |
| Common Dividends (Paid)   | (2,441)                      | 0                           |  |                     | (2,441)            |
| Free Cash Flow [FCF]  | 5,656                        | (614)                       | (614)  |                     | 5,042              |
| <b>Gross Leverage</b>   |                              |                             |  |                     |                    |
| Total Adjusted Debt / Op. EBITDAR*<br>[x]   | 1.8                          |                             |  |                     | 2.1                |
| FFO Adjusted Leverage [x]   | 2.2                          |                             |  |                     | 2.5                |
| Total Debt With Equity Credit / Op.<br>EBITDA* [x]  | 1.8                          |                             |  |                     | 1.9                |
| <b>Net Leverage</b>   |                              |                             |  |                     |                    |
| Total Adjusted Net Debt / Op.<br>EBITDAR* [x]   | 1.4                          |                             |  |                     | 1.7                |
| FFO Adjusted Net Leverage [x]   | 1.7                          |                             |  |                     | 2.0                |
| Total Net Debt / (CFO - Capex) [x]  | 2.3                          |                             |  |                     | 2.5                |
| <b>Coverage</b>   |                              |                             |  |                     |                    |
| Op. EBITDAR / (Interest Paid +<br>Lease Expense)* [x]   | 10.2                         |                             |  |                     | 9.7                |
| Op. EBITDA / Interest Paid* [x]   | 13.1                         |                             |  |                     | 12.5               |
| FFO Fixed Charge Coverage [x]   | 8.5                          |                             |  |                     | 8.0                |
| FFO Interest Coverage [x]   | 10.8                         |                             |  |                     | 10.2               |
| *EBITDA/R after Dividends to Associates and Minorities<br>Source: Fitch Ratings, Fitch Solutions, Carlsberg |                              |                             |  |                     |                    |

## Related Research & Criteria

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[Alcoholic Beverages: Ratings Navigator Companion \(April 2018\)](#)

[Corporate Rating Criteria \(February 2019\)](#)

[Short-Term Ratings Criteria \(May 2019\)](#)

[Corporates Notching and Recovery Ratings Criteria \(March 2018\)](#)

[Sector Navigators \(March 2018\)](#)

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