Carlsberg Group

ANNUAL REPORT 2017

MANAGEMENT REVIEW

Letter from the Chairman & the CEO 3

IN BRIEF
Our 2017 priorities....5
Golden triangle....6
Financial highlights....7
Our markets....8
Our brands....9

OUR RESULTS
Financial review....11
Five-year summary....14
Regional review....15
Earnings expectations....24

OUR STRATEGY
Business model....25
SAIL'22....26

GOVERNANCE
Risk management....32
Corporate governance....34
Remuneration....40
Supervisory Board....46
Executive Committee....49
Shareholder information....50

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
Statements....52
Notes....57

PARENT COMPANY
Statements....125
Notes....129

REPORTS
Management statement....138
Auditor's report....139

SAIL'22 GROW CRAFT & SPECIALITY

Growing our craft & speciality portfolio is a key priority of our SAIL'22 strategy. Our craft & speciality portfolio approach focuses on three segments: accessible crafty line extensions of our strong local power brands, such as Feldschlösschen Weizen, Hopfen and Dunkel; speciality beer brands such as Grimbergen and 1664 Blanc; and authentic craft champions, such as Brooklyn, Nya Carnegie in Sweden and Jacobsen in Denmark.

LETTER FROM THE CHAIRMAN & THE CEO

A GOOD YEAR FOR THE CARLSBERG GROUP

"The strong results in 2017 and the good progress of SAIL'22 give us confidence in the Group's ability to generate consistent top- and bottom-line growth."

Flemming Besenbacher
Chairman of the Supervisory Board

2017, the second year of Funding the Journey and SAIL'22, delivered strong organic operating profit growth and cash flow.

Our overriding priorities for 2017 were the execution of Funding the Journey and our SAIL'22 strategy. In particular, delivering on Funding the Journey was very important for enabling investments in our strategic priorities, thereby fuelling the future growth of the Carlsberg Group.

We are pleased to announce that, as a result of the good progress of the programme, we have been able to upwardly adjust the expected net benefits to around DKK 2.3bn.

This level of benefits means that more than half of the benefits is expected to improve operating profit by the end of 2018, while the remainder is being invested in supporting the SAIL'22 priorities. In 2017, Funding the Journey enabled SAIL'22 investments of around DKK 500m.

Funding the Journey as a specific programme will reach its conclusion by the end of 2018. However, the focus on efficiency and costs is here to stay and is being embedded as a way of living across the Group.

DELIVERING ON OUR PROMISES

Thanks to the strong delivery of Funding the Journey, the Group's results were above our initial expectations for the year, with organic operating profit growth of 8.4% despite market challenges in Russia and a very bad summer in parts of Europe.

The earnings delivery was an important driver of the improvement in ROIC of 100bp and the strong free cash flow of DKK 8.7bn. The net debt/EBITDA ratio at year-end was 1.45x, and as a result the Supervisory Board will propose to the Annual General Meeting that the ordinary dividend be increased by 60% to DKK 16.0. This corresponds to an adjusted payout ratio of 50%, in line with our target stated in SAIL'22.

The Board is content that, in just the second year of SAIL'22, the Group is able to deliver margin improvement and investment in the business, as well as achieving our financial leverage and payout ratio targets.

PROGRESS ON SAIL'22

SAIL'22 is progressing according to plan. The strategy was designed to get the Carlsberg Group back to growth by taking action in relation to our portfolio, capabilities and culture. The strategy has been well embraced by everyone in the Group, and during the year many activities were carried out in support of our well-defined strategic priorities.

Examples of action in relation to our portfolio include the further support of our craft & speciality portfolio, which achieved overall volume growth of 29%. A key enabler for our premiumisation efforts in Western Europe is our proprietary draught system Draught-Master™, and during the year we accelerated the roll-out of the system. In Asia, we continued the support of Tuborg, which once again proved its popularity with consumers, delivering 6% volume growth in the region in spite of a highly challenging Indian market.

Within capabilities, we introduced a new segmentation methodology, which is now being embedded across our markets, and increased our professionalism within value management.

We are making good progress in developing a performance-driven culture, supported by the implementation of systematic and critical management reviews, aligning Company targets with incentives across the Group and improving our management development.

We are now two years into our journey and our results so far make us confident that SAIL'22 will generate organic top- and bottom-line growth going forward.

For more information on SAIL'22 initiatives in 2017, please read pages 26-31.

A PURPOSE-DRIVEN COMPANY

In 2017, Carlsberg turned 170. Celebrating our anniversary brought to the fore the strong history of the Group, including our founders' unwavering belief in quality, perfection and the importance of science for continuously perfecting the art of brewing.

Their pioneering spirit, passion for brewing and contributions to society have made us who we are. We focus on our brands and the art of brewing, excite our consumers with quality brews and take pride in continuously striving to improve at everything we do.

In a few words, our purpose is about *brewing for a better today and tomorrow.*

Our strong results testify to our ability to brew for a better today, while our objective to brew for a better tomorrow will be supported by our new sustainability programme – Together Towards ZERO – with major ambitions within carbon footprint, water waste, responsible drinking and health & safety.

CHANGES IN THE SUPERVISORY BOARD

At the Annual General Meeting in March 2017, we said goodbye to independent Supervisory Board member Elisabeth Fleuriot, who did not stand for re-election. She was replaced by Nancy Cruickshank, who brings to the Board strong digital knowledge and substantial insight into the opportunities offered by new technology.

Kees van der Graaf has notified the Supervisory Board that he is not standing for re-election at the Annual General Meeting in March 2018. The Board will propose the election of Magdi Batato, Head of Operations at Nestlé, who has a strong background in supply chain.

THANK YOU

We extend our thanks to our shareholders for their support and trust they have shown in the Group during 2017.

We appreciate the cooperation, dedication and enthusiasm of everyone in the Carlsberg Group in bringing SAIL'22 to life and delivering on Funding the Journey.

Finally, we value the relationships we have with our customers and suppliers, and appreciate our many consumers around the world.

Flemming Besenbacher
Chairman

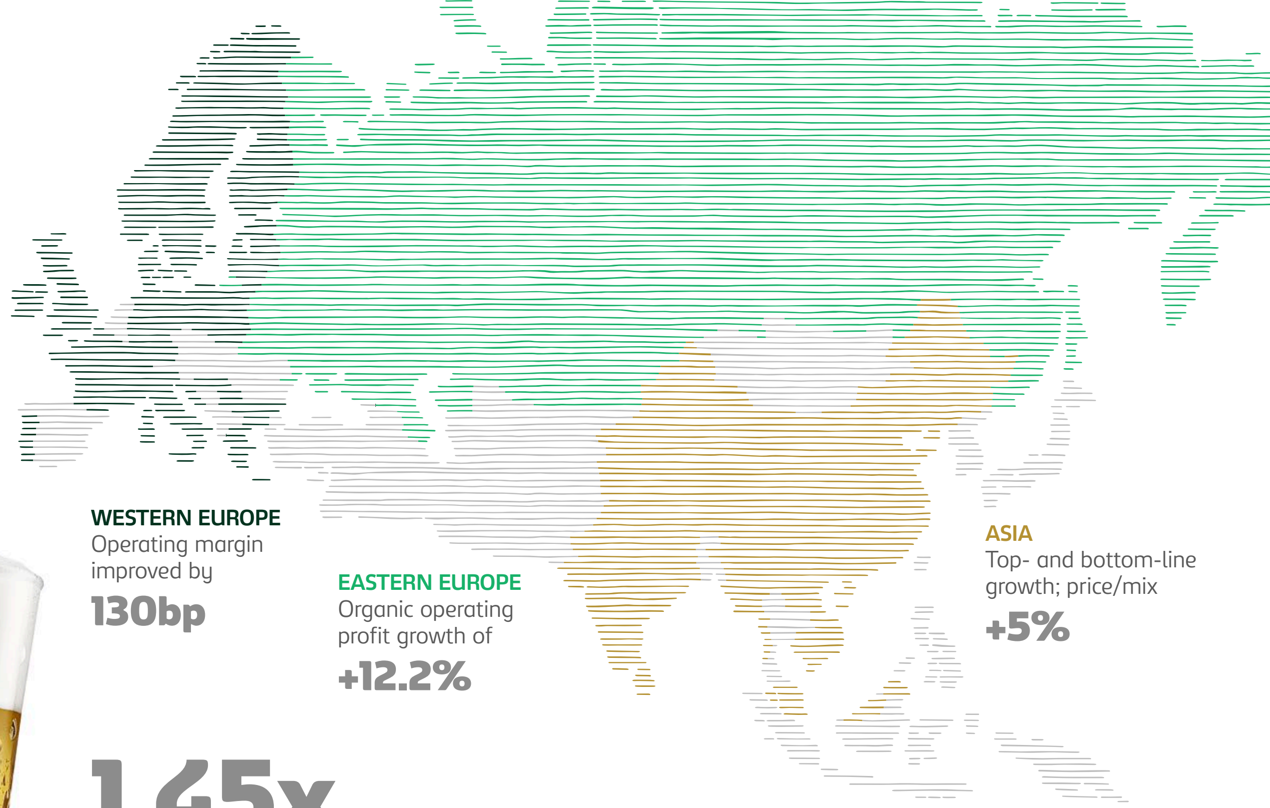
Cees 't Hart
CEO

From left: CEO Cees 't Hart and Chairman Flemming Besenbacher

2017 PRIORITIES

DELIVERING ON **OUR PRIORITIES**

In 2017, we delivered organic operating profit growth of 8.4%. This was driven by strong delivery of Funding the Journey, which also enabled investments in our strategic priorities to drive future growth.



WESTERN EUROPE
Operating margin improved by
130bp

EASTERN EUROPE
Organic operating profit growth of
+12.2%

ASIA
Top- and bottom-line growth; price/mix
+5%

DKK 2.3bn

THE JOURNEY IS FUNDED

Funding the Journey showed good progress, delivering benefits faster than expected when it was launched in November 2015. We now anticipate that the programme will deliver benefits of around 2.3bn by 2018. More than half of that will go towards improving operating profit, still leaving sufficient for investment in our SAIL'22 growth priorities. In 2017, investment in SAIL'22 was around DKK 500m.

SAIL'22 FUNDING THE JOURNEY

1.45x

NET DEBT/EBITDA

Financial leverage was significantly reduced to 1.45x as a result of the growth in operating profit and the strong free cash flow. Consequently, the Supervisory Board will propose a 60% increase in the dividend to DKK 16.0 per share, equal to an adjusted payout ratio of 50%.

SAIL'22 OPTIMAL CAPITAL ALLOCATION

SUSTAINABILITY

NEW AMBITIOUS TARGETS

We launched ambitious sustainability targets under our new programme Together Towards ZERO. Read more about this in our Sustainability Report on carlsberggroup.com

SAIL'22 CONTRIBUTE TO A BETTER SOCIETY

STRONG RESULTS FOR OUR CRAFT & SPECIALITY BRANDS

Our craft & speciality brands delivered very strong results, growing volumes by 29%. Our speciality brands Grimbergen and 1664 Blanc grew by 15% and 46% respectively.

SAIL'22 GROW CRAFT & SPECIALITY

PERFORMANCE MANAGEMENT

BALANCING OUR **GOLDEN TRIANGLE**

Our Golden Triangle is a pivotal KPI in our performance management. In applying the Golden Triangle, we continuously seek to optimise the balance between market share/volumes, gross profit after logistics (GPaL) margin, operating profit and cash generation. Balancing all decisions against these four indicators supports sustainable value growth.

VOLUMES

Organic volume development during the year was impacted by the PET downsizing in Russia and bad weather in parts of Western Europe. In Asia, volumes were flat, with the positive impact of the strong performance of our international brand portfolio offset by a volatile market in India and declining volumes in Vietnam.

GROSS PROFIT AFTER LOGISTICS MARGIN

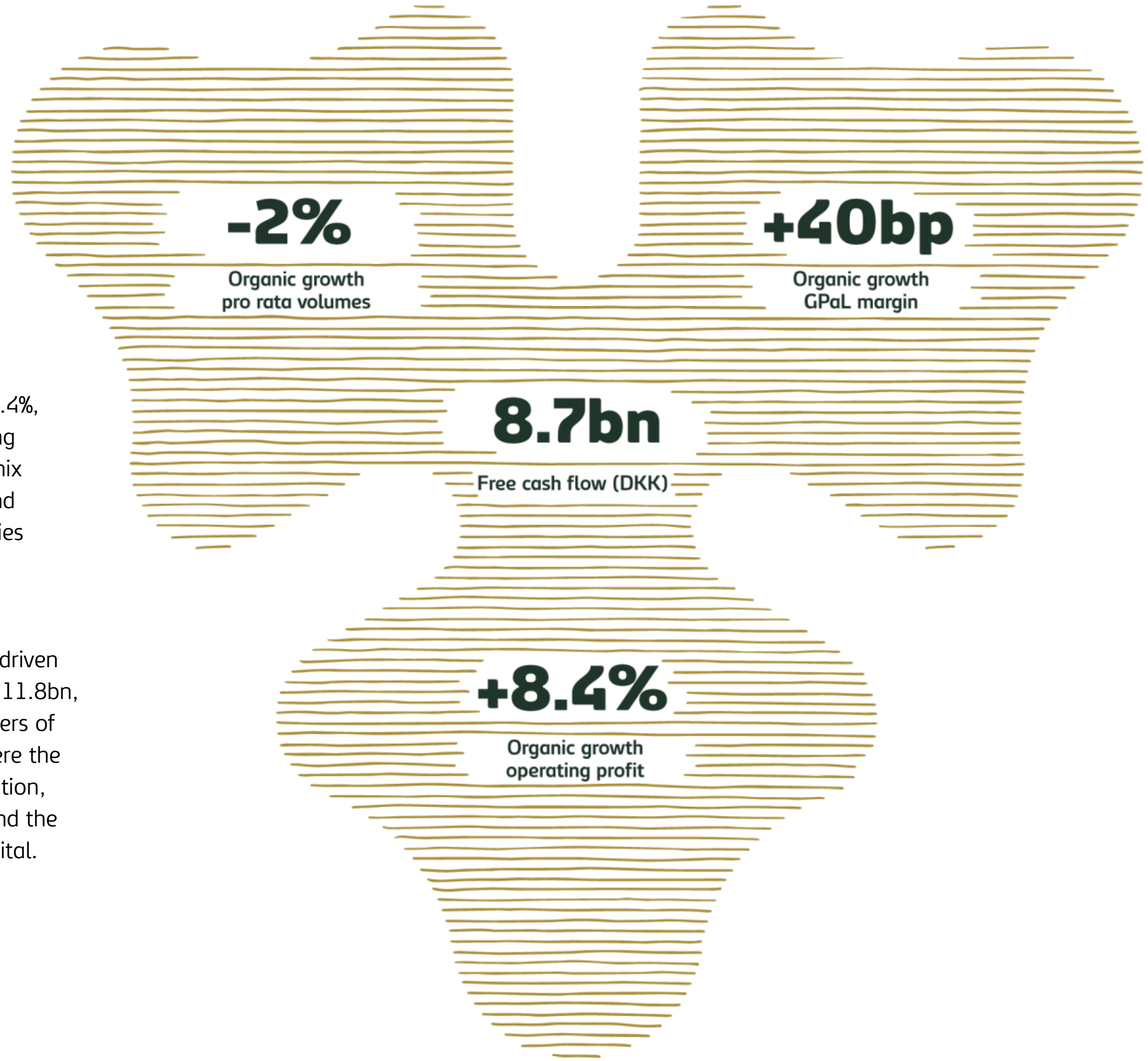
Gross profit after logistics (GPaL) margin developed favourably in 2017, growing organically by 40bp. This was the result of the solid price/mix of 3% and efficiencies achieved in the supply chain as part of Funding the Journey.

OPERATING PROFIT

Operating profit grew organically by 8.4%, driven by the strong delivery of Funding the Journey, including positive price/mix from successful value management and premiumisation, supply chain efficiencies and reduced operating costs.

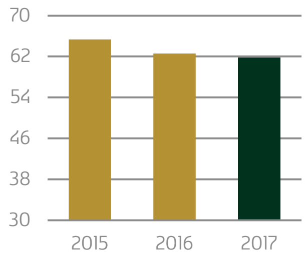
FREE CASH FLOW

The free cash flow of DKK 8.7bn was driven by strong operating cash flow of DKK 11.8bn, up DKK 2.5bn on 2016. The main drivers of the strong free operating cash flow were the higher operating profit before depreciation, amortisation and impairment losses and the positive contribution from working capital.



FINANCIAL HIGHLIGHTS

SIGNIFICANT DELEVERAGING **AND DIVIDEND INCREASE**



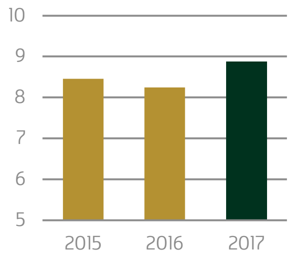
61.8bn

NET REVENUE
DKK

Net revenue grew organically by 1% as a result of strong price/mix of 3%, driven by strong performance in Asia and Eastern Europe.

In reported terms, net revenue declined by 1%, impacted by disposals.

The strong price/mix offset the organic volume decline of 2%, which was impacted by lower volumes in Russia due to the PET downsizing.



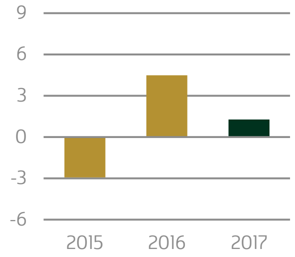
8.9bn

OPERATING PROFIT
DKK

Operating profit grew organically by 8.4%. All three regions contributed positively to the growth.

The growth was driven by the strong price/mix and good progress of Funding the Journey, including value management.

In reported terms, operating profit was up 7.7%. The small positive currency impact was offset by the negative impact from disposals.

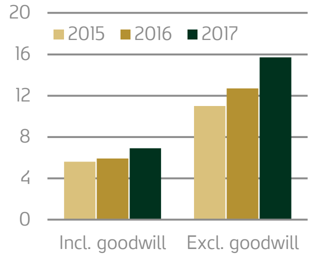


1.3bn

NET PROFIT
DKK

Net profit was mainly impacted by the impairment of the Baltika brand due to changed market dynamics following the PET downsizing, our increased focus on local and regional brands and updated assumptions on interest rates. Net financials were positively impacted by the lower net debt and foreign exchange gains.

Adjusted for special items after tax, net profit was DKK 4.9bn, up 27% on 2016.



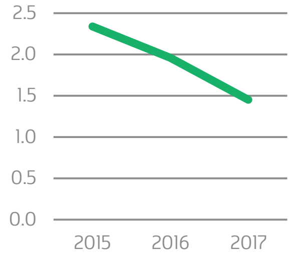
6.9

ROIC
%

Return on invested capital (ROIC) increased by 100bp. ROIC excluding goodwill was 15.7%, up 300bp.

The improvement in ROIC was mainly a result of the strong operating profit after tax.

All three regions delivered ROIC improvement, with particular strong growth in Asia.



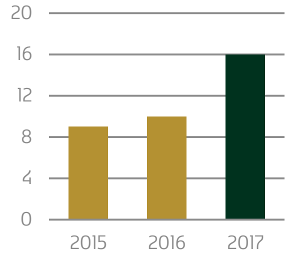
1.45x

NET DEBT/EBITDA

Net interest-bearing debt amounted to DKK 19.6bn, a decline of DKK 5.9bn compared with the end of 2016.

The significant reduction in net debt was driven by the strong free cash flow of 8.7bn.

Consequently, financial leverage, measured as net debt/EBITDA, declined to 1.45x.



16.0

DIVIDEND/SHARE, PROPOSED, DKK

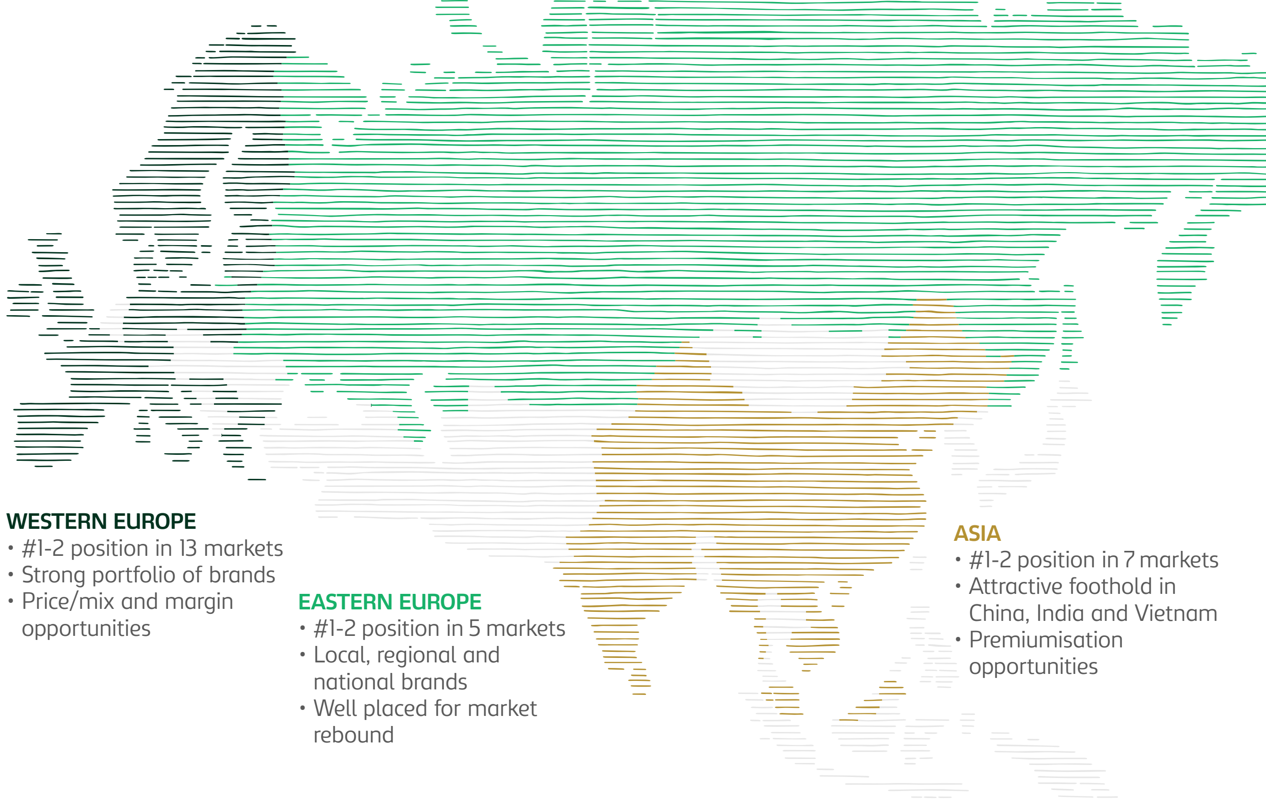
As a result of the financial leverage being well below 2.0x, as targeted in SAIL'22, the Supervisory Board will propose to the AGM a dividend of DKK 16.0, equal to an increase of 60%.

The proposed dividend equals an adjusted payout ratio of 50%, reaching the SAIL'22 target in just two years.

OUR MARKETS

STRONG MARKET POSITIONS

The Carlsberg Group has strong market positions in 25 markets across Europe and Asia. 75% of volumes are sold in these markets.



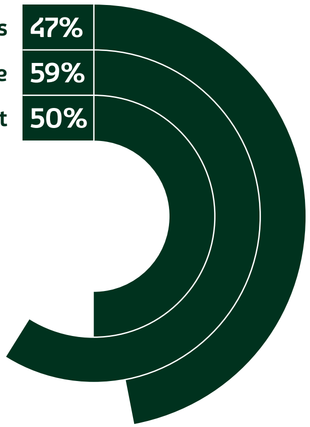
WESTERN EUROPE
- #1-2 position in 13 markets
- Strong portfolio of brands
- Price/mix and margin opportunities

EASTERN EUROPE
- #1-2 position in 5 markets
- Local, regional and national brands
- Well placed for market rebound

ASIA
- #1-2 position in 7 markets
- Attractive foothold in China, India and Vietnam
- Premiumisation opportunities

WESTERN EUROPE

Share of Group volumes 47%
Share of Group net revenue 59%
Share of Group operating profit 50%



ORGANIC OPERATING PROFIT GROWTH

7.5%

EASTERN EUROPE

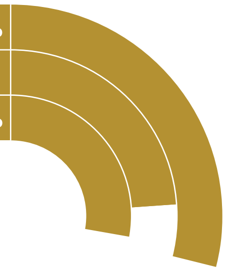
Share of Group volumes 24%
Share of Group net revenue 17%
Share of Group operating profit 22%

ORGANIC OPERATING PROFIT GROWTH

12.2%

ASIA

Share of Group volumes 29%
Share of Group net revenue 24%
Share of Group operating profit 28%



ORGANIC OPERATING PROFIT GROWTH

8.1%

SAIL'22 REVITALISE CORE BEER

Our core beer portfolio, consisting of Carlsberg, Tuborg and our strong local power brands, accounts for 92% of beer volumes. Our core beer brands are a vital part of our business and a priority of SAIL'22.

SAIL'22 TRANSFORM OUR BUSINESS IN RUSSIA

Russia delivered solid organic growth in operating profit, despite volumes being negatively impacted by the PET downsizing in the country. Russia accounts for approx. 17% of Group operating profit.

SAIL'22 GROW IN ASIA

Premiumising our portfolio is an important strategic priority in Asia. Our international premium portfolio delivered strong results, supporting net revenue growth of 5%, driven by a strong price/mix of 5%.

OUR BRANDS

A STRONG PORTFOLIO OF **CORE BEER BRANDS...**

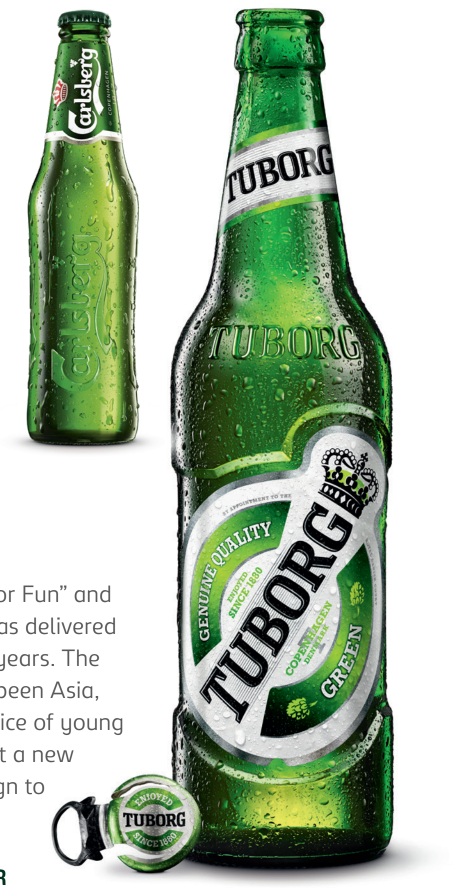
CARLSBERG

+1% VOLUME GROWTH

TUBORG

+3% VOLUME GROWTH

Mainstream lager beer is among the alcohol categories with the highest penetration and frequency in most markets and represents our largest volume and profit pool. A priority of SAIL'22 is the revitalisation of our core beer business.



INTERNATIONAL BRANDS

With its popular tagline "Open for Fun" and its unique pull-off cap, Tuborg has delivered CAGR of 12% over the past five years. The driver of the strong growth has been Asia, where Tuborg is the popular choice of young consumers. In 2017, we rolled out a new high-impact look & feel campaign to further strengthen the brand.

SAIL'22 REVITALISE CORE BEER

LOCAL POWER BRANDS

Ringnes unfiltered organic pilsner was launched in Norway in February 2017. This line extension of our strong local power brand Ringnes is priced at a premium to the mainstream lager. In its first year on the market, the unfiltered organic Ringnes has set the standard for organic beers in Norway.

SAIL'22 REVITALISE CORE BEER

OUR BRANDS

... CRAFT & SPECIALITY AND ALCOHOL-FREE BRANDS

Craft & speciality and alcohol-free brews (AFB) are growing rapidly in many of our markets. Craft & speciality is driven by consumer desire for premium brands with varied tastes and styles, while the growth in AFB is attributable to rising interest in healthier choices.

CRAFT & SPECIALITY

+29% VOLUME GROWTH

AFB IN WESTERN EUROPE

+15% VOLUME GROWTH

CRAFT & SPECIALITY

The E.C. Dahls Brewery opened in August 2016 as our second local craft brewery in our cooperation with Brooklyn Brewery. The craft beers combine the best of our Norwegian brewing traditions with Brooklyn's innovative ideas and have quickly become popular with consumers.

SAIL'22 GROW CRAFT & SPECIALITY

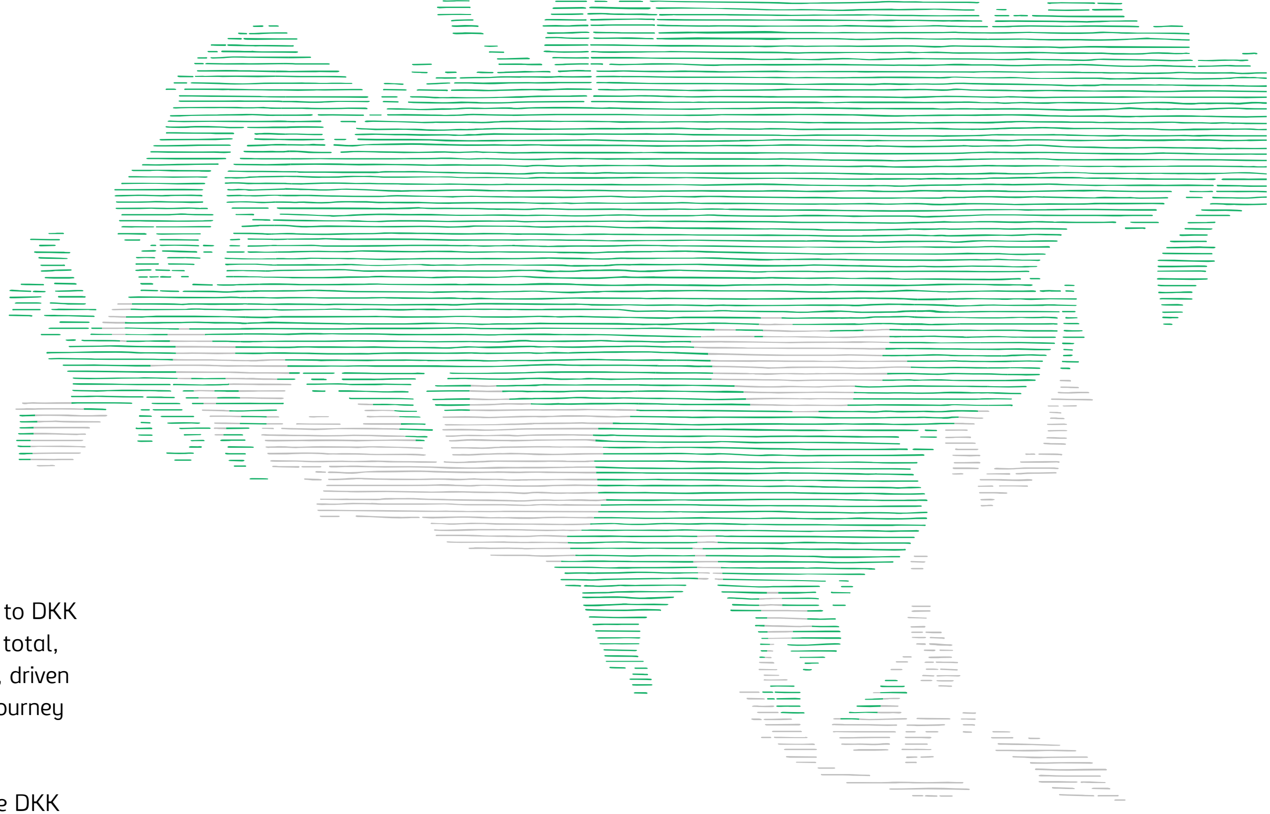
ALCOHOL-FREE BREWS

FIX ANEY was launched in 2017 as an alcohol-free line extension of the popular FIX brand in Greece. In line with the latest trends, its innovative approach disrupted the alcohol-free beer category in Greece. In its first year of launch, FIX ANEY gained an approx. 27% share of the alcohol-free category.

SAIL'22 ACTIVELY SHAPE ALCOHOL-FREE BEER

FINANCIAL REVIEW

STRONG SET OF RESULTS



INCOME STATEMENT

Reported net revenue was DKK 61,808m (2016: DKK 62,614m), a decline of 1% due to the net acquisition impact, mainly related to the divestment of the German wholesaler Nordic Getränke in 2017, the divestment of Carlsberg Malawi in 2016 and divestments of entities in China in both years. In organic terms, net revenue grew by 1%, driven by a positive price/mix of 3%.

Cost of sales amounted to DKK 30,325m (2016: DKK 31,195m). Cost of sales per hl increased by 1%. In organic terms, cost of sales per hl increased by approximately. 3%, mainly due to overall cost inflation, product mix and the volume decline in Eastern Europe. Reported gross profit was DKK 31,483m (2016: DKK 31,419m). The reported gross margin improved by 70bp to 50.9% as a result of the positive price/mix and efficiency improvements.

Marketing expenses as a percentage of net revenue were 9.7%, broadly in line with 2016. Total sales and distribution expenses amounted to DKK 18,105m (2016: DKK 18,476m), and administrative expenses amounted to DKK 4,877m (2016: DKK 5,220m). In total, operating expenses declined by 3%, driven by good progress of Funding the Journey initiatives.

Other operating activities, net, were DKK 113m, a decline of DKK 85m compared with 2016. Share of profit after tax in associates and joint ventures was DKK 262m, a decline of DKK 62m compared with 2016. The decline was mainly due to lower income in our business in Cambodia.

Operating profit before special items was DKK 8,876m (2016: DKK 8,245m). The 7.7% growth was driven by organic growth of 8.4% and a positive currency impact of 0.7%. The negative impact from disposals was -1.4%. All three regions delivered positive organic operating growth. The reported operating margin was up 120bp to 14.4% (2016: 13.2%).

Net special items (pre-tax) amounted to DKK -4,565m (2016: DKK +251m). Special items were significantly impacted by an impairment of the Baltika brand in Russia of DKK 4.8bn.

15%

GRIMBERGEN VOLUME GROWTH

Award-winning Grimbergen, our legendary abbey beer from Belgium dating back to 1128, is an important brand in our international speciality portfolio. Since our acquisition of Grimbergen in 2008, we have quadrupled the brand's volume, reaching the 1 million hl milestone in 2016. In 2017, volume grew by 15%.

SAIL'22 GROW CRAFT & SPECIALITY

The impairment was made as a result of changed market dynamics following the PET downsizing, our increased focus in Russia on local and regional brands and, lastly, changed interest rate assumptions. More details can be found in section 2.3 of the consolidated financial statements. Special items were positively impacted by gains on disposals. A specification of special items is included in section 3.1 of the consolidated financial statements.

Financial items, net, amounted to DKK -788m against DKK -1,247m in 2016. Financial income amounted to DKK 803m (2016: DKK 919m), mainly impacted by foreign exchange gains, net, of DKK 484m. Financial expenses amounted to DKK -1,591m (2016: DKK -2,166m), primarily impacted by interest expenses of DKK -775m and fair value adjustments of financial instruments, net, of DKK -292m. Excluding currency gains and fair value adjustments, financial expenses, net, amounted to DKK 980m (2016: DKK 1,663m), positively impacted by the lower net interest-bearing debt.

Tax totalled DKK -1,458m against DKK -2,392m in 2016. The effective tax rate was 41%. Adjusted for the brand impairment, the effective tax would have been 29%.

Non-controlling interests were DKK 806m (2016: DKK 371m). The significant increase versus 2016 was mainly due to Chongqing Brewery, which grew earnings and in 2016 was impacted by impairment and restructuring.

The Carlsberg Group's share of consolidated profit was DKK 1,259m against DKK 4,486m in 2016. The significant decline was due to the impairment of the Baltika brand. Adjusted net profit (adjusted for special items after tax) was DKK 4,925m, compared to DKK 3,881m in 2016. The increase was driven by the strong operating profit and lower net financial items and tax.

Group

				Change		Change
Pro rata (million hl)	**2016**	**Organic**	**Acq., net**	**FX**	**2017**	**Reported**
Beer	116.9	-3%	-1%	-	112.4	-4%
Other beverages	21.9	2%	-6%	-	20.9	-4%
Total volume	**138.8**	**-2%**	**-2%**	**-**	**133.3**	**-4%**
DKK million						
Net revenue	62,614	1%	-2%	0%	61,808	-1%
Operating profit before special items	8,245	8.4%	-1.4%	0.7%	8,876	7.7%
Operating margin (%)	13.2				14.4	120bp

STATEMENT OF FINANCIAL POSITION

ASSETS

Total assets amounted to DKK 114.3bn at 31 December 2017 (DKK 126.9bn at 31 December 2016), a decrease of DKK 12.6bn.

Intangible assets amounted to DKK 67.8bn at 31 December 2017, compared to DKK 76.7bn at 31 December 2016. The lower amount was due to the depreciation of the Russian rouble and impairment of the Baltika brand in Russia of DKK 4.8bn.

Property, plant and equipment decreased to DKK 24.3bn against DKK 25.8bn at 31 December 2016, mainly driven by depreciation of DKK 3.8bn and foreign exchange losses of DKK 1.2bn, offset by additions of assets of DKK 3.8bn.

Current assets declined by DKK 1.6bn to DKK 15.3bn, mainly impacted by decreases in inventories and trade receivables of DKK 1.0bn, due in part to less stocking at distributors in Russia following the Trade Law implementation as of 1 January 2017 and the disposal of Nordic Getränke.

LIABILITIES

Total equity amounted to DKK 49.5bn (DKK 53.7bn at 31 December 2016). DKK 46.9bn can be attributed to shareholders in Carlsberg A/S and DKK 2.6bn to non-controlling interests.

The change in equity of DKK 4.1bn was mainly caused by the consolidated profit of DKK 2.1bn and retirement benefit obligations of DKK +1.3bn, offset by foreign exchange losses of DKK 3.8bn and dividend payments of DKK 2.3bn.

"The strong organic operating profit growth was driven by good progress of Funding the Journey and faster delivery of benefits than previously expected."

Heine Dalsgaard
CFO

Liabilities amounted to DKK 64.7bn (DKK 73.3bn at 31 December 2016). The decline was mainly due to lower borrowings (DKK -6.0bn) and deferred tax and retirement benefit obligations (DKK -2.2bn).

Current liabilities decreased to DKK 25.1bn at 31 December 2017 versus DKK 34.1bn at 31 December 2016. The decline of DKK 9.0bn was predominantly due to lower short-term borrowings of DKK 8.2bn.

CASH FLOW

Free cash flow amounted to DKK 8,680m (2016: DKK 8,616m), driven by a strong cash flow from operating activities of DKK 11,834m against DKK 9,329m in 2016, an increase of DKK 2,505m. This increase was due to stronger earnings and a positive contribution from working capital.

Operating profit before depreciation, amortisation and impairment losses thus amounted to DKK 13,583m (2016: DKK 13,006m).

The change in trade working capital was DKK +848m (2016: DKK +1,021m). Average trade working capital to net revenue improved further and was -13.7% for 2017 compared to -12.5% for 2016. The change in other working capital was DKK +388m (2016: DKK -1,126m, impacted by pension obligations and a reclassification).

Restructuring costs paid amounted to DKK -364m (2016: DKK -407m). Net interest etc. paid amounted to DKK -408m (2016: DKK -1,003m). The significant decline was due to lower interest-bearing debt, repayment in November 2016 of the GBP 300m 7.25% coupon bond and in October 2017 of the EUR 1bn 3.375% coupon bond, as well as the settlement of financial instruments.

Corporation tax paid amounted to DKK -1,934m (2016: DKK -1,752m). The increase was mainly due to higher earnings and withholding tax paid.

Cash flow from investing activities was DKK -3,154m against DKK -713m in 2016. Operational investments totalled DKK -3,853m (2016: DKK -3,554m), including capital expenditures of DKK 4.1bn. Total financial investments amounted to DKK +674m (2016: DKK +2,840m). Once again in 2017, financial investments were positively impacted by the disposal of non-core assets, although at a much lower level than in 2016. Total other activities were DKK +25m against DKK +1m in 2016.

FINANCING

At 31 December 2017, total borrowings amounted to DKK 24.2bn and net interest-bearing debt to DKK 19.6bn. The difference of DKK 4.6bn comprised other interest-bearing assets of DKK 1.1bn, and cash and cash equivalents of DKK 3.5bn.

The net interest-bearing debt to operating profit before depreciation and amortisation (EBITDA) ratio declined to 1.45x (1.96x at year-end 2016).

Of the total borrowings, 96% (DKK 23.3bn) were long term, i.e. with maturity of more than one year from 31 December 2017. In September, we successfully issued a 6-year EUR 500m bond with a coupon of 0.5%, the proceeds of which were used for general corporate purposes, including repayment of the EUR 1bn bond that matured on 13 October 2017.

Of the net financial debt, 93% was denominated in EUR and DKK (after swaps) and 96% of the gross debt was at fixed interest (fixed-interest period exceeding one year). The interest rate risk is measured by the duration of the net financial debt, for which our target is between two and five years. At 31 December 2017, the duration was 4.6 years, which was 0.9 higher than in 2016 (3.7). The increase was mainly due to the EUR bond issue in September.

Segment reporting by half-year

DKK million	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017
Net revenue						
Western Europe	18,780	20,031	18,760	18,837	18,544	17,762
Eastern Europe	5,497	5,393	4,723	5,482	5,474	5,404
Asia	7,948	7,391	7,639	7,027	7,716	6,838
Not allocated	177	137	121	25	31	39
Total	**32,402**	**32,952**	**31,243**	**31,371**	**31,765**	**30,043**
Operating profit						
Western Europe	2,155	3,170	2,042	2,816	2,326	2,818
Eastern Europe	830	1,078	751	1,081	1,047	1,173
Asia	1,331	1,468	1,328	1,474	1,494	1,411
Not allocated	-673	-753	-608	-583	-705	-602
Beverages, total	**3,643**	**4,963**	**3,513**	**4,788**	**4,162**	**4,800**
Non-beverage	-60	-89	-65	9	-37	-49
Total	**3,583**	**4,874**	**3,448**	**4,797**	**4,125**	**4,751**
Special items, net	-283	-8,376	406	-155	38	-4,603
Financial items, net	-770	-761	-703	-544	-351	-437
Profit before tax	**2,530**	**-4,263**	**3,151**	**4,098**	**3,812**	**-289**
Corporation tax	-714	-135	-1,040	-1,352	-1,105	-353
Consolidated profit	**1,816**	**-4,398**	**2,111**	**2,746**	**2,707**	**-642**
Attributable to						
Non-controlling interests	321	23	244	127	403	403
Shareholders in Carlsberg A/S	1,495	-4,421	1,867	2,619	2,304	-1,045

Expectations and results 2017

		Operating profit before special items	Financial leverage (net debt/EBITDA)
Results 2016	08.02.2017 (Financial Statements for 2016)	DKK 8,245m	1.96
Expectations for 2017	08.02.2017 (Financial Statements for 2016)	Mid-single-digit percentage organic growth	Financial leverage reduction
Expectations for 2017, restated	02.11.2017 (Q3 2017 Trading Statement)	Organic growth of 7-8%	Financial leverage reduction
Results 2017	**07.02.2018 (Financial Statements for 2017)**	**Reported: DKK 8,876m Organic growth: 8.4%**	**1.45**

FIVE-YEAR SUMMARY

	2017	2016	2015	2014	2013
Sales volumes, pro rata (million hl)					
Beer	112.4	116.9	120.3	122.8	119.7
Other beverages	20.9	21.9	21.5	21.0	19.7
DKK million					
Income statement					
Net revenue	61,808	62,614	65,354	64,506	64,350
Gross profit	31,483	31,419	31,925	31,781	32,930
Operating profit before amortisation, depreciation and impairment losses	13,583	13,006	13,213	13,338	13,592
Operating profit before special items	8,876	8,245	8,457	9,230	9,723
Special items, net	-4,565	251	-8,659	-1,353	-435
Financial items, net	-788	-1,247	-1,531	-1,191	-1,506
Profit before tax	3,523	7,249	-1,733	6,686	7,782
Corporation tax	-1,458	-2,392	-849	-1,748	-1,833
Consolidated profit	2,065	4,857	-2,582	4,938	5,949
Attributable to					
Non-controlling interests	806	371	344	524	478
Shareholders in Carlsberg A/S	1,259	4,486	-2,926	4,414	5,471
Shareholders in Carlsberg A/S, adjusted[1]	4,925	3,881	4,292	5,496	5,772
Statement of financial position					
Total assets	114,251	126,906	124,901	137,458	152,308
Invested capital	84,488	96,089	94,950	108,866	122,243
Invested capital excluding goodwill	33,991	43,225	44,680	56,319	65,893
Interest-bearing debt, net	19,638	25,503	30,945	36,567	34,610
Equity, shareholders in Carlsberg A/S	46,930	50,811	43,489	52,437	67,811
Statement of cash flows					
Cash flow from operating activities	11,834	9,329	10,140	7,405	8,142
Cash flow from investing activities	-3,154	-713	-2,618	-6,735	-8,012
Free cash flow	8,680	8,616	7,522	670	130

		2017	2016	2015	2014	2013
Investments						
Acquisition and disposal of property, plant and equipment and intangible assets, net		-3,868	-3,596	-2,922	-5,647	-5,451
Acquisition and disposal of subsidiaries, net		268	1,969	-33	-1,681	-2,314
Financial ratios						
Operating margin	%	14.4	13.2	12.9	14.3	15.1
Return on invested capital (ROIC)[2]	%	6.9	5.9	5.6	5.8	6.0
ROIC excl. goodwill[2]	%	15.7	12.7	11.0	10.7	10.6
Equity ratio	%	41.1	40.0	34.8	38.3	45.2
Debt/equity ratio (financial gearing)	x	0.40	0.48	0.66	0.65	0.48
Debt/operating profit before depreciation, amortisation and impairment losses	x	1.45	1.96	2.34	2.74	2.55
Interest cover	x	11.26	6.61	5.53	7.75	6.46
Stock market ratios						
Earnings per share (EPS)	DKK	8.3	29.4	-19.2	28.9	35.9
Earnings per share, adjusted (EPS-A)[1]	DKK	32.3	25.4	28.1	36.0	37.8
Cash flow from operating activities per share (CFPS)	DKK	77.6	61.2	66.3	48.4	53.4
Free cash flow per share (FCFPS)	DKK	56.9	56.5	49.2	4.4	0.9
Dividend per share (proposed)	DKK	16.0	10.0	9.0	9.0	8.0
Payout ratio	%	194	34	nm	31	22
Payout ratio, adjusted[1]	%	50	39	32	25	21
Share price (B shares)	DKK	745.0	609.5	612.5	478.8	600.0
Number of shares (year-end, excl. treasury shares)	1,000	152,390	152,552	152,552	152,538	152,533
Number of shares (average, excl. treasury shares)	1,000	152,496	152,552	152,542	152,535	152,548

[1] Adjusted for special items after tax.
[2] 12-month average.

SOLID MARGIN IMPROVEMENT

REGIONAL PERFORMANCE

Net revenue in Western Europe was flat organically as a result of flat volumes and price/mix. Reported net revenue declined by 3% due to the disposal of the German whole-saler Nordic Getränke in April 2017 and a negative currency impact.

Price/mix was negatively impacted by country mix, as we achieved positive price/mix in most of our Western European markets.

Organic operating growth was 7.5% and the operating margin improved by 130bp. The progress in earnings was driven by value management efforts, improved mix due to our premiumisation efforts and Funding the Journey benefits, including good results within supply chain savings and operating cost management (OCM). Almost all Western European markets delivered profit growth.

H2 organic operating profit growth of 2.6% was impacted by bad weather in parts of the region during the summer in Q3 and an acceleration of investments in SAIL'22 priorities.

Beer volumes declined organically by 1%, as they were negatively impacted by the weather. Other beverages grew by 2% due to good performance in the Nordics. Reported volumes declined by 2% due to the divestment of Nordic Getränke. Market share development for the region was largely unchanged compared with last year.

THE NORDICS

In the Nordic markets, our total volumes were flat. The summer, especially Q3, was challenging as a result of the bad weather. Price/mix continued to develop favourably, mainly due to growth of our premium propositions, and we delivered approximately 1% price/mix. Our non-beer businesses in Sweden, Norway and Finland delivered solid volume growth, while we lost market share in Denmark. All four markets improved profitability due to Funding the Journey benefits and positive price/mix.

1883

ONE OF A KIND

The launch of Carlsberg 1883 in Denmark marks one of the major breakthroughs in beer history. 1883 was the year when the Carlsberg Laboratory cultivated the world's first "pure yeast", which was subsequently shared with other breweries so that the world was able to brew beer of the same high quality as Carlsberg. Carlsberg 1883 is brewed from that pure yeast, extracted from an original living sample that survived 133 years in a Carlsberg bottle stored in the brewery's old cellars, and based on the same recipe used by Carlsberg's founder, J.C. Jacobsen, in 1883.

"Premiumisation and cost focus are key in Western Europe for delivering improved results and margins."

Chris Warmoth
EVP, Western Europe

FRANCE

Our French business continued its positive premiumisation efforts, led by our premium brands – such as 1664, Grimbergen and Tourtel – and craft brands, while Kronenbourg in the mainstream segment declined. We strengthened our market share in the off-trade, while we lost in the on-trade. Price/mix was flat in spite of a difficult pricing environment.

SWITZERLAND

Our Swiss business delivered another year of very solid performance. Our core mainstream beer, Feldschlösschen, delivered good results, and we grew our craft & speciality and alcohol-free beer offerings well ahead of the market, resulting in a positive price/mix.

POLAND

In a declining and highly competitive Polish market, we grew volumes by 5%. Our brands in the upper-mainstream and premium segments – Okocim, Kasztelan, Carlsberg and Somersby – grew, while Harnas in the strong beer segment declined. As a result of the premium focus, price/mix grew and profitability improved.

UK

Our volumes in the UK declined by 6% due to tough EURO 2016 comparables. We continued to focus on premiumising our portfolio and achieved a solid price/mix. A number of portfolio initiatives were taken, including the addition of Brooklyn along with other craft and premium brands such as Poretti, the rejuvenation of Carlsberg Export at the beginning of the year and the recent addition of the London Fields Brewery portfolio.

OTHER MARKETS

In the rest of the region, we saw particularly good top-line growth and margin improvement in markets such as Portugal, Italy and Bulgaria. Furthermore, the Baltics, Greece and Germany reported solid earnings improvement.

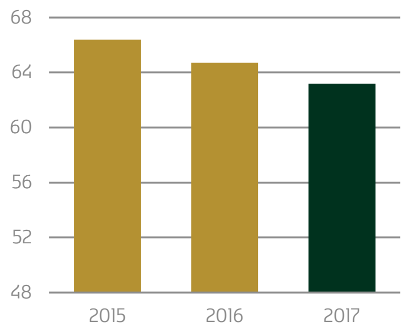
Our results in Western Europe

		Change				Change
Pro rata (million hl)	**2016**	**Organic**	**Acq., net**	**FX**	**2017**	**Reported**
Beer	48.4	-1%	-1%	-	47.7	-2%
Other beverages	16.3	2%	-7%	-	15.5	-5%
Total volume	**64.7**	**0%**	**-2%**	**-**	**63.2**	**-2%**
DKK million						
Net revenue	37,597	0%	-2%	-1%	36,306	-3%
Operating profit before special items	4,858	7.5%	-0.7%	-0.9%	5,144	5.9%
Operating margin (%)	12.9				14.2	130bp

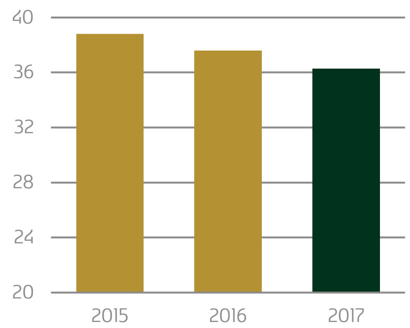
REGION CHARACTERISTICS

The Carlsberg Group is the second largest brewer in Western Europe. According to the independent research company GlobalData, beer market volumes in the region amounted to approximately 250m hl in 2017. Our presence in Western Europe is particularly strong in the central and northern parts of the region, where we hold no. 1 and 2 positions in several markets.

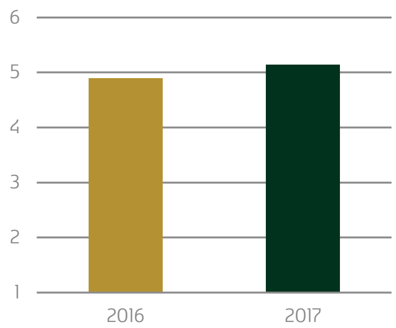
Total volume, pro rata (m hl)



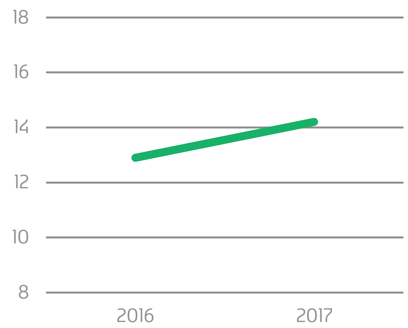
Net revenue (DKKbn)



Operating profit[1] (DKKbn)



Operating margin[1] (%)



[1] Operating profit was restated in 2017. Comparable figures are only available for 2016.

Western Europe primarily comprises mature beer markets. While market volumes have tended to be flat or slightly declining, we are now seeing improving beer category dynamics as a result of innovations, increased interest in craft & speciality beers and alcohol-free offerings, all of which contribute positively to price/mix.

The on-trade channel is changing, with “dry-led” outlets (restaurants, eating places) overtaking classic “wet-led” outlets (pubs, cafés) as prime places for brand building. The off-trade channel is expected to consolidate further, leading to pressure on prices and margins.

SAIL’22 **EXCEL IN EXECUTION**

31 DAYS

SHELF LIFE OF DRAUGHTMASTER™

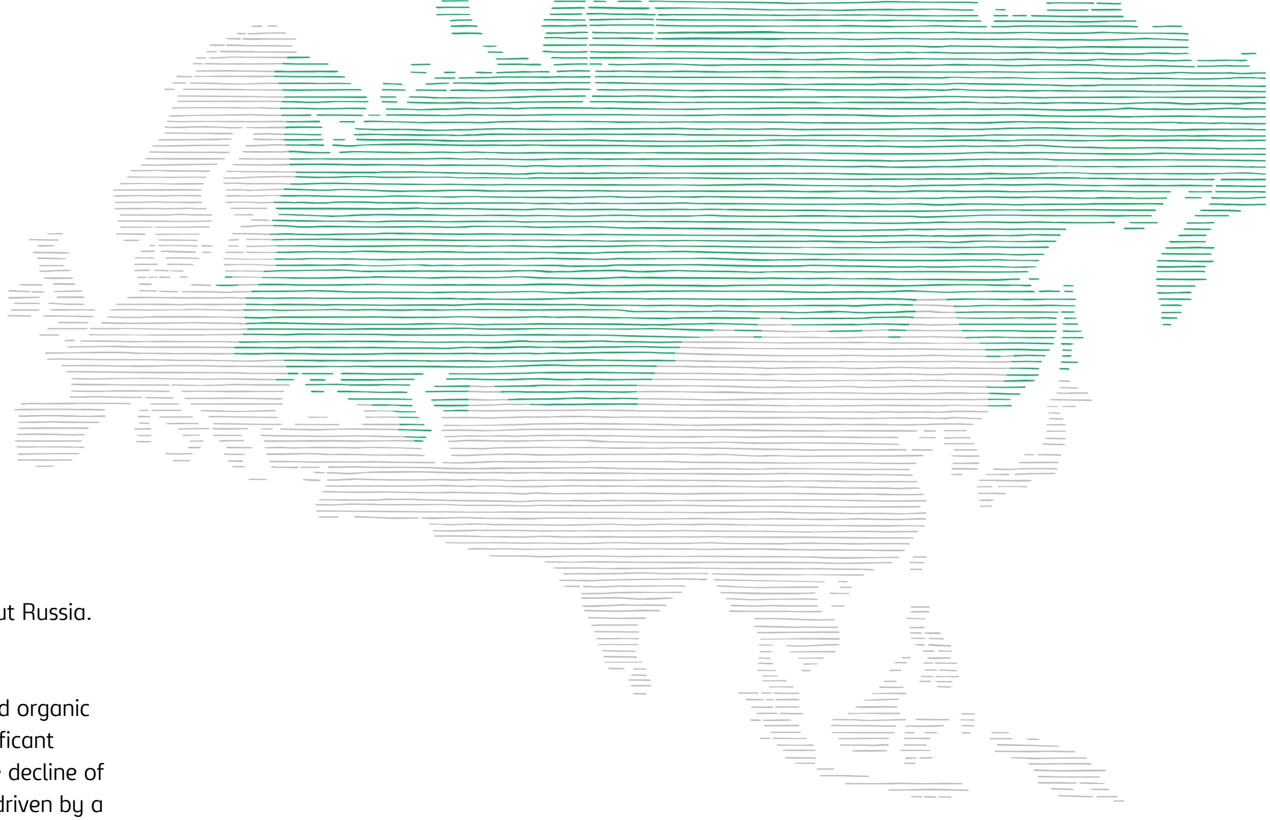
DraughtMaster™ is a revolution in draught beer. Our proprietary one-way 20-litre PET keg system with no added CO_2 enhances the freshness and beer experience for consumers and has a shelf life of 31 days. This allows even small outlets to increase their on-tap variety and serve consistently fresh draught beer. The roll-out of the system in several Western European markets is ongoing.

Our markets in Western Europe

	Consumption characteristics		Our position		Our operations
Country	Per capita beer consumption (litres)	On-trade share of market, approx. (%)	Market position (no.)	Market share (%)	Breweries
Denmark	59	26	1	54	1
Sweden	46	19	1	34	1
Norway	46	20	1	54	2
Finland	77	14	2	32	1
France	32	27	2	29	1
Switzerland	55	38	1	41	1
UK	65	47	4	11	1
Poland	76	9	3	18	3
Germany	102	31	1[1]	17[1]	2
Italy	28	37	3	7	1
Portugal	50	57	1	47	1
The Baltics	69-79	4-8	1-2	26-40	2
South East Europe	34-80	13-53	1-3	13-32	6

[1] Northern Germany.

Source: GlobalData, Carlsberg estimates.



EASTERN EUROPE

STRONG GROWTH **IN EARNINGS**

REGIONAL PERFORMANCE

Net revenue in Eastern Europe was down organically by 1% as a result of an 8% volume decline, partly offset by a strong 8% price/mix. Reported net revenue grew by 7%, supported by a positive currency impact driven by the Russian rouble.

The strong price/mix was a consequence of price increases and the introduction of smaller pack sizes in Russia following the PET restrictions as of 1 January 2017. Price/mix was less pronounced in H2, as part of the positive impact from the PET downsizing was already seen in Q4 2016.

Organic operating profit grew by 12.2%, driven by the positive price/mix and strong execution of Funding the Journey. As a result of a positive currency impact, reported operating profit grew by 21.2%. Operating margin strengthened significantly, improving by 240bp to 20.4%.

Impacted by the less strong price/mix in H2 and the tough weather comparables in Q3, operating profit increased organically by 9.2%.

Our volumes grew in all markets but Russia.

RUSSIA

Our Russian business delivered solid organic operating profit growth and a significant margin uplift in spite of the volume decline of 14%. The profit improvement was driven by a strong price/mix of 7% and tight cost control.

The Russian beer market declined by an estimated 4-5% for the year, impacted by the downsizing of PET bottles.

Our Russian volumes and market share were severely impacted by the PET downsizing. In response to this significant change in the Russian marketplace, we adopted a value-based approach to drive further value in the market. A few of our competitors chose to adopt a volume-based approach.

Consequently, our products in the PET segment were priced at a premium vis-à-vis the average price points in the market, resulting in market share loss. Our overall volume market share declined by an estimated 270bp (YTD November) to 31.9% (source: Nielsen Retail

53%

OPERATING PROFIT GROWTH IN KAZAKHSTAN

Carlsberg Kazakhstan delivered very strong results in 2017, growing volumes by 35% and organic operating profit by 53%. Volumes and market share were positively impacted by the stellar performance of our local power brand Irbis, Baltika, Carlsberg and 1664 Blanc. In addition, price/mix was positively impacted by price increases.

"We pursued a value approach in Russia in response to the PET downsizing. This negatively impacted volumes but strengthened profitability."

Jacek Pastuszka
EVP, Eastern Europe

Audit, Urban & Rural Russia). However, our value approach was a key driver behind our strong profit improvement.

We saw good progress for some of our key brands within premium and mainstream, with brands such as Baltika 3, Carlsberg, Tuborg and Zatecky Gus gaining market share, while the aforementioned value approach impacted brands in the lower-mainstream segments, where Zhigulevskoe in particular lost share.

As a consequence of the changed market dynamics following the PET ban, our increased focus on local and regional brands and updated assumptions on interest rates in Russia, the Baltika brand was written down by DKK 4.8bn.

UKRAINE

Our Ukrainian business continued its strong performance, delivering 3% volume growth and strong price/mix. The market grew slightly, and we gained market share, driven by compelling performance by our local power brand Lvivske, as well as Carlsberg, 1664 and Garage. The growth of our premium brands contributed to a favourable mix improvement.

OTHER MARKETS

Our businesses in Belarus, Kazakhstan and Azerbaijan all delivered earnings improvements. Kazakhstan in particular delivered a strong set of results, driven by significant revenue growth achieved following high-single-digit market growth, market share gain and strong performance of our premium brands.

Our results in Eastern Europe

		Change				Change
Pro rata (million hl)	**2016**	**Organic**	**Acq., net**	**FX**	**2017**	**Reported**
Beer	32.4	-8%	0%	-	29.8	-8%
Other beverages	2.0	-3%	0%	-	1.9	-3%
Total volume	**34.4**	**-8%**	**0%**	**-**	**31.7**	**-8%**
DKK million						
Net revenue	10,205	-1%	0%	8%	10,878	7%
Operating profit before special items	1,832	12.2%	-0.5%	9.5%	2,220	21.2%
Operating margin (%)	18.0				20.4	240bp

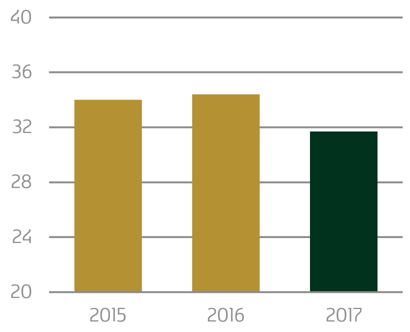
REGION CHARACTERISTICS

The relative importance of Eastern Europe for the Group has decreased significantly in recent years. In 2017, Eastern Europe accounted for 22% of Group operating profit compared with 45% in 2010.

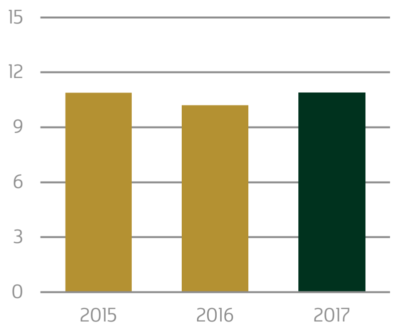
According to GlobalData, Russia is the sixth largest beer market in the world, and total beer market volumes in the region amounted to approximately 100m hl in 2017.

The Group's two main markets in the region are Russia, which accounts for around 67% of regional beer volumes, and Ukraine, which accounts for around 20%.

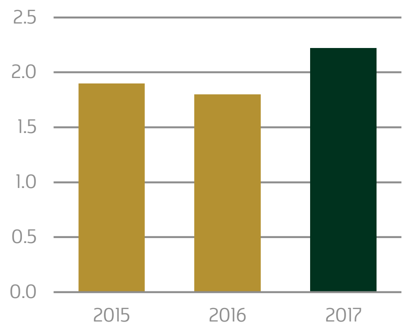
Total volume, pro rata (m hl)



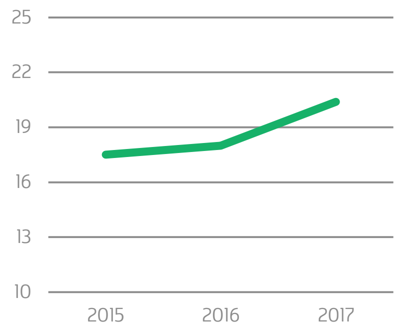
Net revenue (DKKbn)



Operating profit (DKKbn)



Operating margin (%)



Our markets in Eastern Europe

	Consumption characteristics		Our position		Our operations
Country	Per capita beer consumption (litres)	On-trade share of market, approx. (%)	Market position (no.)	Market share (%)	Breweries
Russia	51	12	1	32	8
Ukraine	39	12	1	31	3
Belarus	46	4	1	30	1
Kazakhstan	30	7	2	34	1
Azerbaijan	5	43	1	60	1

Source: GlobalData, Carlsberg estimates.

The Russian beer market has been under significant pressure in the past decade, more recently due to a challenged macroeconomy and in 2017 due to a ban on PET bottles above 1.5 litres. In value terms, however, the market has generally seen positive growth rates.

In recent years, the modern off-trade, consisting of hypermarkets and supermarkets, has grown significantly and now accounts for approximately 65% of the off-trade in Russia. Another growing channel has been the so-called DIOT – draught in off-trade – which is estimated to account for around 10% of the market.

NO. 1

MARKET LEADER IN UKRAINE

2017 was the year when the Carlsberg Group became the market leader in Ukraine. Our market leadership was the result of strong results for several brands, including our local power brand Lvivske. During the year, we updated the brand's positioning, sponsored the biggest musical event in Ukraine – the Eurovision Song Contest – and opened Lvivarnia, an experience and art centre of brewing history and the first of its kind in Ukraine.

SAIL'22 LEVERAGE OUR STRONGHOLDS

ASIA

GROWING TOP AND BOTTOM LINE

REGIONAL PERFORMANCE

Net revenue in Asia grew organically by 5%, driven by a very solid 5% price/mix as volumes were flat organically. Reported net revenue declined by 1% due to a negative currency impact, mainly in countries such as China, Malaysia, Laos and Vietnam, and last year's divestments, notably of Carlsberg Malawi in August 2016 and a number of breweries in China.

Our international premium brands – Tuborg, Carlsberg, 1664 Blanc and Somersby – all delivered strong growth in the region and were key drivers behind the solid price/mix improvement. Tuborg remains the main volume growth engine, supported by continued popularity in markets such as China and India.

Organic operating profit grew by 8.1% and the operating margin expanded by 90bp to 20.0%. The premiumisation efforts and supply chain savings, especially in China, impacted gross margin very positively and were key drivers of the profit improvement.

The region delivered 4.4% organic operating profit growth in H2, impacted by higher marketing investments due to a step-up of spend behind the SAIL'22 priorities.

Total volumes were flat organically.

CHINA

The Chinese market declined by an estimated 1%. Our Chinese net revenue grew organically by 8%, driven by 5% price/mix and 3% organic volume growth.

Our growth was mainly driven by continued good performance of our premium portfolio. This was supported by the ongoing premiumisation trend in the market as consumers trade up into premium categories. Our international premium portfolio in China, which includes Tuborg, Carlsberg and 1664 Blanc, grew volumes by 12%. Tuborg remains our most important premium brand in China. In addition to our premium portfolio, we saw growth in all our key local power brands, such as Chongqing, Wusu, Dali and Xixia. Volumes

44%

GROWTH OF 1664 BLANC

In 2017, China became our largest single market in volume terms. The country also overtook France as the largest single market for our sophisticated French wheat beer 1664 Blanc. Launched in China in 2009, the brand has since tapped into the growing wheat beer segment. Despite selling at an average price point almost six times that of the local average, 1664 Blanc is becoming increasingly popular with Chinese consumers, and in 2017 the brand grew by 44% in China.

SAIL'22 GROW IN ASIA

"Our international brands play a key role in our premiumisation efforts in Asia."

Graham Fewkes
EVP, Asia

in Q4 were impacted by the later sell-in to the Chinese New Year.

Our profitability in China continued to strengthen as a result of our cost efficiency focus and the strong growth of our premium portfolio and in spite of increasing marketing spend in support of the wider distribution of our international premium brands.

INDIA

2017 was a very volatile year for our Indian business due to the highway ban and the introduction of GST. Consequently, our volumes declined by 2%. The decline was less than the market and we further strengthened our market position, reaching an estimated 17% market share for the year. In spite of the volume decline, our profitability strengthened.

INDOCHINA

In Laos, we continued to deliver solid performance, with good revenue growth and margin improvement. We achieved particularly strong growth in the premium category with Tuborg, Carlsberg and Somersby.

In Vietnam, we changed the local management early in the year. The new management is continuing to drive changes in order to strengthen our local commercial organisation. Flooding and the later sell-in to Têt – the Lunar New Year – in 2018 compared with 2017 impacted volumes negatively in Q4.

Mainly driven by our local mainstream brand Yoma, our business in Myanmar grew strongly, albeit from a small base. In Cambodia, we lost market share and our volumes declined.

Our results in Asia

		Change				Change
Pro rata (million hl)	**2016**	**Organic**	**Acq., net**	**FX**	**2017**	**Reported**
Beer	36.1	0%	-3%	-	34.9	-3%
Other beverages	3.6	8%	-10%	-	3.5	-2%
Total volume	**39.7**	**0%**	**-3%**	**-**	**38.4**	**-3%**
DKK million						
Net revenue	14,666	5%	-3%	-3%	14,554	-1%
Operating profit before special items	2,802	8.1%	-1.6%	-2.8%	2,905	3.7%
Operating margin (%)	19.1				20.0	90bp

MALAYSIA, SINGAPORE AND NEPAL

Our businesses in Malaysia and Singapore delivered another year of solid performance, driven by good delivery of Funding the Journey initiatives, growth of our premium portfolio and continued growth of Carlsberg Smooth Draught.

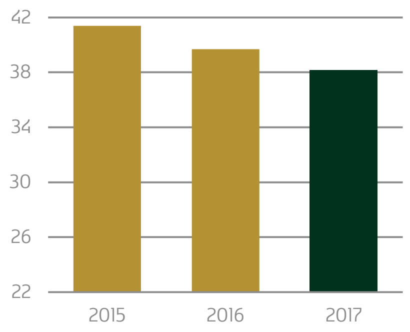
Nepal also delivered strong results, driven by market growth, value management efforts and tight cost control.

REGION CHARACTERISTICS

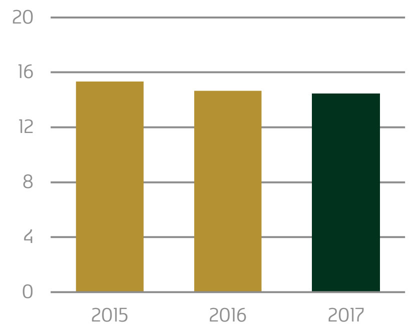
The importance of Asia for the Group has increased significantly during the past decade, in which the Group has expanded its presence in the region, both organically and through acquisitions.

According to GlobalData, total beer market volumes in our Asian footprint amounted to approximately 560m hl in 2017, with China by far the largest beer market. In our Asia region,

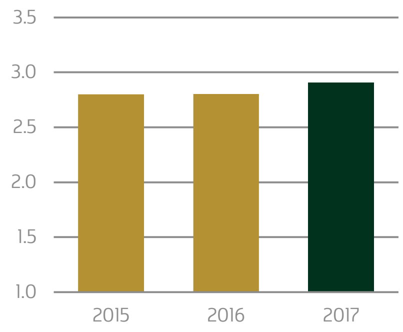
Total volume, pro rata (m hl)



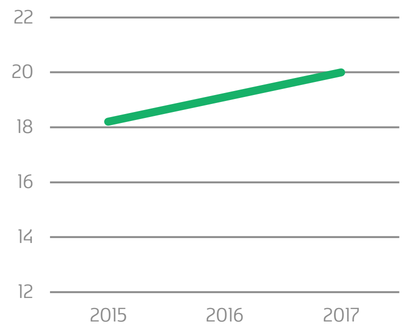
Net revenue (DKKbn)



Operating profit (DKKbn)



Operating margin (%)



China accounts for around 55% of volumes and 35% of operating profit.

The Asian markets are very diverse but offer considerable prospects for value growth, underpinned by young populations, urbanisation, rising disposable income levels, growing economies and, in some markets, relatively low per capita beer consumption. However, as many Asian markets are emerging markets, development can be subject to volatility.

Both the on-trade and off-trade channels are characterised by a strong traditional outlet segment but with the modern outlet segment growing in most markets.

TUBORG

6% GROWTH IN ASIA

Tuborg plays in the "fuelling fun" demand space. With its winning proposition, which is easily visualised, scalable and culturally adaptable, Tuborg has been a major driver of the value growth in Asia in recent years. Fuelled by the Tuborg beat created by Major Lazer, the new global campaign that engaged with music stars such as Li Yuchun (also known as Chris Lee) in China and Badshah in India, Tuborg volumes in Asia grew by 6% in 2017.

Our markets in Asia

	Consumption characteristics		Our position		Our operations
Country	Per capita beer consumption (litres)	On-trade share of market, approx. (%)	Market position (no.)	Market share (%)	Breweries
China	27	46	1[1]	59[1]	25
Vietnam	43	41	4	9	2
Laos	47	56	1	95	2
Cambodia	47	12	1	30	2
Nepal	3	75	1	66	1
India	2	80	3	17	8
Myanmar	8	41	4	4	1
Malaysia	6	74	2	39	1
Singapore	22	56	2	21	-
Hong Kong	24	27	2	27	-

[1] Western China.

Source: GlobalData, Carlsberg estimates.

EARNINGS EXPECTATIONS

GUIDING FOR **ORGANIC GROWTH**

In 2016 and 2017, the key focus was the delivery of Funding the Journey to create the financial flexibility to invest in the business. In 2018, we will strengthen the focus on revenue growth while maintaining a sharp focus on costs and delivering on the remaining Funding the Journey benefits. We will also continue to exercise strict cash flow discipline.

At regional level, we have the following priorities for 2018: continued improvement in margins and operating profit in Western Europe; accelerating organic growth in Asia through premiumisation; and rebalancing the focus towards top-line growth in Eastern Europe.

Based on these priorities, for 2018 the Group expects to deliver:

Mid-single-digit percentage organic growth in operating profit.

Due to the recent strength of DKK against most currencies, we assume a negative translation impact of around DKK -450m for 2018 (based on the spot rates at 6 February).

Other relevant assumptions are:

Financial expenses, excluding currency losses or gains and fair value adjustments, are expected to be around DKK 800m.

The effective tax rate is expected to be below 29%.

Capital expenditures at constant currencies are expected to be around DKK 4.5bn.

SEGMENTING

USING DEMAND SPACES

The Global Demand Space model is our new segmentation approach. The demand spaces are based on consumer research studies in over 40 countries, gathering data on over 100,000 drinking moments across summer and winter months. Based on this data, we determined our opportunities to grow the beer category as well as our beer brands. Going forward, the Global Demand Space model will guide our category and portfolio strategy as well as our innovation pipeline.

BUSINESS MODEL

AN EFFICIENT BUSINESS MODEL

Our business model varies slightly between markets. We aim to have a sustainable and cost-efficient model that supports the realisation of our strategic priorities in order for us to be successful, professional and attractive in our markets.

REDUCING CARBON EMISSIONS

Our Swedish brewery was the first to become 100% fuelled with biogas and green electricity, thus reducing carbon emissions from electricity and thermal energy to zero.

SAIL'22 CONTRIBUTE TO A BETTER SOCIETY

FLEXIBILITY AND COST TRANSPARENCY

Recognising our increasingly fragmented product range due to craft & speciality and alcohol-free brews, we aim to develop a new holistic portfolio management to ensure flexibility and cost transparency.

SAIL'22 SUPPLY CHAIN EFFICIENCIES

WINNING WITH CRAFT & SPECIALITY

Our craft & speciality and alcohol-free brand portfolios are important levers for achieving top- and bottom-line growth and becoming the preferred supplier of our on- and off-trade customers.

SAIL'22 WIN IN GROWING CATEGORIES

EXECUTING VALUE MANAGEMENT

Value management is an important lever for driving a positive price/mix development in many markets. Our efforts focus on the right balance of price, assortment, promotion and trade terms.

SAIL'22 EXCEL IN EXECUTION

SUPPORTING RESPONSIBLE DRINKING

100% responsible drinking is another of our sustainability ambitions. We promote responsible consumption of our products through consumer campaigns and cooperation with retailers.

SAIL'22 CONTRIBUTE TO A BETTER SOCIETY

SAIL'22

EXECUTION OF OUR STRATEGY

2017 was the second year of SAIL'22. The focus for the year was to deliver on Funding the Journey, enabling investments in our strategic priorities and improving the capital allocation.

SAIL'22 was launched in 2016 with the ambition to make the Carlsberg Group a successful, professional and attractive brewer in our markets.

The key strategic choices of SAIL'22 are grouped under the headings "Strengthen the core", "Position for growth" and "Create a winning culture". Delivering on these choices will in turn enable us to deliver enhanced value for our shareholders. A thorough description of SAIL'22 can be found in the 2016 Annual Report.

SAIL'22 will evolve during the strategy period, and actions and initiatives within the strategic priorities will be taken or developed as they become relevant. The following are examples of some of the activities during 2017.

STRENGTHEN THE CORE

In order to strengthen our core business, actions taken during the year covered areas such as segmentation, local power brands, digital and sales execution, as well as the cost and efficiency actions under the Funding the Journey programme.

"Achieving strong results within our key strategic choices will enable us to deliver top- and bottom-line growth and value for our shareholders."

Cees 't Hart
CEO

STRENGTHEN THE CORE

Leverage our strongholds
Excel in execution
Funding the Journey

POSITION FOR GROWTH

Win in growing categories
Target big cities
Grow in Asia

DELIVER VALUE FOR SHAREHOLDERS

Organic growth in operating profit
ROIC improvement
Optimal capital allocation

CREATE A WINNING CULTURE

Team-based performance
Contribute to a better society
Compass (applying our codes and policies)

+8%

GROWING LAV AFTER RELAUNCH

Serbs have many sources of pride in their lives. This insight matches the 125-year history of the LAV beer brand and was key in the relaunch of the brand in 2017. LAV means lion in Serbian, and the new positioning and visual identity of the brand encourage Serbs to feel pride by inspiring and celebrating the lion in everyone. The initial results of the relaunch were positive, with LAV delivering 8% volume growth since its launch in July 2017.

SAIL'22 **REVITALISE CORE BEER**

GLOBAL DEMAND SPACES

A very important activity was the development of a new segmentation approach – the Global Demand Space model – to embrace a consumer-driven mindset. The new approach will guide our category and portfolio strategy as well as our innovation pipeline.

In 2017, we rolled out the Global Demand Space model across our markets, determining the portfolio role of our brands and how to activate the model in our commercial planning cycle. By the end of 2018, we expect demand spaces to be fully embedded in all pillars of our commercial strategies.

LOCAL POWER BRANDS

Our local power brands enjoy a high level of awareness and a close relationship with consumers based on their heritage and history.

Our primary focus is on the 40 strongest local brands, i.e. the largest in terms of volume, market share and awareness, as we believe these brands offer the best growth potential. Consequently, in 2017 we undertook work to strengthen some of our local power brands.

In Serbia, we sharpened the purpose of our power brand LAV and developed a new visual identity in order to strengthen the brand and improve the connection with Serbian consumers.

In Switzerland, we launched three crafty line extensions of the Feldschlösschen brand, providing affordable crafty propositions that tap into the increased consumer interest for craft & speciality beers and consumer willingness to pay a premium for these products. The consumer response has been very positive.

TOGETHER

NEW POSITIONING OF FALCON

Falcon is a core local power brand in Sweden, representing our biggest volume and second largest profit provider in our Swedish beer portfolio. In recent years, the brand has suffered from lack of support and changes in positioning, leading to decreasing consumer relevance. To turn this situation around, in 2017 we launched a new brand positioning, look & feel and communication concept – Together. The initial results of the relaunch were positive, with increased market share in the off-trade.

In Sweden, we launched a new look and communication concept to reposition our local power brand Falcon in order to improve the relevance of the brand for consumers. The initial results of the relaunch are encouraging.

In 2018, we will continue the overall support of our power brand portfolio and revamp more local power brands. We continuously collect and share learnings and best practices across all markets to identify common areas of growth potential and create synergies in areas such as positioning, brand experience, innovation and activation.

TUBORG

In 2017, we kicked off a new global campaign to sharpen the focus on Tuborg's legacy of inspiring cultural discovery since 1880.

The campaign encompassed a refreshed visual identity and an exciting cooperation with global music trio Major Lazer.

As ambassadors of the Tuborg open music platform promoting global music collaborations and supporting young upcoming performers, Major Lazer created a special Tuborg beat which, at the time of publication of this report, has been shared with artists in China, Russia, India, Italy, Serbia, Montenegro, Bosnia and Iceland.

Global Tuborg volumes grew by 3% in 2017.

DRAUGHTMASTER™

Our proprietary keg system DraughtMaster™ is a key enabler for our premiumisation effort and for regaining on-trade momentum in Western Europe.

The system offers several advantages over traditional draught systems, including significantly longer shelf life, simplicity and ease of handling, and an improved beer experience for the consumer.

DraughtMaster™ allows outlets to have a greater variety of beer on tap. Results from the pilot markets of Italy and Greece show high customer and consumer satisfaction with the system.

In 2017, we began the full conversion of on-trade customers in Denmark. In 2018, we will continue the roll-out of the system in other Western European markets, such as Norway, Sweden, Germany and the UK.

DIGITAL

Our digital journey is just beginning. In 2017, we took the first steps, developing a comprehensive digital vision for the Carlsberg Group. The vision is not about technology but about developing the right digital mindset across the Group and creating a guideline for what we can and should do with digital.

Our digital vision has four key focus areas aimed at creating better experiences for consumers and shoppers, empowering our customers, driving smarter supply chain management and having more focus on digital business impacts and innovations.

Our work on digital will accelerate in 2018 and beyond.

STRENGTHEN THE CORE KPIs & RESULTS

+3%

GROSS CONTRIBUTION FROM CORE BEER

Improving gross core beer brand contribution
We measure our success in revitalising core beer by our ability to grow the gross brand contribution from core beer.

Gross brand contribution grew by 3% as a result of successful value management efforts and the launch of premium line extensions, positively impacting price/mix. Growing gross brand contribution was achieved despite volumes being negatively impacted by the PET downsizing in Russia and bad summer weather in parts of Western Europe.

+4%

OPERATING PROFIT IN RUSSIA

Growing organically

In 2017, China became our largest single market, measured in volume terms. Measured in operating profit, though, Russia remains our biggest market, and transforming our Russian business is an explicit priority of SAIL'22.

We measure our success in Russia by our ability to grow operating profit organically. In 2017, we achieved +4% organic growth in operating profit due to strong price/mix and rigid efficiency and cost control, offsetting the negative volume impact.

2.3bn

FUNDING THE JOURNEY

Well on track

Funding the Journey was a key focus of the Group in 2016 and 2017. The programme progressed very well, and we now expect it to deliver around DKK 2.3bn in net benefits with full impact in 2018. Less than half will be reinvested in support of the SAIL'22 priorities, while more than half will improve organic operating profit.

In 2017, the programme delivered benefits of around DKK 1.2bn and around DKK 500m was reinvested in the SAIL'22 priorities.

FUNDING THE JOURNEY

In 2017, Funding the Journey achieved strong results and we are able to adjust the expected net benefits to around DKK 2.3bn (previously around DKK 2bn).

2018 marks the final year of Funding the Journey. However, the focus on efficiency and costs will remain throughout the organisation, and the processes and methodologies are being embedded as a way of living across the Group.

POSITION FOR GROWTH

As part of SAIL'22, the Group defined three distinct priorities that it will pursue to drive top- and bottom-line growth. Our growth priorities reflect:

1. The upsurge in the craft & speciality and alcohol-free beer categories.
2. The global urbanisation megatrend and the recognition of the high degree of consolidation in the beer industry in most markets around the world.
3. The Group's strong presence in Asia, which has delivered strong growth rates in recent years.

CRAFT & SPECIALITY

Our craft & speciality portfolio grew by 29% in 2017, accounting for 8% of beer net revenue.

Our international speciality brands Grimbergen and 1664 Blanc delivered strong growth of 15% and 46% respectively.

We launched new 1664 Blanc variants as well as a new and distinct visual identity emphasising the brand's blue colour and French heritage. Four of the brand's top five markets are in Asia, and in 2017 we experienced particularly strong sales in China, where the brand grew by 44%.

In 2016, Grimbergen passed the milestone of annual sales of 1 million hl, representing a 400% increase since 2008, when the Carlsberg Group acquired the brand. By the end of 2017, Grimbergen was present in 51 markets.

Brooklyn continued its growth in Carlsberg Group markets in 2017, delivering 29% volume growth. We now sell this leading international craft beer brand in 17 markets, with plans to launch into more markets in 2018.

During the year, we took steps to strengthen our position within the local authentic craft segment in cooperation with our US partner Brooklyn Brewery by acquiring the London Fields Brewery portfolio, building a craft brewery in Lithuania and launching the innovative craft beer brand HK YAU in Hong Kong.

ALCOHOL-FREE BREWS

Our alcohol-free brews (AFB) delivered strong growth of 15% in Western Europe, well ahead of the estimated category growth of 6-7% Within alcohol-free brews, our 2017 priorities included the launch of alcohol-free line extensions of local power brands, improving our AFB brand packs and brews, and continuous development of our innovation pipeline.

In markets such as Greece and Russia, we launched alcohol-free line extensions of existing local power brands with great success. Examples include FIX ANEY in Greece and Baltika 0 Wheat in Russia.

In other markets, we successfully developed a clear and positive variant communication and expanded the brew range. In Switzerland, Feldschlösschen Alkoholfrei was launched with a new look and feel in lager and wheat variants. The relaunch was well received by consumers, with Feldschlösschen Alkoholfrei growing by 5%. In Lithuania, the relaunch of Švyturys Go delivered strong growth of 30%, supporting our market share increase in the AFB category from 51% to 64%.

In future-proofing our AFB business, we have driven innovation into a strong pipeline of alcohol-free brew streams and propositions to be launched in 2018 and beyond.

BIG CITIES

Our ambition within the big cities growth priority is to conquer competitive premium market positions in selected cities outside our current geographic footprint by 2022.

During the year, we tested different approaches and set-ups in a couple of test cities. Incorporating the learnings from these pilot cities, we will be expanding into more cities in 2018.

GROW IN ASIA

Asia is an important volume and value growth contributor for the Group, accounting for 28% of Group operating profit in 2017. This compares with 9% in 2010.

The increased importance of Asia is the result of steady growth in recent years. From 2010 to 2017, average annual organic growth in beer volumes was 5%, while average annual organic growth in net revenue and operating profit was 11% and 15% respectively.

During the year, we continued to support our premium portfolio, with particular emphasis on Tuborg, 1664 Blanc and Carlsberg. In 2017, Tuborg volumes grew by 6%, 1664 Blanc by 38% and Carlsberg by 3%.

China was an important contributor to these growth rates, positively impacting the price/mix of 5% in the country. Our international premium brands now account for 24% of volumes and 40% of net revenue in China.

India is another market of particular focus in Asia. Tuborg is our largest brand in the country, accounting for 86% of volumes and 81% of net revenue. As expected, the Indian market was volatile in 2017 due to the highway ban and the implementation of GST, (goods and services tax) but our market share continued to strengthen. In late 2017, we finalised the building of our eighth brewery, located in Karnataka.

For more details on our results in Asia, please refer to pages 21-23.

POSITION FOR GROWTH KPIs & RESULTS

+29%

WIN IN CRAFT & SPECIALITY

Strong volume growth

Our craft & speciality portfolio delivered strong volume growth of 29% and net revenue growth of 29%. Our craft & speciality brands increased their share of Group beer volumes by 1 percentage point and of beer net revenue by 2 percentage points.

Particularly strong volume growth was achieved by our international speciality brands 1664 Blanc and Grimbergen, but craft brands such as Brooklyn and E.C. Dahls also delivered strong results.

+15%

WIN IN ALCOHOL-FREE BREWS

Solid progress in Western Europe

Alcohol-free brews is an attractive beverage category, benefiting from the growing global health and wellness trend among consumers. The category is growing and offers excellent margin opportunities.

Our alcohol-free brews delivered positive results, growing volumes in Western Europe by 15%. This was ahead of the market growth of 6-7%.

+8%

GROW IN ASIA

Continued value growth

Our Asian business became even more important in 2017, accounting for 31% of Group volumes and 28% of Group operating profit.

Organic net revenue growth was 5% and organic growth in operating profit 8.1%. Good growth of our international brands as well as a positive development in local power brands contributed to both top- and bottom-line growth.

WINNING CULTURE

A critical enabler for being successful and delivering on our SAIL'22 priorities is to create a winning culture.

For us, a winning culture is team-based, performance-driven and characterised by a high level of integrity. In addition, our winning culture sets high standards within sustainability, including health & safety and responsible drinking.

TEAM-BASED PERFORMANCE CULTURE

Driving a team-based performance culture is an ongoing journey.

Our triple A concept (alignment, accountability and action) defines how we collaborate and is the cornerstone of our team-based One Carlsberg performance culture.

This framework was rolled out across the Group and is an integral part of our key people activities, such as onboarding, performance assessment, training and development, and career planning. In addition, the One Carlsberg performance culture was integrated in our remuneration policies.

During 2017, the ongoing SAIL'22 communication improved the engagement and alignment across the organisation, as shown by improved scores in the annual employee survey in areas such as overall employee engagement and acceptance, and acknowledgement of change management agenda.

PREMIUM

WHEAT AFB IN FRANCE

1664 Blanc Sans Alcool provides the same refreshing and fruity experience as our super-premium French wheat beer 1664 Blanc – but without the alcohol. With its flavour and unique blue bottle, 1664 Blanc Sans Alcool embodies the elegance and taste of France. 1664 Blanc Sans Alcool was launched in France in March 2017 and has already achieved a 1% share of the alcohol-free category in the country.

SAIL'22 ACTIVELY SHAPE AFB

In 2016 and 2017, our people were focused on delivering on Funding the Journey. The next step will be to deliver on the SAIL'22 growth priorities and KPIs, and remuneration will be changed accordingly to reflect this. See pages 40-45 for more information on executive remuneration.

CONTRIBUTING TO A BETTER SOCIETY

Together Towards ZERO

In 2017, we launched a new and ambitious sustainability programme – Together Towards ZERO. Together Towards ZERO consists of four major ambitions: a ZERO carbon footprint, ZERO water waste, ZERO irresponsible drinking and a ZERO accidents culture. Each ambition is underpinned by individual and measurable targets for 2022 and 2030.

The programme will help ensure that we reduce risks and strengthen our business. The cost of utilities such as water is set to rise in the future, while the price of renewable energy is falling. With this in mind, Together Towards ZERO investments will help make our business more resilient in the future, contributing to both short- and long-term success.

Reporting

Our 2017 Sustainability Report contains more information on Together Towards ZERO, including our performance against our sustainability KPIs. The report carries an assurance statement by PwC on selected indicators.

The report serves as our annual Communication on Progress to the United Nations Global Compact and enables us to live up to our legal responsibility for CSR disclosure under section 99a of the Danish Financial Statements Act.

The Carlsberg Group Sustainability Report is available at

www.carlsberggroup.com/sustainability/download

LIVE BY OUR COMPASS

Our winning culture demands a high degree of integrity, honesty and ethical business conduct, and these are core values of the Carlsberg Group.

In 2017, we embedded our Code of Ethics and Conduct through eLearning training offered to all employees. We also revised our policy framework, which now encompasses 28 policies supported by detailed manuals. The framework aims to both mitigate company risk and drive ethical business conduct by focusing on individual employee behaviour. Our policy framework has been designed first and foremost to guide our employees in what the Carlsberg Group considers to be the right direction.

In 2017, we also introduced and improved our Speak Up programme, which enables employees to report misconduct. In addition to a more user-friendly Speak Up web and phone system, in January we established an

Integrity Committee to oversee the follow-up of material Speak Up investigations.

Looking ahead, we will further strengthen the compliance governance structure, improve our monitoring and reporting, support a safe and protected environment for people to speak up, and develop a new platform that provides all employees with easy access to our codes, policies and manuals.

DELIVER VALUE FOR SHAREHOLDERS

Achieving strong results within the strategic choices of SAIL'22 will enable us to deliver enhanced value for our shareholders.

We measure our ability to increase value for shareholders by focusing on two key metrics: organic growth in operating profit and ROIC.

In addition, when launching SAIL'22 in March 2016, we also communicated a clear target of reducing leverage and increasing the dividend payout ratio.

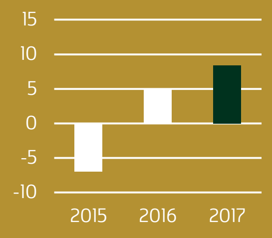
Our results against these key metrics and targets were strong in 2017, with 8.4% organic growth in operating profit, 100bp improvement in ROIC, significant reduction in financial leverage to 1.45x (net debt/EBITDA) and a recommended 60% increase in the dividend to DKK 16.0 per share, equal to an adjusted payout ratio of 50%. Please also see the box to the right.

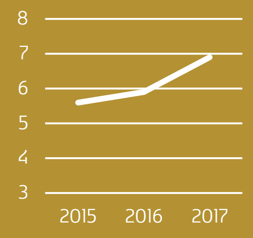
TOGETHER

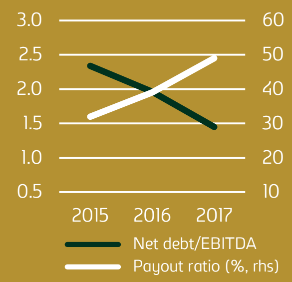
TOWARDS ZERO

In June 2017, we set industry-leading targets when launching our new sustainability programme Together Towards ZERO, which focuses on carbon footprint, water waste, irresponsible drinking and health & safety. Together Towards ZERO expresses our vision for a better tomorrow and our firm belief that our business can thrive while at the same time contributing to a better society. Read more in the 2017 Sustainability Report.

DELIVER VALUE FOR SHAREHOLDERS KPIs & RESULTS







ORGANIC GROWTH IN OPERATING PROFIT (%)

Consistent organic growth in operating profit is testament to our ability to deliver top-line growth and margin improvement.

In 2016 and 2017, Funding the Journey was the driver of organic operating profit growth.

Due to excellent and rapid progress of Funding the Journey, organic operating profit growth in 2017 was 8.4%.

ROIC IMPROVEMENT (%)

In order to drive a positive development in shareholder returns, we want to grow the return on invested capital by improving earnings and reducing invested capital.

In 2017, ROIC was 6.9% (+100bp). The improvement was the result of lower capital employed and improved profitability.

OPTIMAL CAPITAL ALLOCATION

Investing in profitable growth will remain our first priority. Other key financial priorities for the Group are growing ROIC, ensuring a leverage well below 2.0x and increasing the adjusted payout ratio.

In 2017, we succeeded in our efforts to grow all three metrics. The financial leverage of 1.45x has prompted the Supervisory Board to recommend to the Annual General Meeting a 60% increase in the dividend to DKK 16.0, equal to an adjusted payout ratio of 50%.

RISK MANAGEMENT

MANAGING RISKS TO **REDUCE UNCERTAINTIES**

We seek to manage risks in such a way that we minimise their threats while making the best use of their potential.

GOVERNANCE STRUCTURE

The Supervisory Board is ultimately responsible for risk management, but it has appointed the Audit Committee to act on its behalf in monitoring the effectiveness of the Group's risk management.

Monitoring is mainly performed in connection with the half-year reviews, although recurring financial risks are evaluated on a quarterly basis.

The Audit Committee adopts guidelines for key areas of risk, monitors developments and ensures that plans are in place for the management of individual risks, including commercial and financial risks.

The Executive Committee (ExCom) is responsible for reviewing the overall risk exposure associated with the Group's activities.

Risks are assessed according to a two-dimensional heat map rating system that estimates the impact of the risk on operating profit or brand/image and the likelihood of the risk materialising.

Based on this assessment, ExCom identifies the high-risk issues for the coming year. ExCom assigns risk owners, who are then responsible for mitigating the risks through a programme of risk management activities.

Local entities and Group functions are responsible for the identification, evaluation, qualification, recording and reporting to management of business risks at local level. Local and functional risk assessment follows the same principles and methodology as Group-level risk assessment.

The responsibility for the local review lies with the risk officer, typically the local head of Finance, to ensure that risk management is incorporated into management meetings, business reviews and key decision-making.

Following the risk identification, local risk owners are appointed and given responsibility for mitigating the risks through a programme of risk management activities.

Risk reporting is incorporated in regular business reviews and Group Risk Management is responsible for facilitating and following up on risk action plans for the most significant risks in the Carlsberg Group.

HIGH RISKS IDENTIFIED FOR 2018

The identified risks for 2018 are shown in the box to the right. The high-impact risks are described in the following.

COMMODITY AND FOREIGN EXCHANGE IMPACT

Description

Adverse foreign exchange movements and increasing commodity prices negatively affect the prices of raw materials and other inputs, thereby affecting the competitiveness of the business and the delivery of results.

Competition in most markets is generally fierce and trade term pressure from our customers remains strong, leading to a challenging pricing environment.

Foreign exchange risk and commodity risk are described in more detail in section 1.4 in the notes to the consolidated financial statements.

IDENTIFIED RISKS FOR 2018

RISKS WITH HIGHEST POTENTIAL IMPACT AND PROBABILITY

- Commodity & foreign exchange impact
- Industry consolidation
- Partnerships
- Political & economic instability

OTHER IDENTIFIED RISKS

- Talent management
- Regulatory changes, incl. duties
- Pensions
- Cyber & IT security
- Legal & regulatory compliance
- Strategy execution
- Corporate tax risk
- Financial flexibility
- Funding the Journey
- Quality design & execution

Mitigation
Nevertheless, we will further embed our value-based approach across all markets, driving a positive price/mix while applying the Golden Triangle to ensure a balanced approach to market share, gross profit margin after logistics and operating profit.

INDUSTRY CONSOLIDATION
Description
Industry consolidation was a high risk for 2017 and is expected to remain so for 2018. Consolidation within the beer industry continues, creating bigger players with increased scale. In addition, consolidation is also taking place among our customers and suppliers.

Although strong local market positions are key to creating value, consolidation creates stronger competitors with increased financial strength and bargaining power, potentially impacting on the Carlsberg Group's ability to compete. Consolidation among customers and suppliers also leads to increased dependency, pricing pressure and the risk of margin pressure.

Mitigation
The priorities and initiatives of SAIL'22 seek to position the Group in such a way that we are able to act upon and mitigate the impact of industry consolidation. This includes improving our core beer business and driving craft & speciality and alcohol-free brews, becoming a valued partner of our customers and offering the preferred beer of our consumers.

In addition, we will seek to further develop our partnerships with suppliers and create alternative sourcing solutions.

PARTNERSHIPS
Description
The Carlsberg Group cooperates with partners in a number of markets, particularly the global soft drinks manufacturers in the Nordic countries and some Asian markets as well as local partners in some Asian and European markets.

The strength of the relationship with our different partners may affect our ability to manage the growth of our business.

Mitigation
In order to minimise the potential risk of partnerships, we seek to have an ongoing dialogue with our partners to identify any issues at an early stage.

The relevant members of ExCom are actively involved in partner relationships, participating in the ongoing dialogues to ensure constructive negotiations and proper and fast resolutions of potential issues.

POLITICAL AND ECONOMIC INSTABILITY
Description
The risk of political and economic instability was also a high risk for 2017. Adverse economic conditions may result in reduced consumer demand and a higher degree of price sensitivity on the part of consumers, while major social or political changes may disrupt sales and operations.

Political and economic instability may lead to adverse exchange rate fluctuations, increased credit risk, insolvency of suppliers, goodwill impairment, operational restrictions and possibly nationalisation of assets.

Mitigation
We closely monitor our markets in order to be able to respond in a timely manner to any adverse developments. Mitigating activities also include hedging and maintaining variability in the cost base.

SAIL'22 also provides mitigation by further strengthening our core business in mature, stable markets, premiumising our portfolio and expanding our geographic footprint.

HIGH RISKS FOR 2017
In addition to industry consolidation and political and economic instability, Funding the Journey and talent management were deemed high risks for 2017.

As 2018 is the third and final year of the programme, delivering on the ambitions of Funding the Journey is no longer considered a high risk. The programme is expected to deliver around DKK 2.3bn by the end of 2018 compared with initial expectations in November 2015 of DKK 1.5-2.0bn.

Talent management continues to be considered a risk, although slightly less compared with 2016. During the year, we strengthened our development centres and took further action to build a succession pipeline and talent pool for key positions across the Group.

CORPORATE GOVERNANCE

SUPPORTING GOOD CORPORATE GOVERNANCE

Our governance framework aims to ensure active and accountable business management across the Group.

The Carlsberg Group seeks to develop and maintain a positive and constructive relationship with all of its stakeholders. For this reason, and also in order to reduce risk and promote good governance in the Carlsberg Group, the Group has formulated policies for a number of key areas, such as communications, human resources, environment, business ethics, competition law, marketing communication, and responsibility to customers and society in general. One of the Supervisory Board's tasks is to oversee compliance with and regular adjustment of the policies to reflect developments both inside and outside the Group.

The basis of the Company's corporate governance includes the Danish Companies Act, the Danish Financial Statements Act, IFRS, the EU Market Abuse Regulation, Nasdaq Copenhagen A/S' rules for issuers of shares, the Company's Articles of Association and other rules. A comprehensive description of the Group's corporate governance position is available on www.carlsberggroup.com.

RECOMMENDATIONS ON CORPORATE GOVERNANCE

The recommendations of the Danish Committee on Corporate Governance form part of Nasdaq Copenhagen A/S' rules for issuers of shares. The Company complies with all but two of the recommendations, as explained below.

With respect to the recommendation that the Articles of Association should stipulate a retirement age for members of the Supervisory Board, Carlsberg A/S' Supervisory Board finds that Board members should be assessed based on their competences rather than their age. Consequently, the Articles of Association do not stipulate a retirement age. The age of each Supervisory Board member is disclosed on pages 46-48.

With respect to the recommendation to publish quarterly reports, the Supervisory Board finds that half-year reporting is more appropriate due to the seasonality of the Group's business and the fact that the Group historically has seen high volatility in quarterly earnings and margins as a result of phasing of costs. The Supervisory Board considers the high volatility as potentially misleading for the understanding of the underlying Group performance. The Company issues Q1 and Q3 trading statements, which include volume and net revenue data, along with comments on sales performance in the quarter.

The Company's statutory report on corporate governance includes a full list of the recommendations, with comments on the Group's position on each recommendation.

THE ANNUAL GENERAL MEETING

The 2017 Annual General Meeting (AGM) took place on 30 March. The minutes of the meeting are available on www.carlsberggroup.com.

The AGM adopted two changes to the Articles of Association in 2017: 1. The Company will prepare company announcements in English only; and 2. The Articles of Association were changed so that general meetings will be convened and announced only through the Company's web page, and thus no longer through the Danish Business Authority's IT system.

Rules and deadlines applying to the AGM and other General Meetings are stipulated in the Articles of Association, which are available on www.carlsberggroup.com.

Download our statutory report on corporate governance
www.carlsberggroup.com/who-we-are/corporate-governance/#Statutory Reports

GOVERNANCE STRUCTURE

The Supervisory Board has established three board committees: an Audit Committee, a Nomination Committee and a Remuneration Committee. For the time being, the Supervisory Board considers these committees to be sufficient; however, each year the Supervisory Board considers whether the number and scope of the committees are appropriate. The board committees prepare and facilitate Supervisory Board decisions.

The Supervisory Board hires and supervises the Executive Board, which consists of the CEO and CFO, who are not members of the Supervisory Board. The Group also has a wider Executive Committee (ExCom), which, in addition to the two Executive Board members, consists of a wider group of Executive Vice Presidents, portrayed on page 49. While the Executive Board members are formally registered as executive directors of the Company, ExCom collectively prepares and implements the Company's strategic plans.

THE COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board has 10 members elected by the General Meeting and, in accordance with the Danish Companies Act, five members elected by the employees.

The members elected by the General Meeting are elected individually and for a term of one year. Re-election is possible.

Five of the 10 members elected by the General Meeting are independent and have an international business background in addition to competences related to the beverage industry, FMCG, finance, digital, emerging markets and Russia. The other five members are affiliated to the Carlsberg Foundation, the Company's principal shareholder, and have an academic background. These members are bearers of the Carlsberg culture, and the heritage and values stemming from founder J.C. Jacobsen, and the Supervisory Board sees these members as patrons of the same.

Supervisory Board meetings

Board member	Chairmanship meetings attended	Board meetings attended
Flemming Besenbacher (Chairman)[1]	● ● ● ● ● ●	● ● ○ ● ● ● ● ● ●
Lars Rebien Sørensen (Deputy Chairman)[1,2]	● ● ○ ● ○ ●	● ○ ● ● ● ● ● ● ●
Hans Andersen[3]		● ● ● ● ● ● ● ● ●
Carl Bache[1]		● ● ● ● ● ● ● ● ●
Richard Burrows[1,2]		● ● ● ○ ● ● ● ● ●
Donna Cordner[1,2]		● ● ● ● ● ○ ● ● ●
Nancy Cruickshank [1,2]		– – ● ● ● ● ● ● ●
Eva Vilstrup Decker[3]		● ● ● ● ● ● ● ● ●
Elisabeth Fleuriot [1,2]		● ● – – – – – – –
Kees van der Graaf[1,2]		● ● ● ● ○ ● ● ○ ●
Finn Lok[3]		● ● ● ● ● ● ● ● ●
Erik Lund[3]		● ● ● ● ● ● ● ● ●
Søren-Peter Fuchs Olesen[1]		● ● ● ● ● ● ● ● ●
Peter Petersen[3]		● ● ● ● ● ● ● ● ●
Nina Smith[1]		● ● ● ● ● ● ● ○ ●
Lars Stemmerik[1]		● ● ● ● ● ● ● ● ●

[1] Elected by the General Meeting. [2] Independent. [3] Employee-elected.
● Attended meeting. ○ Did not attend meeting. – Not a Board member at the time.

The employee representatives are elected for a term of four years. They hold the same rights and obligations as the members elected by the General Meeting. The current employee representatives were elected in 2014 and the next election will take place in Q1 2018.

The Supervisory Board believes that the composition of the Board ensures an appropriate level of diversity and breadth in the members' approach to their duties, thereby helping to ensure that decisions are well considered and that the long-term perspective is duly taken into account.

Each year, the Supervisory Board considers the skills that should be represented on the Supervisory Board on the basis of a recommendation from the Nomination Committee.

These skills are described in the Specification of Competences, available on www.carlsberggroup.com. The Nomination Committee and the Supervisory Board take the description of the required skills into consideration when recommending new candidates for the Supervisory Board. None of the members of the Supervisory Board are or have been involved in the executive management of the Group.

Information on the Supervisory Board members is given on pages 46-48. Detailed CVs can be found on www.carlsberggroup.com.

DIVERSITY

The Supervisory Board believes that its members should be chosen for their competences, but recognises the benefits of diversity in respect of experience, culture, international experience and gender, and has laid down the following specific objectives in relation to international experience and gender:

- With regard to international experience, the objective is that 50% or more of the Supervisory Board members elected by the General Meeting should have substantial international experience from managing large corporations or institutions. The current composition of the Supervisory Board fulfils this objective. Furthermore, with a representation of more than 20 nationalities, the international experience of the Carlsberg top-60 leadership team is significant.
- The proportion of the underrepresented gender (currently women) on the Supervisory Board should reach at least 40% of the members elected by the General Meeting no later than 2021. This is a prolongation of the previous target, which aimed at reaching 40% by 2017. In 2017, three out of ten members elected by the General Meeting were women. Diversity is a high priority for the Supervisory Board. However, ensuring the right skills and competences in the Supervisory Board always takes precedence. The target applies to the boards of all Danish Carlsberg Group companies that are required to lay down such objectives. This is currently Carlsberg A/S, Carlsberg Breweries A/S, Carlsberg Global Business Services A/S, Carlsberg Danmark A/S and Carlsberg Supply Company Denmark A/S. As of 2017, three Supervisory Board members in Carlsberg A/S elected by the General Meeting are women, i.e. 30%. Accordingly, the objective with regard to gender diversity on the Supervisory Board is

not yet met. In Carlsberg Breweries A/S, all four Supervisory Board members elected by the General Meeting are men. The Board consists of the members of the Chairmanship and of the Executive Board in Carlsberg A/S, and it was not considered appropriate to change this approach in 2017. In Carlsberg Global Business Solutions A/S and Carlsberg Supply Company Denmark A/S, the three members of each board are all men, which means that the target is not met in either company. In Carlsberg Danmark A/S, one of the three Supervisory Board members is a woman, which means that the objective with regard to gender diversity is considered fulfilled.

Whilst the Supervisory Board is of the opinion that competences must always come first, it will consider candidates with a view to increasing the underrepresented gender on the Supervisory Board.

Currently, women are also underrepresented in senior management positions. To increase the proportion of women, the Supervisory Board has drawn up a policy and set out specific action points for the Executive Board to implement.

In 2017, these actions included the following:

- As part of the Group Recruitment Policy, recruitment companies and executive search companies were asked to prepare a shortlist with at least one qualified female candidate when the Group recruits for senior management positions.
- At least one third of the participants in the Group's leadership programme should be women. This target was met in 2017, as 30% of the leadership programme nominees were women.
- Our leadership development centres support individual development towards senior leadership positions. In 2017, one third of the participants in our Development Centres Level 2 were women.

THE WORK OF THE SUPERVISORY BOARD

The Supervisory Board monitors that the Executive Board observes the goals, strategies and business procedures established by the Board.

The Chairman and Deputy Chairman of the Supervisory Board constitute the Chairmanship. The specific duties of the Chairman – and in his absence the Deputy Chairman – are set out in the Rules of Procedure. In 2017, the Chairmanship and the Executive Board held eight meetings. The Supervisory Board of Carlsberg A/S held eight meetings as well as a full-day strategy seminar.

The Executive Board always attends the Supervisory Board meetings and, in order to improve transparency, the members of ExCom are also invited to attend when it makes sense. This gives the Supervisory Board better insight into the business.

In addition, the Supervisory Board and ExCom have evening meetings prior to each Supervisory Board meeting at which key people from the Group present a market or other relevant topics. In 2017, these included various topics relating to SAIL'22 and to the Carlsberg

SUPERVISORY BOARD WORK IN 2017

MAIN TOPICS OF DISCUSSIONS

Strategy

- Ongoing execution and implementation of SAIL'22.
- Review of and debate on R&D, innovation, branding and other strategic projects.
- Continued roll-out and tracking of the Funding the Journey programme.
- Review and approval of the Group's capital structure and funding.

Organisation, people, succession planning and talent management

- Recommended Nancy Cruickshank as Supervisory Board candidate for election at the AGM 2017 and subsequently welcomed her as new Supervisory Board member.
- Identified Magdi Batato as a candidate for the Supervisory Board to replace Kees van der Graaf, who is not standing for re-election at the AGM in 2018.
- Succession planning for the Supervisory Board and the executive management, and discussion of general talent management.
- The Carlsberg Group employee engagement survey and its outcome.
- Discussion and approval of the bonus structures in the Group's incentive programme to ensure that it supports and is aligned with SAIL'22.

Compliance and core values

- Discussion and review of the Compass initiative, which is part of SAIL'22 and aims to clarify and reinforce the Carlsberg Group's identity and culture, ensuring the proper positive behaviours and high integrity that the Group wishes to promote.
- Review and approval of the Group's new sustainability programme, Together Towards ZERO.

Governance and risk management

- Review of the outcome of the Board evaluation process 2016, including follow-up on all suggestions.
- Review and discussion of the Group Internal Audit reports, working processes and organisation.
- Discussion of relevant specific issues and ways of working with the external auditor.
- Approval of the recommendation by the Audit Committee of a new external auditor for election at the 2017 AGM, where Pricewaterhouse-Coopers (PwC) was appointed as new auditor for the Carlsberg Group.

organisation, such as the strategy on craft & speciality and alcohol-free brews, consumer insights, DraughtMaster™, employee engagement, quality and our business in China.

SUPERVISORY BOARD EVALUATION PROCESS

Each year, the Chairman of the Supervisory Board heads a structured evaluation of the Board's work, accomplishments and composition. In addition, the Supervisory Board considers whether its members' expertise should be updated or strengthened with respect to their duties, based on input from the Nomination Committee as well as the Board evaluation process.

During the evaluation process in 2017, the Supervisory Board members generally expressed that they find the pre-read material and presentations of a high quality, that the topics and agendas cover relevant matters adequately, that meetings are well planned, and that they appreciate the open discussions at the Supervisory Board meetings with the Executive Board and other management members.

The Supervisory Board also expressed satisfaction with the focus on risk evaluation, strategy and direction-setting during Board discussions. The evaluation process led to a short catalogue of ideas for minor changes to the way the Supervisory Board works. These ideas were considered and, where relevant, implemented by the Supervisory Board.

BOARD COMMITTEES

THE NOMINATION COMMITTEE

In 2017, the Nomination Committee consisted of three members. The Nomination Committee is appointed for one year at a time. The Chairman of the Committee does not qualify as being independent, while the other two members do.

The Nomination Committee works according to Terms of Reference, which are reviewed and approved annually by the Supervisory Board. The Terms of Reference are available on the Company's website.

In 2017, the Committee had particular focus on:

- Planning the Board's evaluation process.
- Reviewing the Specification of Competences for Board members to ensure that they reflect the skills and experiences needed to best support the execution of SAIL'22.
- Succession planning at Board and ExCom level.
- Evaluating the composition, structure and size of the Board.

THE REMUNERATION COMMITTEE

The work of the Remuneration Committee is described in the Remuneration report on pages 40-45.

THE AUDIT COMMITTEE

In 2017, the Audit Committee consisted of three members. The Audit Committee is appointed for one year at a time. All members of the Committee qualify as being independent of the Company and all possess the relevant financial expertise.

The Audit Committee works according to Terms of Reference and a detailed annual meeting plan, which are reviewed and approved by the Supervisory Board prior to the beginning of each financial year. The Supervisory Board approved the Audit Committee meeting plan for 2018 and the current Terms of Reference at the Supervisory Board meeting in December 2017. The Terms of Reference are available on the Company's website.

In 2017, the Audit Committee had, in addition to its statutory duties, particular focus on a number of other areas such as:

- Heading the tender process of audit services and making a recommendation to the Supervisory Board to propose to the AGM the appointment of PricewaterhouseCoopers (PwC) as auditor for the Carlsberg Group.
- Monitoring the effectiveness of the control environment and overseeing the progress on developing a new reporting system on the effectiveness of the controls over financial reporting.
- Overseeing the target measurement of the Funding the Journey programme.
- Reviewing that an adequate Group Internal Audit function is in place.
- Financial risk management.
- Reviewing the risk management process.

Nomination Committee meetings

Committee member	Committee meetings attended
Flemming Besenbacher (Chairman)	● ● ● ●
Kees van der Graaf	● ● ○ ●
Lars Rebien Sørensen	● ● ○ ●

● Attended meeting. ○ Did not attend meeting.

Audit Committee meetings

Committee member	Committee meetings attended
Donna Cordner (Chairman)	● ● ● ○ ○ ● ●
Richard Burrows	● ● ○ ● ● ● ●
Lars Rebien Sørensen	● ● ● ● ● ○ ●
Flemming Besenbacher[1]	● ○ ● ● ● ● ●

[1] Not a member of the Committee; attends meetings in his capacity as Chairman of the Supervisory Board.
● Attended meeting. ○ Did not attend meeting.

AUDITING

To safeguard the interests of shareholders and the general public, an independent auditor is appointed at the Annual General Meeting following a proposal from the Supervisory Board, which is based on a recommendation from the Audit Committee.

In 2017, the Supervisory Board completed an audit tender process and a new external audit firm (PwC) was appointed at the 2017 AGM.

INTERNAL CONTROL AND RISK MANAGEMENT RELATED TO THE FINANCIAL REPORTING PROCESS

OVERALL CONTROL ENVIRONMENT

The Supervisory Board and the Executive Board have overall responsibility for the Carlsberg Group's control environment. The Audit Committee is responsible for monitoring the effectiveness of the internal control and risk management systems related to the financial reporting process on an ongoing basis.

The Group has a number of policies and procedures in key areas of financial reporting, including the Finance Policy, the Finance Manual, the Use of Auditors Policy, the Controller Manual, the Chart of Authority, the Risk Management Policy, the Financial Risk Management Policy, the Information Security and Acceptable Use Policy, and the Code of Ethics and Conduct. The policies and procedures apply to all subsidiaries, and similar requirements are set out in collaboration with the partners in joint ventures.

>1,700

EMPLOYEES ARE NOW BEER EXPERTS

In late 2016, we launched a Group-wide beer ambassador and beer sommelier programme originally developed in Norway that aims to turn local sales and marketing teams into beer experts. The programme gives our people a more in-depth understanding of different beer styles, beer and food pairing, and how our beer is made. By the end of 2017, more than 1,700 employees in nine markets had been trained in the art of beer, and many more will follow in 2018.

The internal control and risk management systems are designed to mitigate rather than eliminate the risks identified in the financial reporting process. Internal controls related to the financial reporting process are established to detect, mitigate and correct material misstatements in the consolidated financial statements.

The monitoring of risk and internal controls in relation to the financial reporting process are anchored by the reporting of the maturity level of the control environment using the Company's financial control framework.

In 2018, a new financial control framework will be implemented across the Group. The new framework will be designed to mitigate financial risks identified and ensure reliable internal and external financial reporting, and it will focus on implementing more preventative automated controls instead of compensating detective manual controls. Additionally, the project will drive control standardisation wherever possible. The new framework will be implemented in all entities controlled by Carlsberg A/S.

RISK ASSESSMENT

The risk assessment process in relation to the financial reporting process is assessed annually and approved by the Audit Committee.

The risk related to each accounting process and line item in the consolidated financial statements is assessed based on quantitative and qualitative factors. The associated financial reporting risks are identified based on the evaluation of the likelihood of them materialising and their potential impact.

The identified areas are divided into areas with high, medium or low risk. High-risk areas are line items that include significant accounting estimates, including goodwill and special items, and the sales and purchase processes.

CONTROL ACTIVITIES

The Group has implemented a formalised financial reporting process for the strategy process, budget process, estimates and monthly reporting on actual performance. The accounting information reported by all Group companies is reviewed both by controllers with regional or functional in-depth knowledge of the individual companies/functions and by technical accounting specialists.

In addition, significant Group companies have controllers with extensive commercial and/or supply chain knowledge and insight.

The entities in the Group are dependent on IT systems. Any weaknesses in the system controls or IT environment are compensated for by manual controls in order to mitigate any significant risk relating to the financial reporting.

The outsourcing of key processes was initiated in 2016, and the first part of the implementation took place in 2017. During the implementation period, the Group had compensating procedures and controls in place to ensure timely reporting of the required quality for internal and external reporting purposes.

INFORMATION AND COMMUNICATION

The Group has established information and communication systems to ensure that accounting and internal control compliance is established.

MONITORING

The Audit Committee's monitoring covers both the internal control environment and business risk. Monitoring of the internal control environment is covered by the Group's financial control framework. The business risk is assessed and reviewed at multiple levels in the Group, including monthly performance review meetings at ExCom level, periodic review of control documentation, controller visits and audits performed by Group Internal Audit.

GROUP INTERNAL AUDIT

The Internal Audit department ensures objective and independent assessment of the adequacy, effectiveness and quality of the Group's internal controls.

Group Internal Audit works in accordance with a charter, which was updated in 2016 and approved by the Audit Committee. A new internal audit strategy, including an audit methodology and an audit planning process, was developed during 2017.

Taking into account the annual review of business risks (cf. pages 32-33), an internal audit plan is drawn up for the year. The plan is reviewed and approved by the Audit Committee.

SPEAK UP

The Carlsberg Group has a Speak Up programme that enables employees to report misconduct. Reports typically relate to suspected violations of the Carlsberg Group's policies and manuals or activities that may involve criminal conduct.

The Speak Up system is facilitated by an external provider and allows concerns to be brought to the attention of Group Compliance anonymously and via multiple channels. The Compliance Officer is responsible for reviewing all reported Speak Up matters and the reporting thereof to the Audit Committee at least every quarter.

In 2017, a sophisticated and more user-friendly Speak Up system went live. Furthermore, an Integrity Committee, chaired by the CFO, was established to oversee the follow-up of major Speak Up investigations.

Since the establishment of the Speak Up programme in April 2010, some reports and their subsequent investigation have led to various disciplinary sanctions, including dismissal on the basis of violation of Group policies and, in some cases, relevant criminal laws. Most of these matters related to isolated incidents of fraud carried out by individual employees in the Group. The incidents have not had any material impact on the financial results of the Group or the Group company in question.

REMUNERATION

EXECUTIVES' REMUNERATION

We want our executives to share our shareholders' interests, and the remuneration of executive directors should support this alignment.

The current Remuneration Policy was developed four years ago, and minor changes were implemented in 2016 and in 2017. The Remuneration Committee has not proposed any change to the structure of pay, and will propose to the shareholders at the 2018 Annual General Meeting that the Remuneration Policy remain unchanged in 2018.

REMUNERATION OF THE EXECUTIVE BOARD

REMUNERATION POLICY

The main elements of the executive directors' remuneration arrangements are summarised in the table on page 42 and explained in more detail in the following paragraphs.

Fixed salary

The Committee reviews fixed salaries annually, taking into account a number of relevant factors, including the individual's performance, role and responsibilities. The Committee also takes into account levels of remuneration for similar roles at comparable companies in both the beverage and fast moving consumer goods sectors, as well as companies based in the Nordic region across all industry sectors.

The Committee and the Supervisory Board has decided to increase the executive directors' fixed salaries in 2018 by 2.5%.

Annual bonus

The annual bonus is structured to incentivise the executive directors to deliver on the Group's short-term strategic objectives.

For 2018, the potential maximum bonus will remain at 100% of fixed salary, with 60% of fixed salary payable for on-target performance.

Determination of the final bonus is subject to the discretion of the Committee and the Supervisory Board, taking into account the overall performance of the business.

For 2018, the annual bonus comprises two elements. The first element, accounting for 80% of the bonus, is based on three measures: organic operating profit, organic net revenue growth and addressable cash flow.

OUR APPROACH TO REMUNERATION

The Carlsberg Group's remuneration is designed to enable us to recruit and retain individuals with the expertise and ability required to run a growing international company, and to do so in a way that drives our business success and rewards executives when shareholders are rewarded. Levels of fixed remuneration are set based on individuals' experience and contribution, and in the context of the external market.

While we do not seek to adhere rigidly to market benchmarks, we monitor and take into account pay levels and incentive opportunities in the principal markets from which we recruit: our European brewing and spirits peers and the global consumer goods sector, as well as companies across industry sectors in the Nordic region.

Many of our investors – including our main shareholder – are long-term holders of our shares. We want our executives to share their perspective and believe that remuneration should align their interests accordingly. The balance between the short-term remuneration package and long-term share-based pay and shareholding requirements strengthens this alignment.

The Company's full Remuneration Policy for the Supervisory Board and Executive Board, and guidelines for incentive programmes as approved at the Annual General Meeting on 30 March 2017, are available on the Company's website.

Main activities in 2017

During 2017, the main activities of the Remuneration Committee were:

- Determining levels of long-term incentive awards.
- Considering shareholders' feedback from the 2017 Annual General Meeting.
- Reviewing the Remuneration Policy for the Executive Board and agreeing to have no changes to the policy.
- Considering the achievement of performance criteria for the annual bonus plan for 2016.
- Reviewing fixed salary levels, bonus targets and levels of long-term incentive awards for 2018.
- Evaluating the remuneration of the Supervisory Board.

2018 objectives

- Monitoring the workings and outcomes of the revised remuneration structure for 2018 to support the Group's strategy.
- Reviewing the performance share programme for 2019 and beyond.

The second element, accounting for 20%, will be linked to the executives' performance against measures that reflect the Group's strategic priorities.

Long-term incentive arrangements

In 2018, the long-term incentive arrangements for the executive directors will consist of performance shares only.

Performance shares vest three years after the grant date, subject to performance conditions. The maximum value of awards that can be made in any single financial year, based on face value, is 300% of fixed salary.

Each year, the Committee determines the total level of the long-term incentive award to be made to each executive. All long-term incentive awards are made at the discretion of the Committee.

The vesting of any performance shares is subject to achievement of performance conditions determined by the Committee prior to the grant date.

The performance share award will be subject to four performance conditions measured over three years: total shareholder return (TSR), earnings per share (EPS), organic net revenue growth and return on invested capital (ROIC).

The performance conditions further increase and support alignment of the executive directors' reward with the long-term Group strategy and shareholder value. In order for any award (or part of an award) to vest, the Committee must be satisfied that underlying Group performance is at a satisfactory level.

Reclaiming variable pay

In the event of serious misconduct, or if an annual bonus or long-term incentive award is made on the basis of accounts that prove to be materially misstated, the Company may reclaim, in full or in part, any overpayment from the annual bonus, or cancel or withdraw unexercised or unvested long-term incentive awards made to the executive directors.

Share ownership guidelines

In order to strengthen the alignment between executive directors and shareholders, the executive directors are required to retain shares on the vesting of long-term incentive awards (subject to disposals required to meet any tax and other associated obligations).

The CEO is expected to build up a holding of shares equivalent to 150% of fixed salary, and the CFO a holding equivalent to 120% of fixed salary.

Executive directors' service contracts

Service contracts for executive directors contain terms and conditions that are considered common to executive board members in Danish listed companies.

Remuneration Committee meetings

Committee member	Committee meetings attended
Richard Burrows (Chairman)	Attended · Attended · Attended · Attended
Nancy Cruickshank	Not a Board member · Attended · Attended · Attended
Kees van der Graaf	Attended · Attended · Did not attend · Attended
Lars Rebien Sørensen	Attended · Attended · Did not attend · Attended
Elisabeth Fleuriot	Attended · Not a Board member · Not a Board member · Not a Board member
Flemming Besenbacher[1]	Attended · Attended · Attended · Attended

[1] Not a member of the Committee; attends meetings in his capacity as Chairman of the Supervisory Board.
Attended meeting. Did not attend meeting. Not a Board member at the time.

THE COMMITTEE'S RESPONSIBILITIES

The Carlsberg Group's Remuneration Committee is responsible for the Remuneration Policy (including the general guidelines for incentive programmes) for all members of the Supervisory Board and the Executive Board, for making proposals on changes to the Remuneration Policy, and for obtaining the approval of the Supervisory Board prior to seeking shareholders' approval at the Annual General Meeting.

The Committee is responsible for making proposals to the Supervisory Board on the actual structure and content of the remuneration packages of members of the Supervisory Board and the Executive Board, in accordance with the policy approved by the shareholders.

The Committee monitors and advises the Supervisory Board on any major changes to the policy on senior employee remuneration structures for the Group, including for ExCom. The Committee's Terms of Reference, which govern how it operates, are approved by the Supervisory Board and are available on the Company's website.

Remuneration Policy

Element of pay	Objective	Award level	Performance criteria	Performance period
Fixed salary	Attract and retain high-performing individuals by reflecting market value of role and executive's skills and experience. Reward day-to-day performance. Set at a level to prevent over-reliance on variable pay.	Takes into account the market rate for similar roles in international comparator companies as well as executive's skills and experience.	No performance criteria per se, but the performance of the individual is taken into account when fixed salary levels are reviewed.	Fiscal year.
Benefits	Operate a competitive benefits suite to aid recruitment and retention.	Perquisites and other benefits corresponding to market practices.	N/A	N/A
Pension	Executives make their own provision for retirement.	N/A	N/A	N/A
Annual bonus plan	Drive and reward delivery of short-term business objectives.	Maximum bonus opportunity is 100% of fixed salary. Bonus opportunity at target is 60% of fixed salary.	• Organic operating profit. • Organic net revenue growth. • Addressable cash flow. • Strategic measures.	Fiscal year.
Long-term incentive plan	Drive and reward delivery of longer-term business objectives. Maximise alignment with shareholder value.	The maximum level of long-term incentive awards is 300% of fixed salary based on the face value of the award at the grant date.	• Relative total shareholder return (TSR). • Growth in adjusted EPS at constant currencies. • Organic net revenue growth. • ROIC in 2020 at constant currencies.	3 years with 3-year vesting.

Performance share awards – performance criteria for 2018

Measure	Description	Performance condition measured over the three financial years 2018-2020	Weighting
Relative total shareholder return (TSR)	TSR measures the total return to investors. The Group's TSR performance will be measured relative to a comparator group of 16 companies[1].	• 25% of TSR element vests if the Group's TSR performance is at median of peer group's[1]. • 100% vests for upper-quartile performance. • Straight-line vesting between median and upper quartile.	25%
Adjusted EPS growth	Adjusted EPS growth targets measure the Group's underlying financial success.	• 25% of the adjusted EPS at constant currencies element vests for 4% p.a. growth. • 100% vests for 9% p.a. growth. • Straight-line vesting between 4% p.a. and 9% p.a.	25%
Organic net revenue growth	Organic net revenue growth is a measure of the Group's ability to deliver on our SAIL'22 priorities.	• 25% of the organic net revenue element vests for 1.5% p.a. growth. • 100% vests for 4.5% p.a. growth. • Straight-line vesting between 1.5% p.a. and 4.5% p.a.	25%
Growth in ROIC	Growing ROIC is a key financial metric reflecting our ability to drive a positive development in shareholder returns.	• 25% of the ROIC in constant currencies element vests at 8.5% in 2020. • 100% vests for 9.5% in 2020. • Straight-line vesting between 8.5% and 9.5% in 2020.	25%

[1] TSR comparator group: Kirin Holdings, Britvic, Davide Campari-Milano, Rémy Cointreau, Asahi Group Holdings, Compañía Cervecerías Unidas, Diageo, Heineken, Ambev, Brown-Forman, Pernod-Ricard, Sapporo Holdings, Dr Pepper Snapple Group, Tsingtao Brewery, Anheuser-Busch Inbev and Molson Coors Brewing.

REMUNERATION OF THE EXECUTIVE BOARD IN 2017

Fixed salary

The annual fixed salary paid to Cees 't Hart in 2017 was DKK 12.0m. The annual fixed salary for Heine Dalsgaard was DKK 7.3m.

Annual bonus

For the financial year 2017, 78% of the maximum bonus, being 100% of fixed salary, was payable for performance in 2017 for the CEO. The bonus payable amounts to DKK 9.3m for Cees 't Hart.

For the CFO, 78% of the maximum bonus payable for performance in 2017. The bonus payable amounts to DKK 5.6m for Heine Dalsgaard.

Payments for remuneration forfeited on leaving previous employer

The CFO was paid an amount of DKK 15m to compensate him for remuneration forfeited on leaving his previous employer. Half of the amount, DKK 7.5m, was paid in 2016. The second half of the payment, DKK 7.5m, was paid in 2017.

Long-term incentive awards

Granted in 2017

In the financial year 2017, the CEO and CFO were granted long-term incentive awards that, at the time of award, had a face value of 255% and 210% of fixed full-year salary respectively. The composition of these awards is shown in the table on page 44.

Shareholdings

The number of shares and share options in Carlsberg A/S held by Cees 't Hart and Heine Dalsgaard and the movements during 2017 are shown in the table on page 44. The table includes the holdings of the related parties of the CEO and CFO.

None of the executive directors own shares in any of the subsidiaries or associates of Carlsberg A/S.

MANAGEMENT'S SHARE TRANSACTIONS

From 2018, share transactions by the Carlsberg Group management will, upon notification from Carlsberg, be published only by the Danish Financial Supervisory Authority and no longer as company announcements on Nasdaq Copenhagen.

SAIL'22 **REVITALISE CORE BEER**

12%

SHARE OF CARLSBERG VOLUME

In 2016, Carlsberg Malaysia launched Carlsberg Smooth Draught to deliver the smoothness of draught beer in a bottle. Carlsberg Smooth Draught, available in Malaysia and Singapore, has been received very positively by consumers, driving incremental share gains in both markets. Positioned at a premium price point relative to Carlsberg Green Label, Carlsberg Smooth Draught also delivers improved earnings contribution. In 2017, Carlsberg Smooth Draught accounted for approximately 12% of Carlsberg volumes in Malaysia.

Remuneration of executive directors

	Cees 't Hart		Heine Dalsgaard	
DKK million	2017	2016	2017	2016
Fixed salary	12.0	12.0	7.3	4.2
Cash bonus	9.3	10.0	5.6	7.3
Special bonus[1]	-	-	3.1	11.9
Non-monetary benefits	1.3	1.3	0.3	0.2
Share-based payments	20.6	12.8	9.0	1.9
Total	**43.2**	**36.1**	**25.3**	**25.5**

[1] Special bonus covering remuneration waived from previous employer, in total DKK 15m, which was paid out equally over the two years. In 2016, a provision of DKK 4.4m was made.

Share ownership guidelines

	Share ownership guideline as % of fixed salary	Actual % held at 31 Dec. 2017	Fair value of unvested options and performance shares as % of fixed salary (prior to deduction for tax and incidental costs)
Cees 't Hart	150%	45%	693%
Heine Dalsgaard	120%	77%	452%

Executive directors' holdings of Carlsberg A/S shares

		Number				DKK million
		1 Jan. 2017	Additions	Sold	31 Dec. 2017	Market value
Cees 't Hart	B shares	4,000	3,200	-	7,200	5.36
Heine Dalsgaard	B shares	7,515	-	-	7,515	5.60

Executive directors' holdings of Carlsberg A/S shares

		Number				DKK million
Grant year	Exercise year	1 Jan. 2017	Granted	31 Dec. 2017	For exercise 31 Dec.	Fair value 31 Dec.
SHARE OPTIONS						
Cees 't Hart						
2015	2018-2023	97,334	-	97,334	-	21
2016	2019-2024	17,650	-	17,650	-	3
Total		**114,984**	**-**	**114,984**	**-**	**24**
PERFORMANCE SHARES						
Cees 't Hart						
2016-2018	2019	14,709	-	14,709	-	10
2017-2019	2020		50,000	50,000	-	32
Total		**14,709**	**50,000**	**64,709**	**-**	**42**
Heine Dalsgaard						
2016-2018	2019	10,370	-	10,370	-	7
2017-2019	2020		24,877	24,877	-	16
Total		**10,370**	**24,877**	**35,247**	**-**	**23**
FUNDING THE JOURNEY PERFORMANCE SHARES						
Cees 't Hart						
2016-2018	2019	23,415	-	23,415	-	17
Total		**23,415**	**-**	**23,415**	**-**	**17**
Heine Dalsgaard						
2016-2018	2019	13,827	-	13,827	-	10
Total		**13,827**	**-**	**13,827**	**-**	**10**
Executive directors, total		**177,305**	**74,877**	**252,182**	**-**	**116**

REMUNERATION OF THE SUPERVISORY BOARD

REMUNERATION POLICY

The remuneration of the Supervisory Board for 2017 was approved by the Annual General Meeting in March 2017.

The members of the Supervisory Board of Carlsberg A/S are remunerated for duties performed in the Company. The fees are reviewed, but not necessarily increased, each year, taking into account market practice with reference to an international comparator group as well as the need to attract and retain high-calibre individuals.

The remuneration of the Supervisory Board consists of a fixed annual base fee. The Chairman receives a single fee of four-and-a-half times the base fee and no additional fee for any committee work. The additional fee for committee work for other members of the Supervisory Board is shown in the table.

Members of the Supervisory Board are not included in share incentive programmes, retirement benefit plans or other schemes. No agreements have been entered into concerning termination benefits, and no such payments were made in 2017.

REMUNERATION OF THE SUPERVISORY BOARD IN 2017

The fees for members of the Supervisory Board for the financial year 2017 are set out in the table below. The number of shares in Carlsberg A/S held by Supervisory Board members, including holdings of related parties, at the beginning of the financial year and movements to 31 December 2017 are also shown below.

No member of the Supervisory Board owns shares or bonds in any of the subsidiaries or associates of Carlsberg A/S.

Supervisory Board remuneration principles in 2017

	Base fee (DKK thousand)	Additional fee (as % of base fee)
All Supervisory Board members	412	
Chairman of the Supervisory Board[1]		350%
Deputy Chairman of the Supervisory Board		50%
Chairman of the Audit Committee		113%
Chairman of the Remuneration Committee and of the Nomination Committee		50%
Member of Board committee (per committee)		38%

[1] The Chairman does not receive any additional fees for committee work.

Remuneration of the Supervisory Board

DKK million	2017	2016
Flemming Besenbacher (Chairman of the Supervisory Board and of the Nomination Committee)	1.85	1.40
Lars Rebien Sørensen (Deputy Chairman)	1.09	1.06
Hans Andersen	0.41	0.40
Carl Bache	0.41	0.40
Richard Burrows (Chairman of the Remuneration Committee)	0.77	0.75
Donna Cordner (Chairman of the Audit Committee)	0.88	0.85
Nancy Cruickshank	0.43	-
Eva Vilstrup Decker	0.41	0.40
Elisabeth Fleuriot	0.14	0.55
Kees van der Graaf	0.73	0.70
Finn Lok	0.41	0.40
Erik Lund	0.41	0.40
Søren-Peter Fuchs Olesen	0.41	0.40
Peter Petersen	0.41	0.40
Nina Smith	0.41	0.40
Lars Stemmerik	0.41	0.40
Total	**9.58**	**8.91**

Supervisory Board members' holdings of Carlsberg A/S shares

		Number				DKK million
		1 Jan. 2017	Additions	Sold	31 Dec. 2017	Market value
Flemming Besenbacher	B shares	1,850	-	-	1,850	1.38
Lars Rebien Sørensen	B shares	-	-	-	-	-
Hans Andersen	B shares	1	-	-	1	-
Carl Bache	B shares	100	-	-	100	0.07
Richard Burrows	B shares	2,040	-	-	2,040	1.52
Donna Cordner	B shares	-	-	-	-	-
Nancy Cruickshank	B shares	-	-	-	-	-
Eva Vilstrup Decker	B shares	68	-	-	68	0.05
Kees van der Graaf	B shares	950	-	-	950	0.71
Finn Lok	B shares	-	-	-	-	-
Erik Lund	B shares	54	-	-	54	0.04
Søren-Peter Fuchs Olesen	B shares	652	-	-	652	0.49
Peter Petersen	B shares	-	-	-	-	-
Nina Smith	B shares	392	-	-	392	0.29
Lars Stemmerik	B shares	-	-	-	-	-
Total		**6,107**	**-**	**-**	**6,107**	**4.55**

SUPERVISORY BOARD

FLEMMING BESENBACHER
CHAIRMAN (SINCE 2012)

Nationality: Danish
Year of birth: 1952
Appointed (until): 2005 (2018)

BOARD FUNCTION
Non-executive, non-independent director.

BOARD COMMITTEES
Nomination Committee (Chairman).

PROFESSION
Professor, D.Sc., h.c. mult, FRSC; Chairman of the Board of Directors of the Carlsberg Foundation.

NON-EXECUTIVE FUNCTIONS
Chairman of the Tuborg Foundation, Aarhus Vand A/S and UNLEASH. Member of the Board of CfL.

LARS REBIEN SØRENSEN
DEPUTY CHAIRMAN (SINCE 2015)

Nationality: Danish
Year of birth: 1954
Appointed (until): 2015 (2018)

BOARD FUNCTION
Non-executive, independent director.

BOARD COMMITTEES
Audit Committee, Remuneration Committee, Nomination Committee.

PROFESSION
Non-executive board director.

NON-EXECUTIVE FUNCTIONS
Member of the Board of Directors of Jungbunzlauer Suisse AG, Novo Nordisk Foundation, Novo Holdings A/S and Thermo Fisher Scientific Inc.

HANS ANDERSEN

Nationality: Danish
Year of birth: 1955
Appointed (until): 1998 (2018)

BOARD FUNCTION
Employee representative.

BOARD COMMITTEES
None.

PROFESSION
Brewery worker, Carlsberg Supply Company Danmark A/S.

NON-EXECUTIVE FUNCTIONS
None.

CARL BACHE

Nationality: Danish
Year of birth: 1953
Appointed (until): 2014 (2018)

BOARD FUNCTION
Non-executive, non-independent director.

BOARD COMMITTEES
None.

PROFESSION
Professor, Ph.D., Dr.Phil.; head of the Doctoral School of the Humanities at the University of Southern Denmark.

NON-EXECUTIVE FUNCTIONS
Member of the Board of Directors of the Carlsberg Foundation and of the board of a publishing firm.

RICHARD BURROWS

Nationality: Irish
Year of birth: 1946
Appointed (until): 2009 (2018)

BOARD FUNCTION
Non-executive, independent director.

BOARD COMMITTEES
Audit Committee, Remuneration Committee (Chairman).

PROFESSION
Non-executive board director.

NON-EXECUTIVE FUNCTIONS
Chairman of the Board of Directors of British American Tobacco and Craven House Capital. Member of the Board of Directors and Chairman of the Remuneration Committee of Rentokil Initial plc.

The Supervisory Board members' full CVs, including skills and competences, are available on www.carlsberggroup.com/who-we-are/about-the-carlsberg-group/supervisory-board/

SUPERVISORY BOARD

DONNA CORDNER

Nationality: American
Year of birth: 1956
Appointed (until): 2012 (2018)

BOARD FUNCTION
Non-executive, independent director.

BOARD COMMITTEES
Audit Committee (Chairwoman).

PROFESSION
Managing partner of OKM Capital.

NON-EXECUTIVE FUNCTIONS
Member of the Board of Directors of Lia Diagnostics.

NANCY CRUICKSHANK

Nationality: British
Year of birth: 1970
Appointed (until): 2017 (2018)

BOARD FUNCTION
Non-executive, independent director.

BOARD COMMITTEES
Remuneration Committee.

PROFESSION
Founder and CEO of MyShowcase.

NON-EXECUTIVE FUNCTIONS
Member of the Board of Directors of OnMobile.Global.

EVA VILSTRUP DECKER

Nationality: Danish
Year of birth: 1964
Appointed (until): 2014 (2018)

BOARD FUNCTION
Employee representative.

BOARD COMMITTEES
None.

PROFESSION
Director, Carlsberg Breweries A/S.

NON-EXECUTIVE FUNCTIONS
None.

KEES VAN DER GRAAF

Nationality: Dutch
Year of birth: 1950
Appointed (until): 2009 (2018)

BOARD FUNCTION
Non-executive, independent director.

BOARD COMMITTEES
Remuneration Committee, Nomination Committee.

PROFESSION
Non-executive board director.

NON-EXECUTIVE FUNCTIONS
Chairman of the Board of Directors of GrandVision NV, FSHD Unlimited and Basic-Fit NV. Member of the Board of Directors of EnPro Industries Inc.

Kees van der Graaf is not standing for re-election at the AGM in 2018.

FINN LOK

Nationality: Danish
Year of birth: 1958
Appointed (until): 2014 (2018)

BOARD FUNCTION
Employee representative.

BOARD COMMITTEES
None.

PROFESSION
Ph.D., Senior Scientist, Carlsberg A/S.

NON-EXECUTIVE FUNCTIONS
None.

The Supervisory Board members' full CVs, including skills and competences, are available on www.carlsberggroup.com/who-we-are/about-the-carlsberg-group/supervisory-board/

SUPERVISORY BOARD

ERIK LUND

Nationality: Danish
Year of birth: 1964
Appointed (until): 2015 (2018)

BOARD FUNCTION
Employee representative.

BOARD COMMITTEES
None.

PROFESSION
Head Brewer, Carlsberg A/S.

NON-EXECUTIVE FUNCTIONS
None.

SØREN-PETER FUCHS OLESEN

Nationality: Danish
Year of birth: 1955
Appointed (until): 2012 (2018)

BOARD FUNCTION
Non-executive, non-independent director.

BOARD COMMITTEES
None.

PROFESSION
Professor, D.M.Sc; Director of the Danish National Research Foundation.

NON-EXECUTIVE FUNCTIONS
Member of the Board of Directors of the Carlsberg Foundation.

PETER PETERSEN

Nationality: Danish
Year of birth: 1969
Appointed (until): 2010 (2018)

BOARD FUNCTION
Employee representative.

BOARD COMMITTEES
None.

PROFESSION
President of the Staff Association; Process Lead, Carlsberg Supply Company Danmark A/S.

NON-EXECUTIVE FUNCTIONS
None.

NINA SMITH

Nationality: Danish
Year of birth: 1955
Appointed (until): 2013 (2018)

BOARD FUNCTION
Non-executive, non-independent director.

BOARD COMMITTEES
None.

PROFESSION
Professor, M.Sc. (Econ); non-executive director.

NON-EXECUTIVE FUNCTIONS
Member of the Board of Directors of the Carlsberg Foundation. Chairman of the Board of Directors of Forenet Kredit. Deputy Chairman of the Board of Directors of Nykredit Realkredit A/S and Nykredit Holding A/S.

LARS STEMMERIK

Nationality: Danish
Year of birth: 1956
Appointed (until): 2010 (2018)

BOARD FUNCTION
Non-executive, non-independent director.

BOARD COMMITTEES
None.

PROFESSION
Professor, D.Sc; non-executive director.

NON-EXECUTIVE FUNCTIONS
Member of the Board of Directors of the Carlsberg Foundation.

The Supervisory Board members' full CVs, including skills and competences, are available on www.carlsberggroup.com/who-we-are/about-the-carlsberg-group/supervisory-board/

OUR MANAGEMENT TEAM

EXECUTIVE COMMITTEE

CEES 'T HART
PRESIDENT AND CEO SINCE 2015.

Nationality: Dutch
Year of birth: 1958

Prior to joining Carlsberg, Cees was CEO of the Dutch dairy company Royal FrieslandCampina, a position he had held since 2008. Prior to FrieslandCampina, Cees spent 25 years with Unilever, holding management positions across Eastern Europe, Western Europe and Asia. His last position at Unilever was as a member of the Europe Executive Board. Cees is a member of the Supervisory Board of KLM.

HEINE DALSGAARD
CFO SINCE 2016.

Nationality: Danish
Year of birth: 1971

Heine joined Carlsberg in 2016 from ISS, one of the world's largest facility services companies. He went to ISS in 2013, prior to the company's IPO in 2014. Before ISS, he was Group CFO at Grundfos, a leading global pump manufacturer. Heine's previous experience includes various senior management and financial positions at companies such as Carpetland, Hewlett Packard and Arthur Andersen.

CHRIS WARMOTH
EXECUTIVE VICE PRESIDENT, WESTERN EUROPE SINCE 2018.

Nationality: British
Year of birth: 1959

Chris first joined Carlsberg as Senior Vice President, Asia in 2014. During his tenure, he has been heading up Funding the Journey and, most recently, he was head of Group Strategy. Before Carlsberg, Chris worked for H.J. Heinz, where he held various senior management positions in Continental and Eastern Europe and the Far East, with his last position being Executive VP for Asia Pacific, Middle East and Africa. Prior to joining Heinz, Chris worked for The Coca-Cola Company and P&G.

JACEK PASTUSZKA
EXECUTIVE VICE PRESIDENT, EASTERN EUROPE SINCE 2015.

Nationality: Polish
Year of birth: 1963

Jacek joined Carlsberg in 2009 and has been Managing Director of our businesses in Poland, Norway and, since 2015, Russia. Prior to joining Carlsberg, Jacek was with P&G, where he held various sales positions in multiple markets, including customer team assignments with Wal-Mart in the USA and with Tesco in Central Europe and Asia. Jacek has also been Commercial VP for Danone in Poland and the Baltics, and General Manager for AIG operations in Poland.

GRAHAM FEWKES
EXECUTIVE VICE PRESIDENT, ASIA SINCE 2015.

Nationality: British
Year of birth: 1968

Graham joined Carlsberg as Commercial Vice President, Asia in 2008, before becoming Senior Vice President of Group Sales, Marketing & Innovation in 2014. Graham has strong experience in the global drinks business, having served in a wide range of international sales and marketing roles for Grand Metropolitan plc, Foster's Brewing Group and S&N plc.

PHIL HODGES
EXECUTIVE VICE PRESIDENT, GROUP SUPPLY CHAIN SINCE 2017.

Nationality: Swiss/British
Year of birth: 1966

Philip joined Carlsberg in February 2017. His most recent position was at Mondelēz, where he was Senior Vice President, heading up the integrated supply chain in Europe for Mondelēz International. His previous experience includes managerial positions with Kraft Foods in Europe, Asia and the USA within supply chain and finance.

Michiel Herkemij, EVP, Western Europe, will take a sabbatical starting from 28 February, 2018.
Jessica Spence has been appointed Chief Commercial Officer and member of ExCom with effect from 1 March 2018.

SHAREHOLDER INFORMATION

SHAREHOLDER **INFORMATION**

Carlsberg A/S is listed on Nasdaq Copenhagen. The Company has around 39,000 registered shareholders.

The Company has two share classes: Carlsberg A and Carlsberg B. Each A share carries 20 votes, while each B share carries two votes and is entitled to a preferential dividend. The B share is included in the Nasdaq OMX Nordic Large Cap and OMXC20 blue-chip indices.

In 2017, the Carlsberg B share price increased by 22%, reaching the all-time highest share price of DKK 754.50 on 14 November 2017.

As a supplement to its Copenhagen listing, the Company has established a sponsored level 1 ADR (American Depository Receipt) programme with J.P. Morgan. The ADRs trade over-the-counter in the USA under the symbol CABGY. More information on the ADR programme is available on our investor website.

MAJOR SHAREHOLDERS

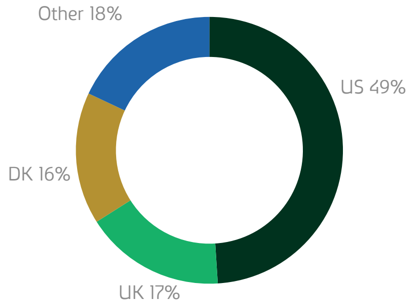
At 31 December 2017, the Company's largest shareholder was the Carlsberg Foundation with 30% of the capital and 75% of the votes. In accordance with section 29 of the Danish Securities Trading Act, Massachusetts Financial Services Company has notified Carlsberg that it too owns more than 5% of the share capital.

INVESTOR RELATIONS

The Carlsberg Group aims to give shareholders and the market the best possible insight into factors considered relevant for ensuring market-efficient and fair pricing of the Company's shares.

This is achieved through the quality, consistency and continuity of the information provided to the market, which is handled by the Group's Investor Relations department. We observe a four-week silent period prior to the publication of the annual and half-year reports, and a two-week silent period prior to the Q1 and Q3 trading statements.

Shareholder geographic split
(% of free float)

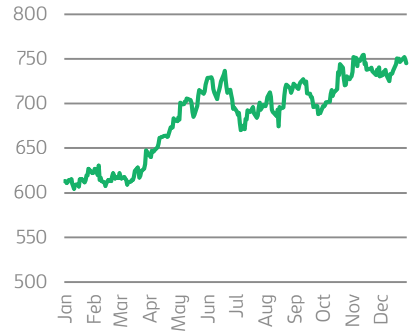


COMPANY WEBSITE

www.carlsberggroup.com provides comprehensive information about the Group and its shares and bonds, including company announcements, annual and quarterly reports, share prices and financial data, investor presentations, webcasts and transcripts, and a financial and events calendar. In addition, the Group maintains an Investor Relations iPad app featuring share data, announcements, quarterly statements, and annual reports and presentations.

At the end of 2017, a total of 36 analysts had coverage of the Company. Their names, recommendations and consensus estimates can be found on the website.

Carlsberg B share price 2017 (DKK)



Share information

Share class	A	B	Total
Number of shares	33,699,252	118,857,554	152,556,806
Carlsberg Foundation	33,020,540	13,243,432	46,263,972
Votes per share	20	2	
Par value	DKK 20	DKK 20	
Share price, year-end	DKK 703.00	DKK 745.00	
Proposed dividend per share	DKK 16.0	DKK 16.0	

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Income statement 52

Statement of comprehensive income 52

Statement of financial position 53

Statement of changes in equity 54

Statement of cash flows 56

Notes 57

PARENT COMPANY

Statements 125

Notes 129

REPORTS

Management statement 138

Auditor's report 139

SECTION 1
OPERATING ACTIVITIES

1.1 Business developments 58
1.2 Revenue and segmentation of operations 59
1.3 Operating expenses, inventories and deposit liabilities 60
1.4 Foreign exchange risk related to earnings 63
1.5 Cash flow from operating activities 64
1.6 Trade receivables and on-trade loans 65

SECTION 2
ASSET BASE AND RETURNS

2.1 Return on invested capital 68
2.2 Segmentation of assets 69
2.3 Impairment 70
2.4 Intangible assets and property, plant and equipment 77

SECTION 3
SPECIAL ITEMS AND PROVISIONS

3.1 Special items 81
3.2 Provisions 83
3.3 Contingent liabilities 83

SECTION 4
FINANCING COSTS, CAPITAL STRUCTURE AND EQUITY

4.1 Financial income and expenses 85
4.2 Net interest-bearing debt 86
4.3 Capital structure 86
4.4 Borrowings and cash 88
4.5 Foreign exchange risk related to net investments and financing activities 89
4.6 Interest rate risk 91
4.7 Liquidity risk 92
4.8 Derivative financial instruments 93

SECTION 5
ACQUISITIONS, DISPOSALS, ASSOCIATES AND JOINT VENTURES

5.1 Investment model and risks 95
5.2 Acquisitions and disposals 96
5.3 Cash flow effect from acquisitions and disposals 97
5.4 Non-controlling interests 97
5.5 Associates and joint ventures 98
5.6 Assets and liabilities held for sale 99

SECTION 6
TAX

6.1 Corporation tax 100
6.2 Deferred tax 101

SECTION 7
STAFF COSTS AND REMUNERATION

7.1 Staff costs 103
7.2 Remuneration 104
7.3 Share-based payments 105
7.4 Retirement benefit obligations and similar obligations 108

SECTION 8
OTHER DISCLOSURE REQUIREMENTS

8.1 Earnings per share 111
8.2 Related parties 112
8.3 Fees to auditors 112
8.4 Events after the reporting period 112

SECTION 9
BASIS FOR PREPARATION

9.1 Significant accounting estimates and judgements 113
9.2 General accounting policies 113
9.3 Changes in accounting policies 117
9.4 New legislation 118
9.5 Impact from changes in accounting policies and classification 119

SECTION 10
GROUP COMPANIES

10 Group Companies 121

INCOME STATEMENT

DKK million	Section	2017	2016
Revenue		86,942	86,957
Excise duties on beer and soft drinks etc.		-25,134	-24,343
Net revenue	1.2	**61,808**	**62,614**
Cost of sales	1.3.1	-30,325	-31,195
Gross profit		**31,483**	**31,419**
Sales and distribution expenses	1.3.3	-18,105	-18,476
Administrative expenses		-4,877	-5,220
Other operating activities, net	1.3.4	113	198
Share of profit after tax of associates and joint ventures	5.5	262	324
Operating profit before special items		**8,876**	**8,245**
Special items, net	3.1	-4,565	251
Financial income	4.1	803	919
Financial expenses	4.1	-1,591	-2,166
Profit before tax		**3,523**	**7,249**
Corporation tax	6.1	-1,458	-2,392
Consolidated profit		**2,065**	**4,857**
Attributable to			
Non-controlling interests	5.4	806	371
Shareholders in Carlsberg A/S		1,259	4,486
DKK			
Earnings per share	8.1		
Basic earnings per share of DKK 20		8.3	29.4
Diluted earnings per share of DKK 20		8.2	29.4

STATEMENT OF COMPREHENSIVE INCOME

DKK million	Section	2017	2016
Consolidated profit		**2,065**	**4,857**
Other comprehensive income			
Retirement benefit obligations	7.4	1,266	-957
Share of other comprehensive income in associates and joint ventures	5.5	-12	3
Corporation tax	6.1	-141	55
Items that will not be reclassified to the income statement		**1,113**	**-899**
Foreign exchange adjustments of foreign entities	4.1	-3,842	5,843
Value adjustments of hedging instruments	4.1	-305	141
Corporation tax	6.1	25	-34
Items that may be reclassified to the income statement		**-4,122**	**5,950**
Other comprehensive income		**-3,009**	**5,051**
Total comprehensive income		**-944**	**9,908**
Attributable to			
Non-controlling interests		499	393
Shareholders in Carlsberg A/S		-1,443	9,515

STATEMENT OF FINANCIAL POSITION

DKK million	Section	31 Dec. 2017	31 Dec. 2016
ASSETS			
Non-current assets			
Intangible assets	2.3, 2.4	67,793	76,736
Property, plant and equipment	2.3, 2.4	24,325	25,810
Investments in associates and joint ventures	5.5	4,266	4,701
Receivables	1.6	952	1,071
Deferred tax assets	6.2	1,663	1,610
Total non-current assets		**98,999**	**109,928**
Current assets			
Inventories	1.3.1	3,834	3,963
Trade receivables	1.6	4,611	5,485
Tax receivables		181	278
Other receivables	1.6	2,138	2,488
Prepayments		1,026	1,137
Cash and cash equivalents	4.4.2	3,462	3,502
Total current assets		**15,252**	**16,853**
Assets held for sale		-	125
Total assets		**114,251**	**126,906**

DKK million	Section	31 Dec. 2017	31 Dec. 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	4.3.2	3,051	3,051
Reserves		-33,485	-29,501
Retained earnings		77,364	77,261
Equity, shareholders in Carlsberg A/S		**46,930**	**50,811**
Non-controlling interests		2,595	2,839
Total equity		**49,525**	**53,650**
Non-current liabilities			
Borrowings	4.2, 4.4	23,340	21,137
Retirement benefit obligations and similar obligations	7.4	3,351	4,878
Deferred tax liabilities	6.2	5,601	6,250
Provisions	3.2	3,611	3,642
Other liabilities		3,757	3,199
Total non-current liabilities		**39,660**	**39,106**
Current liabilities			
Borrowings	4.2, 4.4	849	9,067
Trade payables		13,474	13,497
Deposits on returnable packaging	1.3.2	1,576	1,681
Provisions	3.2	591	722
Corporation tax		931	935
Other liabilities etc.		7,645	8,233
Total current liabilities		**25,066**	**34,135**
Liabilities associated with assets held for sale		-	15
Total liabilities		**64,726**	**73,256**
Total equity and liabilities		**114,251**	**126,906**

STATEMENT OF CHANGES IN EQUITY

DKK million	Shareholders in Carlsberg A/S							
2017	Share capital	Currency translation	Hedging reserves	Total reserves	Retained earnings	Equity, shareholders in Carlsberg A/S	Non-controlling interests	Total equity
Equity at 1 January	**3,051**	**-29,080**	**-611**	**-29,691**	**77,451**	**50,811**	**2,839**	**53,650**
Consolidated profit	**-**	**-**	**-**	**-**	**1,259**	**1,259**	**806**	**2,065**
Other comprehensive income								
Foreign exchange adjustments of foreign entities	-	-3,511	-	-3,511	-	-3,511	-331	-3,842
Value adjustments of hedging instruments	-	-352	46	-306	-	-306	1	-305
Retirement benefit obligations	-	-	-	-	1,243	1,243	23	1,266
Share of other comprehensive income in associates and joint ventures	-	-	-	-	-12	-12	-	-12
Corporation tax	-	41	-16	25	-141	-116	-	-116
Other comprehensive income	**-**	**-3,822**	**30**	**-3,792**	**1,090**	**-2,702**	**-307**	**-3,009**
Total comprehensive income for the year	**-**	**-3,822**	**30**	**-3,792**	**2,349**	**-1,443**	**499**	**-944**
Acquisition/disposal of treasury shares	-	-	-	-	-118	-118	-	-118
Settlement of share-based payments	-	-	-	-	-38	-38	-	-38
Share-based payments	-	-	-	-	33	33	-	33
Dividends paid to shareholders	-	-	-	-	-1,525	-1,525	-738	-2,263
Non-controlling interests	-	-	-	-	-790	-790	-2	-792
Disposal of entities	-	-	-	-	-	-	-3	-3
Total changes in equity	**-**	**-3,822**	**30**	**-3,792**	**-89**	**-3,881**	**-244**	**-4,125**
Equity at 31 December	**3,051**	**-32,902**	**-581**	**-33,483**	**77,362**	**46,930**	**2,595**	**49,525**

Foreign exchange adjustments of foreign entities are further described in section 4.1, retirement benefit obligations in section 7.4, corporation tax in section 6.1 and non-controlling interests in section 5.4.

The proposed dividend of DKK 16.00 per share, in total DKK 2,441m (2016: DKK 10.00 per share, in total DKK 1,526m), is included in retained earnings at 31 December 2017.

Dividends paid out in 2017 for 2016 amount to DKK 1,525m (paid out in 2016 for 2015: DKK 1,373m). Dividends paid out to shareholders of Carlsberg A/S do not impact taxable income in Carlsberg A/S.

STATEMENT OF CHANGES IN EQUITY

DKK million	Shareholders in Carlsberg A/S							
2016	**Share capital**	**Currency translation**	**Hedging reserves**	**Total reserves**	**Retained earnings**	**Equity, shareholders in Carlsberg A/S**	**Non-controlling interests**	**Total equity**
Equity at 1 January	**3,051**	**-34,910**	**-727**	**-35,637**	**76,075**	**43,489**	**3,742**	**47,231**
Consolidated profit	**-**	**-**	**-**	**-**	**4,486**	**4,486**	**371**	**4,857**
Other comprehensive income								
Foreign exchange adjustments of foreign entities	-	5,835	-	5,835	-	5,835	8	5,843
Value adjustments of hedging instruments	-	12	129	141	-	141	-	141
Retirement benefit obligations	-	-	-	-	-971	-971	14	-957
Share of other comprehensive income in associates and joint ventures	-	-	-	-	3	3	-	3
Corporation tax	-	-17	-13	-30	51	21	-	21
Other comprehensive income	**-**	**5,830**	**116**	**5,946**	**-917**	**5,029**	**22**	**5,051**
Total comprehensive income for the year	**-**	**5,830**	**116**	**5,946**	**3,569**	**9,515**	**393**	**9,908**
Capital increase	-	-	-	-	-	-	1	1
Acquisition/disposal of treasury shares	-	-	-	-	-1	-1	-	-1
Settlement of share-based payments	-	-	-	-	-64	-64	-	-64
Share-based payments	-	-	-	-	52	52	-	52
Dividends paid to shareholders	-	-	-	-	-1,373	-1,373	-617	-1,990
Non-controlling interests	-	-	-	-	-807	-807	-597	-1,404
Disposal of entities	-	-	-	-	-	-	-83	-83
Total changes in equity	**-**	**5,830**	**116**	**5,946**	**1,376**	**7,322**	**-903**	**6,419**
Equity at 31 December	**3,051**	**-29,080**	**-611**	**-29,691**	**77,451**	**50,811**	**2,839**	**53,650**

STATEMENT OF CASH FLOWS

DKK million	Section	2017	2016
Operating profit before special items		8,876	8,245
Adjustment for depreciation and amortisation		4,581	4,742
Adjustment for impairment losses[1]		126	19
Operating profit before depreciation, amortisation and impairment losses		**13,583**	**13,006**
Adjustment for other non-cash items	1.5	-279	-410
Change in trade working capital	1.5	848	1,021
Change in other working capital	1.5	388	-1,126
Restructuring costs paid		-364	-407
Interest etc. received		156	190
Interest etc. paid		-564	-1,193
Corporation tax paid		-1,934	-1,752
Cash flow from operating activities		**11,834**	**9,329**
Acquisition of property, plant and equipment and intangible assets		-4,053	-3,820
Disposal of property, plant and equipment and intangible assets		160	223
Change in on-trade loans	1.5	40	43
Total operational investments		**-3,853**	**-3,554**
Free operating cash flow		**7,981**	**5,775**
Acquisition and disposal of subsidiaries, net	5.3	268	1,969
Acquisition and disposal of associates and joint ventures, net	5.3	242	716
Acquisition and disposal of financial assets, net		10	5
Change in financial receivables	1.5	-54	-78
Dividends received		208	228
Total financial investments		**674**	**2,840**
Other investments in property, plant and equipment		-	-20
Disposal of other property, plant and equipment		25	21
Total other activities[2]		**25**	**1**
Cash flow from investing activities		**-3,154**	**-713**
Free cash flow		**8,680**	**8,616**
Shareholders in Carlsberg A/S	4.3.2	-1,681	-1,438
Non-controlling interests	4.3.2	-740	-1,015
External financing	4.4.1	-5,239	-6,752
Cash flow from financing activities		**-7,660**	**-9,205**
Net cash flow		**1,020**	**-589**
Cash and cash equivalents at 1 January[3]		2,348	3,020
Foreign exchange adjustment of cash and cash equivalents		-248	-83
Cash and cash equivalents at 31 December[3]	4.4.2	**3,120**	**2,348**

[1] Impairment losses excluding those reported in special items, cf. section 3.1.
[2] Other activities cover real estate, separate from beverage activities.
[3] Cash and cash equivalents less bank overdrafts.

SECTION 1

OPERATING ACTIVITIES

Operating profit* is a measure of our ability to enhance operational performance through top-line growth while containing or reducing costs by working more effectively and efficiently.

A strong **free cash flow** allows us to return value to shareholders, pay down debt and reinvest in our business.

61.8bn

NET REVENUE (DKK)

Organic net revenue growth of 1%. Reported net revenue declined by 1%, impacted by disposals.

8.9bn

OPERATING PROFIT (DKK)

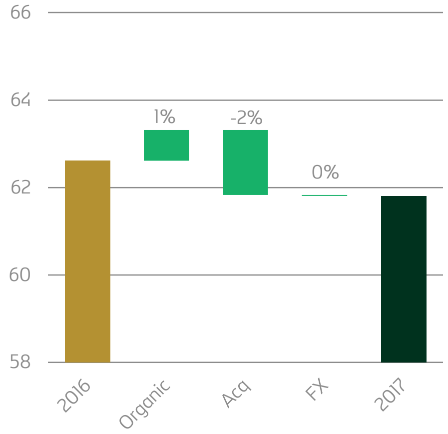
Organic operating profit growth of 8.4%, with all three regions delivering very solid performances.

8.7bn

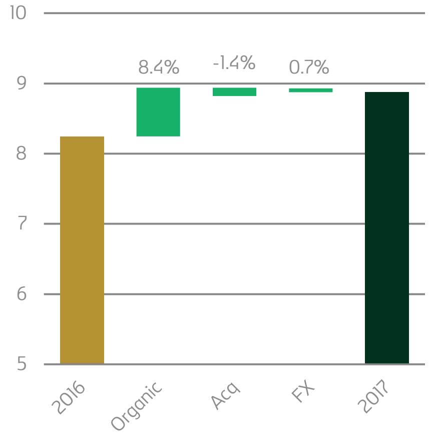
FREE CASH FLOW (DKK)

Positively impacted by a significant working capital improvement and higher operating profit before amortisation and depreciation.

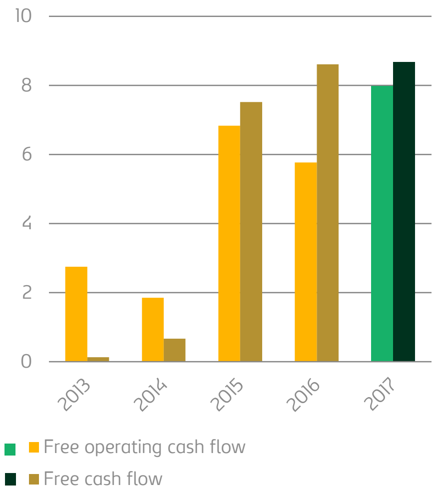
Net revenue growth (%)



Operating profit growth (%)



Free cash flow (DKKbn)



* Operating profit is defined in section 9.2.

SECTION 1.1

BUSINESS DEVELOPMENTS

Beer volumes declined organically by 3%, mainly impacted by the lower volumes in Russia. Other beverages grew organically by 2%, driven by growth in the Nordics and Asia. Total volumes declined by 2% organically and 4% in reported terms.

Reported net revenue was DKK 61,808m (2016: DKK 62,614m), a decline of 1% due to the net acquisition impact, mainly related to the divestment of the German wholesaler Nordic Getränke in 2017, the divestment of Carlsberg Malawi in 2016 and divestments of entities in China in both years. In organic terms, net revenue grew by 1%, driven by a positive price/mix of 3%.

Cost of sales per hl increased organically by approximately 3%, mainly due to overall cost inflation and the volume decline in Eastern Europe.

Reported gross profit was DKK 31,483m (2016: DKK 31,419m). The solid price/mix and efficiency improvements meant that the gross margin improved by 70bp to 50.9%.

Funding the Journey positively impacted operating expenses, which were down 2% organically. As a percentage of net revenue, reported operating expenses declined by 60bp to 37.2%. Marketing expenses as a percentage of net revenue were 9.7%, broadly in line with 2016.

Group financial performance

		Change				Change
Pro rata (million hl)	**2016**	**Organic**	**Acq., net**	**FX**	**2017**	**Reported**
Beer	116.9	-3%	-1%	-	112.4	-4%
Other beverages	21.9	2%	-6%	-	20.9	-4%
Total volume	**138.8**	**-2%**	**-2%**	**-**	**133.3**	**-4%**
DKK million						
Net revenue	62,614	1%	-2%	0%	61,808	-1%
Operating profit before special items	8,245	8.4%	-1.4%	0.7%	8,876	7.7%
Operating margin (%)	13.2				14.4	120bp

Operating profit increased organically by 8.4%, with all three regions delivering very solid performance. Reported operating profit was DKK 8,876m, corresponding to a growth rate of 7.7%. The minor, positive currency impact was more than offset by the negative impact from divestments.

The operating margin improved by 120bp to 14.4% in reported terms.

The Group's share of reported consolidated profit was DKK 1,259m (2016: DKK 4,486m) and earnings per share were DKK 8.3. Reported net profit was negatively impacted by special items of DKK -4.6bn, mainly as a result of the DKK 4.8bn impairment of the Baltika brand in Russia due to changed market dynamics following the PET downsizing due to a ban on individual PET bottles larger than 1.5 litres, our increased focus on local and regional brands and updated assumptions on interest rates.

Adjusted net profit (adjusted for special items after tax) was DKK 4,925m (2016: DKK 3,881m), and adjusted earnings per share were DKK 32.3, corresponding to a strong 27% improvement. The improvement was driven by the high operating profit growth, lower financial expenses and a significantly lower tax rate compared with 2016.

Free operating cash flow improved by 38%, driven by operating profit before depreciation, amortisation and impairment losses growth of 4%, a significant working capital improvement and lower interest payments.

Free cash flow amounted to DKK 8,680m (2016: DKK 8,616m), driven by the strong cash flow from operating activities of DKK 11,834m against DKK 9,329m in 2016, an increase of DKK 2,505m. This increase was due to stronger earnings and a positive contribution from working capital.

ACCOUNTING POLICIES

Reported figures are analysed by looking at the impact of: organic growth, net acquisitions and foreign exchange effects. The net acquisition effect is calculated as the effect of acquisitions and divestments, including any share obtained from increased/decreased ownership of associates and joint ventures, for a 12-month period from the acquisition/divestment date. The foreign exchange effect is the difference between the figures from the current reporting period translated at the exchange rates applying to the previous reporting period and the figures from the current reporting period. Organic growth is the remaining growth that is not related to acquisitions, divestments or foreign exchange effects.

SECTION 1.2

REVENUE AND SEGMENTATION OF OPERATIONS

The segmentation was changed as of 1 January 2017, as Carlsberg Supply Company was moved from the Not allocated segment to the Western Europe segment because the company is operationally focused on this region. Central costs not managed by Western Europe remain in the Not allocated segment. Comparative figures have been restated accordingly.

Not allocated net revenue, DKK 70m (2016: DKK 146m), consisted of DKK 1,438m (2016: DKK 1,484m) net revenue from other companies and activities and DKK -1,368m (2016: DKK -1,338m) from eliminations of sales between these other companies and the geographical segments.

Not allocated operating profit before special items, DKK -1,307m (2016: DKK -1,191m), consisted of DKK -1,242m (2016: DKK -981m) from other companies and activities and DKK -65m (2016: DKK -210m) from eliminations. The increase was mainly related to investments in SAIL'22 and one-off costs.

Segmentation of income statement

DKK million

2017	Western Europe	Eastern Europe	Asia	Not allocated	Beverages, total	Non-beverage	Carlsberg Group, total
Total net revenue	**36,306**	**10,878**	**14,554**	**70**	**61,808**	**-**	**61,808**
Total cost	-31,344	-8,658	-11,698	-1,377	-53,077	-117	-53,194
Share of profit after tax of associates and joint ventures	182	-	49	-	231	31	262
Operating profit before special items	**5,144**	**2,220**	**2,905**	**-1,307**	**8,962**	**-86**	**8,876**
Special items, net					-4,615	50	-4,565
Financial items, net					-774	-14	-788
Profit before tax					**3,573**	**-50**	**3,523**
Corporation tax					-1,485	27	-1,458
Consolidated profit					**2,088**	**-23**	**2,065**
Operating margin	14.2%	20.4%	20.0%		14.5%		14.4%

2016	Western Europe	Eastern Europe	Asia	Not allocated	Beverages, total	Non-beverage	Carlsberg Group, total
Total net revenue	**37,597**	**10,205**	**14,666**	**146**	**62,614**	**-**	**62,614**
Total cost	-32,880	-8,383	-12,008	-1,321	-54,592	-101	-54,693
Share of profit after tax of associates and joint ventures	141	10	144	-16	279	45	324
Operating profit before special items	**4,858**	**1,832**	**2,802**	**-1,191**	**8,301**	**-56**	**8,245**
Special items, net					263	-12	251
Financial items, net					-1,237	-10	-1,247
Profit before tax					**7,327**	**-78**	**7,249**
Corporation tax					-2,402	10	-2,392
Consolidated profit					**4,925**	**-68**	**4,857**
Operating margin	12.9%	18.0%	19.1%		13.3%		13.2%

Geographical allocation of net revenue

DKK million	2017	2016
Denmark (Carlsberg A/S' domicile)	4,400	4,445
Russia	8,052	7,755
China	7,111	7,002
Other countries	42,245	43,412
Total	**61,808**	**62,614**

The DKK value of revenue in Russia was impacted by the increase in the average RUB/DKK rate in 2017, while the revenue in China was impacted by the adverse currency developments.

Intra-segment revenue

DKK million	2017	2016
Western Europe	50	54
Eastern Europe	50	40

SECTION 1.2 (CONTINUED)

REVENUE AND SEGMENTATION OF OPERATIONS

ACCOUNTING ESTIMATES AND JUDGEMENTS

The classification of duties, taxes and fees paid to local authorities or brewery organisations etc. and of discounts and marketing-related activities requires accounting estimates to be made by management.

Locally imposed duties, taxes and fees are typically based on product type, alcohol content, consumption of certain raw materials, such as glue, plastic or metal in caps, and energy consumption. Duties and fees are classified as either sales-related duties, which are deducted from revenue, or as taxes and fees related to the input/use of goods in production, transportation, distribution etc., which are recognised as an expense in the relevant line item. The type of authority or organisation imposing the duty, tax or fee as well as their objective are a key factor for the classification.

Customer discounts are recognised in the same period as the related sales and deducted from revenue.

Customer discounts are based on expected accumulated sales volumes over a period of time using historical and year-to-date sales figures and other current information about trading with the customer. These calculations are performed by local management in cooperation with sales managers.

Management assesses the agreements with, services provided by and payments made to customers and to their customers to determine the substance and thereby the classification as either discounts or trade marketing expenses. Expenses incurred for activities closely related to volumes sold are classified as discounts, while costs related to more general market activities are classified as trade marketing expenses.

ACCOUNTING POLICIES

Revenue is generated mainly by sales of goods, royalty income, porterage income, rental income from non-stationary equipment, service fees and sales of by-products.

Revenue from the sale of own-produced finished goods, goods for resale (third-party products) and by-products is recognised in the income statement when all significant risks and rewards have been transferred to the customer and when the income can be reliably measured and is expected to be received. For the majority of sales transactions, the risks and rewards are transferred to the customer on delivery.

Royalty and licence fees are recognised when earned according to the terms of the licence agreements.

Revenue is measured at the fair value of the consideration received. Amounts disclosed as revenue include excise duties on beer and soft drinks and exclude discounts, VAT and other duties.

Discounts

Sales reductions in the form of discounts and fees are widely used in the beverage industry. Furthermore, the Group grants or pays various discounts and fees depending on the nature of the customer and business.

Discounts comprise off-invoice discounts, volume- and activity-related discounts, including specific promotion prices offered, and other discounts. Furthermore, discounts include the difference between the present value and the nominal amount of on-trade loans to customers and any repayment of those through discounts, c.f. section 1.6.

Off-invoice discounts arise from sales transactions where the customer immediately receives a reduction in the sales price. This also includes cash discounts and incentives for early payments.

Volume- and activity-related discounts is a broad term covering incentives for customers to sustain business with the Group over a longer time and can be related to a current campaign or a sales target measured in volumes. Examples include discounts paid as a lump sum, discounts for meeting all or certain sales targets or for exceeding targets, or progressive discounts offered in step with increasing sales to a customer.

Other discounts include listing fees, i.e. fees for listing on certain shelves or in certain coolers or payment for a favourable store location, as such specific promotions are closely related to the volumes sold.

Discounts are estimated and recognised monthly based on experience and expectations for sales to an individual customer or groups of customers.

Segment information

The Group's beverage activities are segmented according to the three geographical regions where production takes place. These regions make up the Group's reportable segments. The non-beverage activities are managed separately and therefore not segmented geographically but shown separately.

The segmentation reflects the geographical and strategic management, decision and reporting structure applied by the Executive Committee for internal control and monitoring of the Group's strategic and financial targets. Segments are managed based on business performance measured as operating profit before special items.

Not allocated comprises income and expenses incurred for ongoing support of the Group's overall operations, strategic development and driving efficiency programmes. The expenses include costs of running central functions and central marketing, including global sponsorships.

The geographical allocation is made based on the selling entities' domicile and comprises countries individually accounting for more than 10% of the Group's consolidated net revenue as well as the domicile country.

Decisions on restructurings, acquisition and divestment of entities included in special items and on financing (interest income and expenses) and tax planning (income tax) are made based on information for the Group as a whole and therefore not segmented.

SECTION 1.3

OPERATING EXPENSES, INVENTORIES AND DEPOSIT LIABILITIES

1.3.1 COST OF SALES AND INVENTORIES

Cost of sales decreased by 3% due to continued production efficiency improvements, the brewery closures in Asia and disposal of Nordic Getränke as well as the organic decline in sales volume of 2%. Organically, cost of sales per hl increased by approximately 3%, mainly due to overall cost inflation, product mix and the volume decline in Eastern Europe.

Cost of sales

DKK million	2017	2016
Cost of materials	16,147	16,178
Direct staff costs	1,357	1,364
Machinery costs	832	873
Amortisation and depreciation	3,263	3,267
Indirect production overheads	3,331	3,448
Purchased finished goods and other costs	5,395	6,065
Total	**30,325**	**31,195**

SECTION 1.3 (CONTINUED)

OPERATING EXPENSES, INVENTORIES AND DEPOSIT LIABILITIES

Inventories decreased by 3% compared with 2016. Raw materials and consumables decreased by 5% as an effect of lower purchase price of grain in 2017 and higher stocks of packaging materials in Russia in 2016.

Inventories

DKK million	2017	2016
Raw materials and consumables	1,625	1,716
Work in progress	269	282
Finished goods	1,940	1,965
Total	**3,834**	**3,963**

Raw and packaging material risks are associated in particular with purchasing of cans (aluminium), malt (barley) and energy. The management of raw and packaging material risks is coordinated centrally and aimed at achieving stable and predictable raw and packaging material prices in the medium term and avoiding capital and liquidity being tied up unnecessarily.

As the underlying markets for the specified categories of raw and packaging materials vary, so does the way in which they are hedged against price increases.

The most common form of hedging is fixed-price purchase agreements in local currencies with suppliers.

It is Group policy to fix the prices of at least 70% of malt (barley) purchases for a given year no later than at the end of the third quarter of the previous year. The main part of the exposure for the Group for 2017 was therefore hedged through fixed-price purchase agreements entered into during 2016. Likewise, the majority of the exposure for 2018 was hedged during 2017. The percentage that is hedged or price-fixed is higher for Western Europe and Eastern Europe than for Asia.

To hedge the risk of volatile aluminium prices associated with the purchase of cans, the Group's purchase price in the majority of purchase agreements is variable and based on the global market price of aluminium (London Metal Exchange, LME). The Group is thereby able to hedge the underlying aluminium price risk.

In 2017, the majority of the aluminium price risk was hedged for Western Europe and Eastern Europe. The same has been done for 2018. The total volume of aluminium purchased via financial instruments was 66,424 tonnes at the end of 2017 (2016: 66,284 tonnes). Based on this volume, and assuming 100% efficiency, a 10% increase (decrease) in aluminium prices would impact equity positively (negatively) by DKK 93m (2016: DKK 79m). The fair values of the financial instruments are specified in section 4.8.

ACCOUNTING ESTIMATES AND JUDGEMENTS

At least once a year, local management assesses whether the standard cost of inventories is a close approximation of the actual cost. The standard cost is revised if, during the year, it deviates by more than 5% from the actual cost of the individual product.

Management also assesses the impact on the standard cost of government and other grants received to fund operating activities. This includes assessing the terms and conditions of grants received and the risk of any repayment.

Funding and grants are recognised in the income statement in the same period as the activities to which they relate.

Indirect production overheads are calculated on the basis of relevant assumptions as to capacity utilisation, production time and other factors pertaining to the individual product.

The calculation of the net realisable value of inventories is mainly relevant to packaging materials, point-of-sale materials and spare parts. The net realisable value is normally not calculated for beer and soft drinks due to their limited shelf-life means that slow-moving goods must be scrapped instead. The individual entities impacted by the current macroeconomic situation in Eastern Europe have paid special attention to inventory turnover and the remaining shelf-life when determining the net realisable value and scrapping.

ACCOUNTING POLICIES

Cost of sales comprises mainly cost of materials, including malt (barley), hops, glass, cans, other packaging materials, and indirect production costs. Purchased finished goods include cost of point-of-sale materials and third-party products sold to customers.

Own-produced finished goods and work in progress are measured at standard cost comprising the cost of raw materials, consumables, direct labour and indirect production overheads. Indirect production overheads comprise indirect supplies, wages and salaries, amortisation of brands and software, as well as maintenance and depreciation of machinery, plant and equipment used for production, and costs of production, administration and management.

The cost of purchased finished goods, raw and packaging materials and point-of-sale materials includes any costs that are directly related to bringing inventories to the relevant place of sale and getting them ready for sale, for example purchase cost, insurance, freight, duties and similar costs.

Inventories are measured at the lower of standard cost (own-produced finished goods) and weighted average cost (other inventories), or net realisable value. The net realisable value of inventories is calculated as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and developments in expected selling price.

The cost of scrapped/impaired goods is expensed within the function (line item) responsible for the loss, i.e. losses during distribution are included in the cost of distribution, while the scrapping of products due to sales not meeting forecasts is included in sales expenses.

SECTION 1.3 (CONTINUED)

OPERATING EXPENSES, INVENTORIES AND DEPOSIT LIABILITIES

1.3.2 DEPOSIT LIABILITIES ON RETURNABLE PACKAGING

In a number of countries, the local entities have a legal or constructive obligation to take back returnable packaging from the market. When invoicing customers, the entity adds a deposit to the sales price and recognises a deposit liability. The deposit is paid out upon return of bottles, cans etc.

The deposit liabilities amounted to DKK 1,576m (2016: DKK 1,681m), while the value of returnable packaging materials amounted to DKK 1,855m (2016: DKK 2,288m).

The value of returnable packaging materials declined during 2017 as a consequence of tighter management of returnable packaging and write-down of bottles following SKU reductions.

The capitalised value of returnable packaging materials exceeds the deposit liability because each of the returnable packaging items circulates a number of times in the market and the deposit value in some markets is legally set lower than the cost of the returnable packaging.

ACCOUNTING ESTIMATES AND JUDGEMENTS

Management assesses the local business model, contracts and agreements, the level of control over returnable packaging and the return rate to determine the accounting treatment of returnable packaging as either property, plant and equipment or inventories.

The deposit liability is estimated based on movements in the year in recognised deposit liabilities, loss of returnable packaging in the market, planned changes in packaging types and historical information about return rates.

ACCOUNTING POLICIES

The obligation to refund deposits on returnable packaging is measured on the basis of deposit price, an estimate of the number of bottles, kegs, cans and crates in circulation and expected return rates.

The accounting policy for returnable packaging capitalised as property, plant and equipment is described in section 2.4.

1.3.3 SALES AND DISTRIBUTION EXPENSES

Sales and distribution expenses declined by 2% in reported terms and organically by 1%. The reported figure was negatively impacted by the foreign currency translation, a decrease in logistics costs of approximately 4%, which was driven by the disposal of entities in 2017, and lower brand marketing expenses than in 2016, which included the UEFA EURO sponsorship.

Sales and distribution expenses

DKK million	2017	2016
Marketing expenses	5,980	6,211
Sales expenses	5,645	5,525
Distribution expenses	6,480	6,740
Total	**18,105**	**18,476**

ACCOUNTING POLICIES

Marketing expenses consist of expenses for brand marketing and trade marketing. Brand marketing is an investment in the Group's brands and consists of brand-specific investments in the development of communication vehicles and the use of these to drive the sale of branded products and services.

Brand marketing activities comprise sales campaigns, sponsorships, advertising and in-store displays.

Trade marketing is promotional activities directed towards customers, such as the supply of point-of-sale materials, promotional materials and trade offers.

Sales and distribution expenses comprise costs relating to general sales activities, write-downs for bad debt losses, sales staff as well as depreciation and impairment of sales equipment and costs incurred in distributing goods sold during the year.

1.3.4 OTHER OPERATING ACTIVITIES, NET

Other operating activities are secondary to the principal activities of the Group and include income and expenses relating to rental properties, restaurants, on-trade loans, research activities, and gains and losses on the disposal of intangible assets and property, plant and equipment.

Other operating activities, net

DKK million	2017	2016
Gains and losses on disposal of property, plant and equipment and intangible assets	26	-34
On-trade loans, net	31	96
Real estate, net	-18	-9
Research centres, net	-120	-104
Other, net	194	249
Total	**113**	**198**

ACCOUNTING POLICIES

Gains and losses on disposal of intangible assets and property, plant and equipment are determined as the sales price less selling costs and the carrying amount at the disposal date.

On-trade loans, net, comprise the effective interest on the loans calculated on the basis of amortised cost less impairment of on-trade loans.

Expenses relating to research activities comprise research in Denmark and France less funding received from the Carlsberg Foundation for the operation of the Carlsberg Research Laboratory and grants received to fund research. The funding and grants are recognised in the income statement in the same period as the activities to which they relate. Development costs are included in cost of sales.

SECTION 1.4

FOREIGN EXCHANGE RISK RELATED TO EARNINGS

A significant part of the Group's activities takes place outside Denmark and in currencies other than DKK. Foreign exchange risk is therefore a principal financial risk for the Group and, as such, exchange rate fluctuations can have a significant impact on the income statement.

TRANSACTION RISKS ON PURCHASES AND SALES

The Group is exposed to transaction risks on purchases and sales in currencies other than the functional currency of the local entities. It is therefore the Group's intention to hedge 70-90% of future cash flows in currencies other than the functional currency of the entities on a 12-month rolling basis.

Western Europe

Hedging of the transaction risk will effectively eliminate a significant part of the currency risk on Western European entities' operating profit in local currency. Since a major part of the purchases in foreign currency is in EUR, this will not constitute a risk at Group level. Therefore, these hedges are effectively an economic hedge of (parts of) the net revenue in the relevant currency, and they are accounted for as cash flow hedges, cf. section 4.8.

Eastern Europe

Baltika Breweries and the other markets in Eastern Europe have expenses in both USD and EUR, and appreciation of the RUB and other currencies vis-à-vis EUR and USD has a positive impact on operating profit, while depreciation has a negative effect. The Group has chosen not to systematically hedge the transaction risk in Eastern Europe to the same degree as in Western Europe due to the significant cost of hedging these currencies over a longer period of time. For 2018 the Group has chosen to hedge a portion of Baltika Breweries' expenses in USD. The volatility of the Eastern European currencies will continue to affect operating profit measured in both DKK and local currency.

Asia

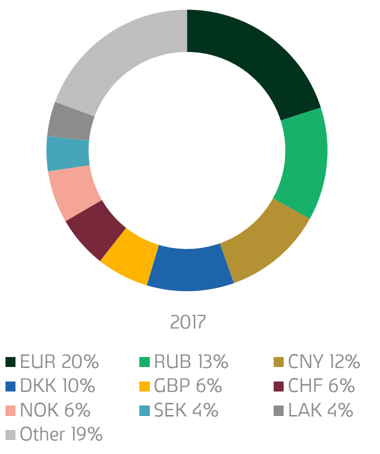
The transaction risk is considered to be less significant compared with the risk in the other regions because of the lower sales and purchases in currencies other than the functional currencies as well as the high correlation between USD and most of the Asian currencies.

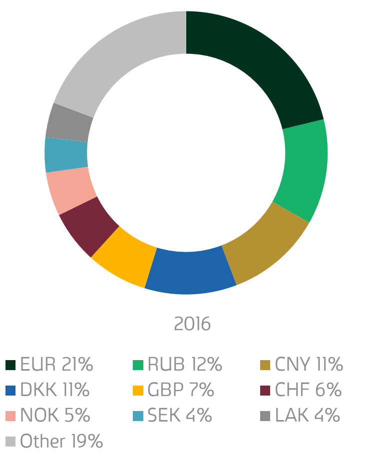
TRANSLATION RISK

The Group is exposed to risk from translation of foreign entities into the Group's presentation currency, DKK. Despite a decrease in the net revenue generated on the Russian market, the Group's single largest volatility-weighted exposure continued to be the exposure to RUB. However, Asian currencies, such as CNY and LAK, account for an increasing part of the Group's net revenue.

The exposure to fluctuations in EUR/DKK is considered to be limited due to Denmark's fixed exchange rate policy towards EUR.

Net revenue by functional currency (%)





The Group has chosen not to hedge the exposure arising from translation of revenue or earnings in foreign currencies, but some of the Group's debt is denominated in currencies in which the Group generates significant earnings and cash flow.

Impact on operating profit

Developments in exchange rates between DKK and the functional currencies of foreign entities had a negative impact on operating profits from Western Europe and Asia measured in DKK, while the impact from the increase in the average RUB/DKK rate had a positive impact on operating profits measured in DKK. At Group level, the positive net impact was less than 1%.

Entities in	Functional currency	Change in average FX rate 2016 to 2017
Countries in the eurozone	EUR	-0.08%
Russia	RUB	+11.30%
China	CNY	-3.60%
United Kingdom	GBP	-6.90%
Switzerland	CHF	-1.60%
Norway	NOK	-0.80%
Sweden	SEK	-2.00%
Laos	LAK	-2.60%

SECTION 1.5

CASH FLOW FROM OPERATING ACTIVITIES

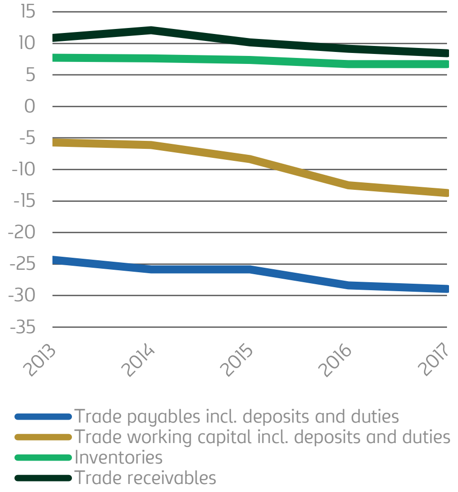
Cash flow from operating activities increased by DKK 2,505m to DKK 11,834m. The significant change compared with 2016 was due to improvement in operating profit before depreciation, amortisation and impairment losses and trade working capital, lower cash outflow from financial items as well as the cash flow in 2016 being affected by an extraordinary payment into the Group's pension fund in the UK.

Average trade working capital as a percentage of net revenue was -13.7% (12-month average), an improvement of 120bp compared with 2016, and was positively impacted by our continued efforts to optimise trade working capital.

The Group continues its efforts to improve cash flow and continually looks into new initiatives. In some major markets, the Group uses receivable transfer agreements to sell trade receivables on a non-recourse basis. The cash flow relating to trade payables was improved due to the Group's ongoing efforts to achieve better payment terms with suppliers.

Free cash flow increased to DKK 8,680m (2016: DKK 8,616m), driven by the improvement in operating cash flow, which was, however, partially offset by lower divestment activities in 2017 compared with 2016. Please refer to section 5 for a detailed description of disposal of entities.

Average trade working capital (% of net revenue)

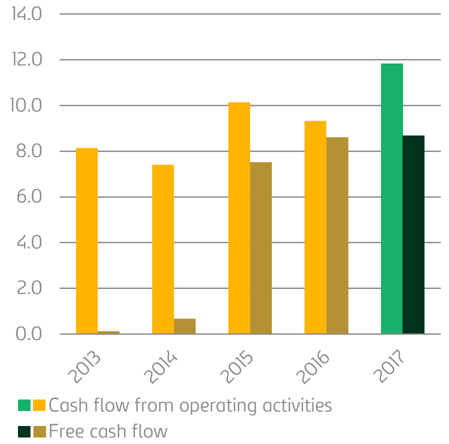


ACCOUNTING POLICIES

Cash flow from operating activities is calculated using the indirect method as the operating profit before special items adjusted for non-cash operating items, changes in working capital, restructuring costs paid, interest received and paid, and corporation tax paid.

Cash flow from assets held under finance leases is recognised as payment of interest and repayment of debt.

Cash flow from operating activities and free cash flow (DKKbn)



Other specifications of cash flow from operating activities

DKK million	2017	2016
Other non-cash items		
Share of profit after tax of associates and joint ventures	-262	-324
Gain on disposal of property, plant and equipment and intangible assets, net	-26	34
Other items	9	-120
Total	**-279**	**-410**
Trade working capital		
Inventories	-75	-83
Trade receivables	467	201
Trade payables, duties payable and deposit liabilities	456	903
Total	**848**	**1,021**
Other working capital		
Other receivables	375	202
Other payables	-70	-719
Retirement benefit obligations and other liabilities related to operating profit before special items	108	-714
Adjusted for unrealised foreign exchange gains/losses	-25	105
Total	**388**	**-1,126**
On-trade loans		
Loans provided	-710	-676
Repayments	460	481
Amortisation of on-trade loans	290	238
Total	**40**	**43**
Financial receivables		
Loans and other receivables	-69	-95
Other financial receivables	15	17
Total	**-54**	**-78**

SECTION 1.6

TRADE RECEIVABLES AND ON-TRADE LOANS

Receivables included in the statement of financial position

DKK million	2017	2016
Trade receivables	4,611	5,485
Other receivables	2,138	2,488
Total current receivables	**6,749**	**7,973**
Non-current receivables	952	1,071
Total	**7,701**	**9,044**

The Group's non-current receivables consist mainly of on-trade loans. Non-current receivables fall due more than one year from the reporting date, with DKK 188m (2016: DKK 180m) falling due more than five years from the reporting date.

Receivables by origin

DKK million	2017	2016
Sale of goods and services	4,203	5,022
On-trade loans	1,251	1,370
Other receivables	2,247	2,652
Total	**7,701**	**9,044**

The carrying amount of receivables approximates their fair value. For on-trade loans, the fair value is calculated as discounted cash flows using the interest rate at the reporting date.

ON-TRADE LOANS

Under certain circumstances the Group grants loans to on-trade customers in France, the UK, Germany, Switzerland and Sweden. On-trade loans are spread across a large number of customers/debtors and consist of several types of loan, including loans repaid in cash or through reduced discounts, and prepaid discounts. The operating entities monitor and control these loans in accordance with Group guidelines.

On-trade loans recognised in other operating activities, net

DKK million	2017	2016
Interest and amortisation of on-trade loans	64	81
Losses and write-downs on on-trade loans	-33	15
On-trade loans, net	**31**	**96**

The average effective interest rate on loans to the on-trade was 4.1% (2016: 4.8%).

! ACCOUNTING ESTIMATES AND JUDGEMENTS

On-trade loan agreements are typically complex and cover several aspects of the relationship between the parties. Management assesses the recognition and classification of income and expenses for each of these agreements, including the allocation of payments from the customer between revenue, discounts, interest on the loan (other operating activities) and repayment of the loan.

Management also assesses whether developments of importance to the on-trade could indicate impairment of on-trade loans in a market in general. Such developments include changes in local legislation, which may have an adverse effect on earnings in the industry as a whole and where the effect cannot be allocated to individual loans.

1.6.1 CREDIT RISK

Exposure to credit risk on receivables is managed locally, and credit limits are set as deemed appropriate for the customer taking into account the current local market conditions.

It is Group policy to reduce the credit risk through prepayments or cash payments on delivery, especially for certain categories of customers in each country. The local entities assess the credit risk and whether it is appropriate and cost-effective to hedge the credit risk by way of credit or bank guarantees, credit insurance, conditional sale etc. Such security is taken into account when assessing impairment losses. Security is primarily received from on-trade customers.

On-trade loans are usually repaid through discounts during the continuing sales relationship with the individual customer, which is reflected in the repayment scheme and the discounting of the loans. Consequently, there are no significant on-trade loans past due.

The credit risk on on-trade loans is usually reduced through collateral and pledges of on-trade movables (equipment in bars, cafés etc.). The fair value of the pledged on-trade movables cannot be estimated reliably but is assessed to be insignificant, as the movables cannot readily be used again.

EXPOSURE TO CREDIT RISK

In 2017, 87% (2016: 88%) of the total receivables were neither impaired nor past due. To reflect the current economic situation in Eastern Europe and Asia, an additional write-down for bad debt losses was made in 2017.

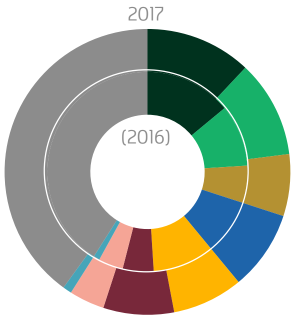
Translated into DKK, the proportionate share of the Group's total receivables in Russia decreased to 12% at year-end 2017 (2016: 14%), mainly due to volumes being flat and improvements in collection. The share of receivables in Germany decreased to 8% at year-end 2017 (2016: 10%), mainly due to the sale of Nordic Getränke. The share of receivables in Poland increased to 8% at year-end 2017 (2016: 5%), due to onboarding of new customers. The change in the remaining countries was not significant.

The impairment losses at 31 December 2017 related to several minor customers that have – in different ways – indicated that they do not expect to be able to pay their outstanding balances, mainly due to adverse economic developments.

SECTION 1.6 (CONTINUED)

TRADE RECEIVABLES AND ON-TRADE LOANS

Trade receivables and on-trade loans
(Broken down by country)



- Russia 12% (14%)
- UK 11% (10%)
- France 7% (6%)
- Switzerland 9% (9%)
- Germany 8% (10%)
- Poland 8% (5%)
- Sweden 4% (4%)
- China 1% (1%)
- Other 40% (41%)

ACCOUNTING ESTIMATES AND JUDGEMENTS

In assessing credit risk, management analyses the need for impairment of trade receivables due to customers' inability to pay. The financial uncertainty associated with impairment of trade receivables is considered to be limited. However, if the ability to pay deteriorates in the future, further impairment may be necessary.

Impairment losses are based on an individual review of the need for impairment, taking into consideration the customers' creditworthiness and expected ability to pay, customer insolvency or anticipated insolvency, and past due amounts and collateral received. When no objective indication of individual impairment exists, management assesses the need to recognise impairment for a portfolio of receivables based on customer segments, historical information on payment patterns, terms of payment, concentration maturity, and information about the general economic situation in the countries. The portfolios are based on on-trade and off-trade customers, and on-trade receivables and loans.

With regard to the on-trade loans, the individual Group entities manage and control these loans as well as standard trade credits in accordance with Group guidelines.

Derecognition of groups of receivables, for example in business combinations or other structured transactions, is based on management's judgement of contractual terms and other factors related to the transaction.

ACCOUNTING POLICIES

Receivables are recognised initially at fair value and subsequently measured at amortised cost less impairment losses.

Trade receivables comprise sale of invoiced goods and services as well as short-term on-trade loans to customers. Other receivables comprise VAT receivables, loans to partners, associates and joint ventures, interest receivables and other financial receivables.

Regarding the on-trade loans, any difference between the present value and the nominal amount at the loan date is treated as a prepaid discount to the customer, which is recognised in the income statement in accordance with the terms of the agreement.

The market interest rate is used as the discount rate, corresponding to the money market rate based on the maturity of the loan with the addition of a risk premium. The effective interest on these loans is recognised in other operating activities, net. The amortisation of the difference between the discount rate and the effective interest rate is included as a discount in revenue.

Impairment losses are calculated as the difference between the carrying amount and the net realisable value, including the expected net realisable value of any collateral provided.

Development in impairment losses on receivables

DKK million					2016
2017	Trade receivables	On-trade loans	Other receivables	Total	Total
Impairment at 1 January	-734	-258	-20	-1,012	-1,043
Impairment losses recognised	-266	-59	-	-325	-290
Realised impairment losses	119	41	-	160	108
Reversed impairment losses	42	27	11	80	99
Disposal of entities/transfers	44	12	-2	54	114
Impairment at 31 December	**-795**	**-237**	**-11**	**-1,043**	**-1,012**

Ageing of receivables and on-trade loans

DKK million					
2017	Net carrying amount at 31 Dec.	Neither impaired nor past due	Past due less than 30 days	Past due between 30 and 90 days	Past due more than 90 days
Sale of goods and services	4,203	3,683	223	99	198
On-trade loans	1,251	1,189	1	7	54
Other receivables	2,247	1,849	14	179	205
Total	**7,701**	**6,721**	**238**	**285**	**457**
Total 2016	**9,044**	**7,980**	**385**	**340**	**339**

SECTION 2

ASSET BASE AND RETURNS

Maximising return on investments is key in delivering **sustainable value** to our shareholders. Return on invested capital (ROIC) analyses all investments throughout the value chain and is a key measure in ensuring the proper basis for decision-making.

The **asset base** represents the total investment in intangible assets and property, plant and equipment and accounts for the most significant part of the total invested capital.

-4.8bn

IMPAIRMENT (DKK)

Further impairment of brands, primarily Baltika, as consumer trends in Russia are shifting from national brands to local and regional brands, leading to increased strategic focus on other brands in the Baltika Breweries portfolio.

4.1bn

CAPEX (DKK)

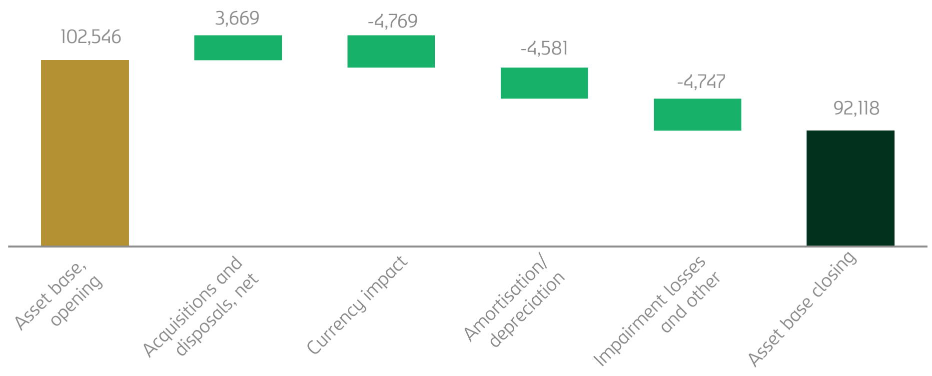
Increased by DKK 0.2bn, mainly impacted by the new greenfield brewery in India.

6.9%

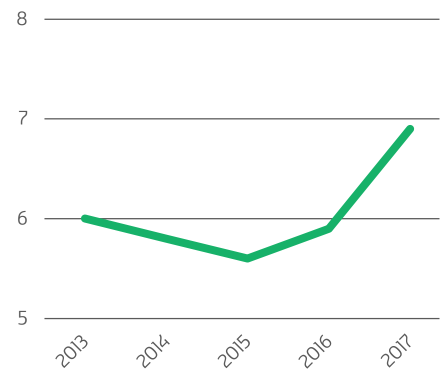
ROIC

Increased by 100bp and continues to be a key focus area for the Group.

Asset base (DKKm)



Return on invested capital (ROIC) (%)



SECTION 2.1

RETURN ON INVESTED CAPITAL

The calculation of ROIC uses operating profit before special items adjusted for tax using the effective tax rate, and invested capital including assets held for sale and trade receivables sold, and excludes contingent considerations and corporation tax. The calculation changed from 1 January 2017, and the comparative figures have been restated accordingly.

ROIC increased by 100bp to 6.9% (2016: 5.9%). ROIC excluding goodwill increased by 300bp to 15.7% (2016: 12.7%). ROIC was impacted by an increase in operating profit before special items adjusted for effective tax and the lower average invested capital, both having a positive impact.

Invested capital was affected by a decrease in total assets, primarily attributable to changes in foreign exchange rates as well as the DKK 4.8bn impairment of the Baltika brand, cf. section 2.3.

The negative impact on total assets from foreign exchange rates is attributed to Russia, DKK 2.6bn, and China, DKK 1.1bn, compared with the DKK value they would have had if they had been translated at the exchange rates applied at year-end 2016.

CapEx increased by DKK 0.2bn, mainly impacted by the new greenfield brewery in India. However, the negative effect on ROIC was partially offset by the increase in CapEx/amortisation and depreciation to 86% (2016: 81%).

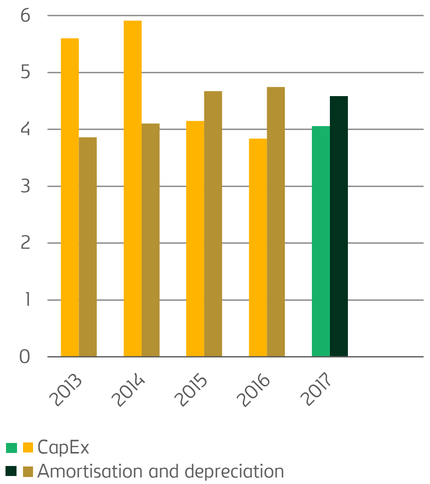
As the impairment loss on the Baltika brand was recognised at year-end, it did not have a full-year impact on the average invested capital for 2017 but will have full impact on the average invested capital for 2018. If the impairment had been recognised at 1 January 2017, ROIC would have been 7.2% and ROIC excluding goodwill would have been 17.7%.

In 2017, goodwill decreased, primarily due to foreign exchange impact, cf. section 2.4.

Invested capital

DKK million	2017	2016
Total assets	114,251	126,906
Less		
Deferred tax assets	-1,663	-1,610
Interest receivables, fair value of hedging instruments, receivables sold and financial receivables	1,386	1,119
Cash and cash equivalents	-3,462	-3,502
Assets included	**110,512**	**122,913**
Trade payables	-13,474	-13,497
Deposits on returnable packaging	-1,576	-1,681
Provisions, excluding restructurings	-3,709	-3,703
Deferred income	-721	-941
Other liabilities, excluding deferred income, interest payable and fair value of hedging instruments	-6,544	-7,002
Liabilities offset	**-26,024**	**-26,824**
Invested capital	**84,488**	**96,089**
Goodwill	-50,497	-52,864
Invested capital excluding goodwill	**33,991**	**43,225**
Invested capital, average	**91,668**	**94,427**

CapEx and amortisation/depreciation (DKKbn)



SECTION 2.2

SEGMENTATION OF ASSETS

The Group's assets are segmented on the basis of geographical regions in accordance with the management reporting for 2017, cf. section 1.2.

Invested capital in Eastern Europe and Asia was affected by changes in foreign exchange rates and disposal of Chinese entities. All three regions delivered ROIC improvement, with particular strong growth in Asia.

Not allocated comprises entities that are not business segments and eliminations of investments in subsidiaries, receivables, loans etc.

Non-current segment assets comprise intangible assets and property, plant and equipment owned by the segment/country, even if the income is also earned outside the segment/country that owns the asset. Non-current assets also comprise non-current financial assets other than financial instruments and deferred tax assets.

Goodwill and brands with indefinite useful life allocated by segment are specified in section 2.3.

Geographical allocation of non-current assets

DKK million	2017	2016
Denmark (Carlsberg A/S' domicile)	3,905	4,461
Russia	24,949	32,298
China	14,466	15,517
Other countries	53,064	54,971
Total	**96,384**	**107,247**

Segmentation of assets etc.

DKK million

2017	Western Europe	Eastern Europe	Asia	Not allocated	Beverages, total	Non-beverage	Carlsberg Group, total
Invested capital, cf. section 2.1	37,218	27,376	20,131	-1,055	83,670	818	84,488
Invested capital excluding goodwill, cf. section 2.1	16,489	11,542	6,197	-1,055	33,173	818	33,991
Acquisition of property, plant and equipment and intangible assets	1,837	716	1,212	83	3,848	205	4,053
Amortisation and depreciation	1,872	761	1,311	625	4,569	12	4,581
Impairment losses	107	4,820	-113	-	4,814	-	4,814
Return on invested capital (ROIC)	9.9%	5.1%	9.9%	-	7.0%	-	6.9%
Return on invested capital excluding goodwill (ROIC excl. goodwill)	21.9%	10.2%	31.2%	-	16.0%	-	15.7%
2016							
Invested capital, cf. section 2.1	37,749	35,265	22,658	-55	95,617	472	96,089
Invested capital excluding goodwill, cf. section 2.1	16,956	18,284	7,568	-55	42,753	472	43,225
Acquisition of property, plant and equipment and intangible assets	1,920	454	1,244	196	3,814	26	3,840
Amortisation and depreciation	1,971	737	1,352	674	4,734	8	4,742
Impairment losses	11	53	1,162	-	1,226	-	1,226
Return on invested capital (ROIC)	9.2%	4.5%	8.3%	-	5.9%	-	5.9%
Return on invested capital excluding goodwill (ROIC excl. goodwill)	19.8%	8.8%	23.2%	-	12.9%	-	12.7%

SECTION 2.3

IMPAIRMENT

Intangible assets, property, plant and equipment, and investments in associates and joint ventures are tested for impairment if an event or circumstance indicates that the carrying amount may not be recoverable.

Tests for impairment of goodwill and brands with indefinite useful life are performed at least annually. The impairment tests of goodwill and brands are based on an assessment of their value in use.

In connection with impairment testing, management reassesses the useful life and residual value of assets with indications of impairment.

2.3.1 IMPAIRMENT

In 2017, the impairment tests of goodwill and brands with indefinite useful life were prepared at the reporting date. Based on the tests performed, the Group recognised impairment losses on brands amounting to DKK 4,847m (2016: DKK 867m).

During the year, impairment losses of DKK 183m relating to property, plant and equipment were recognised as a result of restructurings and other events.

In addition, the Group recognised reversal of impairments in Eastern Assets of other intangible assets amounting to DKK 80m and of plant and equipment amounting to DKK 136m.

Total impairment losses, net, recognised in 2017 amounted to DKK 4,814m (2016: DKK 1,226m).

BALTIKA BREWERIES (RUSSIA)

In recent years, the Russian beer market has experienced a continuous decline caused by very challenging macroeconomic conditions, duty increases and locally imposed market restrictions. As expected, in 2017 the market continued the decline primarily as a result of the restrictions imposed on the sale of beer in PET bottles larger than 1.5 litres, which had previously accounted for more than 20% of market volumes.

Consumer trends in Russia have indicated a shift away from national and international brands towards local and regional brands resulting in a loss of market share for Baltika Breweries among others to local and regional market participants. This trend is expected to continue in the long term, which has led to an adjustment of the Baltika Breweries brand strategy to increase focus on the local and regional brands within the portfolio. The overall performance of Baltika Breweries remains solid, although the Baltika brand's share of volumes sold is expected to decrease slightly.

The change in brand strategy along with adjustments to the long-term expectations for key macroeconomic assumptions led to a reassessment of the expected future growth of the Baltika brand. This resulted in the recoverable amount being lower than the carrying amount. The brand was therefore written down by DKK 4,800m to the lower recoverable amount.

The recoverable amount of the brand was determined based on its value in use. A pre-tax discount rate of 11.2% was used in the calculation (2016: 9.8%). The brand had a carrying amount after impairment of DKK 6,425m as at 31 December 2017 (2016: DKK 12,136m).

The write-down was the second in three years. The first followed the review of expected future growth that took place in the autumn of 2015 and resulted in the brand being written down by DKK 4,000m. However, the recent development shows a bigger impact on the Baltika brand from the PET downsizing and change in consumer trends than was expected in the growth rate applied in the impairment test in 2015. The combined effect of these trends has been incorporated into the recent impairment test.

Impairment of property, plant and equipment in Russia in 2017 was a consequence of restructuring and process optimisations.

Impairment of brands and other non-current assets

DKK million	2017	2016
Brands and other intangible assets		
Baltika brand, Baltika Breweries, Russia	4,800	-
Land use rights (reversal of impairment), Eastern Assets, China	-80	-
Brands and land use rights, Chongqing Brewery Group, China	-	846
Other brands	47	67
Other intangible assets	-	7
Total	**4,767**	**920**
Property, plant and equipment		
Plant, machinery and equipment, Aldaris, Latvia	40	-
Machinery and equipment, Western Europe and Asia	124	1
Plant, machinery and equipment (reversal of impairment), Eastern Assets, China	-136	-
Plant, machinery and equipment, Bihar, India	-	160
Plant, machinery and equipment, Chongqing Brewery Group, China	-	148
Plant, machinery and equipment, Xinjiang Wusu Group, China	-	-15
Machinery and equipment, Carlsberg UK	-	2
Breweries and brewery equipment , Baltika Breweries, Russia	19	10
Total	**47**	**306**
Total impairment losses	**4,814**	**1,226**
Of which recognised in special items, cf. section 3.1	4,688	1,207

SECTION 2.3 (CONTINUED)

IMPAIRMENT

CHONGQING BREWERY GROUP (CHINA)

In recent years, Chongqing Brewery Group has experienced a significant decline in the volumes from its local mainstream brands. The decline was primarily the result of a general decline in Chinese beer volumes, accelerated premiumisation to the benefit of Tuborg, and closure and disposal of non-essential breweries, which led to a write-down of the brands of DKK 800m in 2016 (2015: DKK 400m).

In 2017, the brands performed slightly better than projected in 2016 and the expected future growth also remains slightly better.

In 2016, six breweries were disposed of or closed, resulting in write-downs of land use rights as well as plant, machinery and equipment to their recoverable amounts. In total, impairment losses of DKK 194m were recognised in special items.

EASTERN ASSETS (CHINA)

Two breweries that were impaired in prior years have been redesignated from only supplying their local markets to primary producers of the international brands supporting the "Big Cities" strategic initiative in China. Investments in new production equipment have been approved and will increase the capacity in 2018.

The change in use of the two breweries is expected to generate future cash flows resulting in the recoverable amount exceeding that of the carrying amount of land use rights and plant and equipment had it not been written down in 2015. As a result, impairments of DKK 216m were reversed at the end of 2017, equalling the carrying amount of the assets less subsequent depreciation and amortisation that would have been recognised,

OTHER IMPAIRMENTS

In 2017, the performance of a local Finnish brand was significantly below expectations. The growth expectations were therefore reassessed, resulting in the remaining carrying amount of DKK 47m being written down.

Properties on the former brewery site in Aldaris, Latvia, were impaired by DKK 40m as a result of a decline in their recoverable amount.

In 2016, the DKK 160m impairment of property, plant and equipment in Carlsberg India was the consequence of the implementation of a state-wide ban on the production and sale of alcohol in Bihar.

SIGNIFICANT AMOUNTS OF GOODWILL AND BRANDS

Goodwill and brands with indefinite useful life related to Baltika Breweries, Kronenbourg, Chongqing Brewery Group and the acquisition of the 40% non-controlling interest in Carlsberg Breweries A/S each account for 10% or more of the total carrying amount of goodwill and brands with an indefinite useful life at the reporting date.

! ACCOUNTING ESTIMATES AND JUDGEMENTS

Identification of cash-generating units

The Group's management structure reflects the geographical segments, cf. section 1.2, and decisions are made by the regional managements responsible for performance, operating investments and growth initiatives in their respective regions.

There is a significant degree of vertical integration of the production, logistics and sales functions, aimed at supporting and promoting optimisations across the Group or within regions. The regional integration within planning, procurement and sourcing between countries has increased the volume of intra-group transactions and impacted the allocation of profits.

Assets, other than goodwill and brands with regional and global presence, are allocated to individual cash-generating units (CGUs), being the level at which the assets generate largely independent cash inflows. As the Group primarily operates with local sales and production organisations, the cash inflows are generated mostly on a national basis, and the CGUs are therefore usually identified at country level.

In connection with acquisitions and the related purchase price allocation, cash inflows are assessed and the determination of CGU allocation is made within 12 months from the date of acquisition.

Goodwill

Goodwill does not generate largely independent cash inflows on its own and is therefore allocated to the level at which it is monitored for internal management purposes. This would normally be at regional or sub-regional level, each level consisting of multiple CGUs.

Goodwill allocated to CGUs that are less integrated in regions or sub-regions is tested as separate CGUs. However, these CGUs are not considered significant compared with the total carrying amount of goodwill.

The following groups of CGUs are considered significant compared with the total carrying amount of goodwill:

- Western Europe
- Eastern Europe
- China, Malaysia and Singapore
- Indochina

Brands

Cash flows specific to the international and regional brands are generated across many CGUs, and these may not be identical to the groups of CGUs to which goodwill is allocated. Cash flows for brands are separately identifiable, and these core assets are tested individually for impairment. This test is performed in addition to the test for impairment of goodwill.

The following brands are considered significant when comparing their carrying amount with the total carrying amount of brands with indefinite useful life:

- Baltika brand
- International brands

International brands is a group of brands recognised in connection with the acquisition of the 40% non-controlling interest in Carlsberg Breweries A/S and allocated to Western Europe. The amount is not allocated to individual brands.

Corporate assets

The Group has identified capitalised software relating to the Group's ERP systems as corporate assets, and as such, these are peripheral to the generation of cash inflow. The Group's ERP landscape is closely linked to the internal management structure, and therefore the identified assets are tested for impairment at the CGU level to which goodwill is allocated.

SECTION 2.3 (CONTINUED)

IMPAIRMENT

Property, plant and equipment

Property, plant and equipment are tested for impairment when indications of impairment exist. Management performs an annual assessment of the assets' future application, for example in relation to changes in production structure, restructurings or closing of breweries. The impairment test is based on the higher of fair value less costs to sell, if such a value can be established, and value in use. Value in use is assessed based on budget and target plan cash flows generated by the CGU. The assessment is based on the lowest CGU affected by the changes that indicate impairment. The discount rate is a WACC that reflects the risk-free interest rate with the addition of a risk premium associated with the particular asset.

Associates and joint ventures

Management performs an impairment test of investments in associates and joint ventures when indications of impairment exist, for example due to loss-making activities or major changes in the business environment. The impairment test is based on value in use assessed using budget and target plan cash flows from the associate or joint venture and related assets that form an integrated CGU. The discount rate reflects the risk-free interest rate with the addition of a risk premium associated with the particular investments.

ACCOUNTING POLICIES

Goodwill and brands with indefinite useful life are subject to an annual impairment test, carried out initially before the end of the year of acquisition.

The carrying amount of goodwill and brands with indefinite useful life is tested for impairment at the level where cash flows are considered to be generated largely independently. This is at either CGU level or as a group of CGUs. All assets are tested for impairment if an event or circumstance indicates that the carrying amount may not be recoverable. If an asset's carrying amount exceeds its recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use.

Value in use is measured with reference to the future net cash flows expected to be generated by the CGU or group of CGUs and discounted by a discount rate adjusted for any risk specific to the asset, if relevant to the applied calculation method.

Impairment of goodwill and brands, significant impairment losses on property, plant and equipment, associates and joint ventures, and impairment losses arising on significant restructurings of processes and fundamental structural adjustments are recognised as special items. Minor impairment losses are recognised in the income statement in the relevant line item.

Impairment of goodwill is not reversed. Impairment of other assets is reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's new carrying amount does not exceed the carrying amount of the asset after amortisation/depreciation had the asset not been impaired.

2.3.2 IMPAIRMENT TEST OF GOODWILL

The carrying amount of goodwill allocated to groups of CGUs

DKK million	2017	2016
Western Europe	20,729	20,793
Eastern Europe	15,834	16,981
China, Malaysia and Singapore	9,424	10,001
Indochina	3,941	4,482
Significant groups of CGUs	**49,928**	**52,257**
Other, Asia	569	607
Total	**50,497**	**52,864**

In 2017 and 2016, the significant groups of CGUs represented 99% of the total carrying amount.

PROJECTIONS OF CASH FLOW

Cash flows are determined for each individual CGU. When market dynamics and macroeconomic factors indicate significant changes, cash flows are assessed and determined based on factors relevant for the individual CGU. The estimated cash flows are aggregated at the level of the group of CGUs to which goodwill is allocated, observing eliminations of intra-group cash flows.

The key assumptions for projecting the cash flows for the groups of CGUs that are considered significant compared with the total carrying amount of goodwill are forecast as stated below. The growth rate for the forecast period is the compound annual growth rate for the three-year forecast period.

Key assumptions

2017	Forecast period growth	Terminal period growth	Pre-tax discount rate
Western Europe	-5%	0.3%	1.2%
Eastern Europe	-9%	4.0%	8.1%
China, Malaysia and Singapore	-4%	1.0%	4.4%
Indochina	-2%	0.8%	4.3%

WESTERN EUROPE

The region primarily comprises mature beer markets. While market volumes tend to be flat or slightly declining, the overall value of the market has seen a positive, albeit small, development in recent years. This has been driven by slightly improving beer category dynamics because of innovations, increased interest in craft & speciality beers and alcohol-free beer offerings, and an overall improved category perception.

The region is generally characterised by well-established retail structures and a strong tradition of beer consumption. The share of on-trade varies between markets but the weak macroeconomic environment of recent years has led to a shift from on-trade to off-trade consumption.

The Group's focus for Western Europe is on improving margins through the initiatives in the Funding the Journey programme, which are now embedded in the business, and on achieving the SAIL'22 strategic priorities, including value management, supply chain efficiencies and operating cost management.

The average growth in cash flow of -5% in the forecast period reflects the significant risk adjustments included in the forecast to account for the estimation uncertainty related to the benefits expected from the strategic initiatives from SAIL'22.

EASTERN EUROPE

The Group's two main markets in the region are Russia, which accounts for around 67% of regional beer volumes, and Ukraine, which accounts for around 21%. The Russian beer market has been under significant pressure in the past decade, more recently due to challenging macroeconomic conditions and a ban on individual PET bottles larger than 1.5 litres.

SECTION 2.3 (CONTINUED)

IMPAIRMENT

In recent years, the modern off-trade, consisting of hypermarkets and supermarkets, has grown significantly and now accounts for approximately 65% of the off-trade in Russia. Another growing channel is the so-called DIOT – draught in off-trade – which is estimated to account for around 10% of the market.

The Group's share of the beer profit pool in Russia significantly exceeds our volume market share of around 35%. The Ukrainian beer market has also been in decline due to the severe macroeconomic slowdown.

The focus for Eastern Europe is to mitigate the negative earnings impact from the weakening currencies and the continued market decline in the region. Actions include a number of changes in our commercial agenda and priorities as well as a meticulous focus on costs and efficiencies.

Management expects the current macroeconomic situation and developments to continue in the short term with inflation stabilising at the current level and, in the medium to long term, interest rates are expected to decline and then stabilise at a level lower than currently observed in the market. This will ease the pressure on profitability from input costs denominated in foreign currencies.

The average growth in cash flow of -9% in the forecast period reflects the significant risk adjustments included in the forecast to account for the estimation uncertainty related to the volatile macroeconomic situation. The growth is projected in nominal terms and therefore does not translate into cash flow at the same growth rate in the Group's presentation currency, DKK.

ASIA

The importance of Asia for the Group has increased significantly over the past decade, during which the Group has expanded its presence in the region, both organically and through acquisitions.

The Asian markets are very diverse but offer considerable prospects for value growth, underpinned by young populations, urbanisation, rising disposable income levels, growing economies and, in some markets, relatively low per capita beer consumption. However, as many Asian markets are emerging markets, development is subject to volatility.

Both the on-trade and off-trade channels are characterised by a strong traditional outlet segment but with the modern outlet segment growing in most markets.

The Group's focus for Asia is to continue the growth trajectory in the region. Activities include the continued expansion of our international premium brands, in particular Tuborg, and the strengthening and premiumisation of our local power brands in combination with a continued focus on costs and efficiencies.

The average growth in cash flow of -3% in the forecast period reflects the significant risk adjustments included in the projections to account for the estimation uncertainty related to the volatility of emerging markets in the region and the uncertainty related to the development in beer consumption, in particular in China. The growth is projected in nominal terms and therefore does not translate into cash flow at the same growth rate in the Group's presentation currency, DKK.

! ACCOUNTING ESTIMATES AND JUDGEMENTS

Goodwill

The impairment test of goodwill is performed for the group of CGUs to which goodwill is allocated. The group of CGUs is determined based on the management structure for regions or sub-regions at the level at which goodwill is monitored. The structure and groups of CGUs are reassessed every year. The test for impairment of goodwill is based on the assessment of the recoverable amount calculated as the value in use. The value in use is the discounted value of the expected future risk-adjusted cash flows.

Key assumptions

To determine the value in use, the expected cash flow approach is applied. This involves developing multiple probability-weighted scenarios to reflect different outcomes in terms of timing and amount of expected future cash flow. The expected future cash flow is based on the budget and target plans for the next three years. Cash flows beyond the three-year period are extrapolated using the terminal period growth rate.

The probability weighting applied is based on past experience and the uncertainty of the prepared budget and target plan cash flows.

Potential upsides and downsides identified during the budget process and in the daily business are reflected in the future cash flow scenarios for each CGU.

The risk-adjusted cash flows are discounted using a discount rate reflecting the risk-free interest rate for each CGU with the addition of a spread.

The risk-free interest rates used in the impairment tests are based on observed market data. Please refer to the description of discount rates in section 2.3.3.

The key assumptions on which management bases its cash flow projections are:
- Volumes
- Sales prices
- Input costs
- Operating investments
- Terminal period growth

The assumptions are determined at CGU level in the budget and target plan process, and are based on past experience, external sources of information and industry-relevant observations for each CGU. Local conditions, such as expected development in macroeconomic and market conditions specific to the individual CGUs, are considered. The assumptions are challenged and verified by management at the regional or sub-regional level at which goodwill is tested for impairment.

The budget and target plan process takes into account events or circumstances that are relevant in order to reliably project the short-term performance of each CGU. Examples include significant campaign activities (for example UEFA EURO), changes in excise duties etc., which may each have an observable short-term impact but are of a non-recurring nature. Given the short-term nature of such events and circumstances, they are not taken into consideration when estimating the terminal period growth rate.

Volumes

Projections are based partly on past experience and partly on external market data, and take into consideration planned commercial initiatives, including spend on marketing and sponsorships, and the expected impact of such initiatives on consumer demand. The projections are, if relevant, adjusted for the expected changes in the level of premiumisation. No changes in market shares are assumed in the medium or long term.

SECTION 2.3 (CONTINUED)

IMPAIRMENT

Demographic expectations general to the industry, such as the development in population, consumption levels, generation-shift patterns, rate of urbanisation as well as macroeconomics etc., are also taken into consideration for medium- and long-term projections.

Events and circumstances can have a short-term impact on the timing of volumes entering circulation. This can be affected by excessive stocking related to an increase in excise duties, campaign activities and the timing of national festivals, for example Chinese New Year. Such short-term effects are not material to volume projections and therefore do not impact the long-term projections.

Sales prices
The level of market premiumisation and the locally available portfolio are key drivers in identifying price points. When planning pricing structures, factors including price elasticity, local competition and inflation expectations can also impact the projection.

Increases in excise duties are typically passed on to the customers with a delay of a few months. Since the increase is a pass-through cost and thereby compensated for by price increases at the time of implementation, it does not impact the long-term sales price growth and is therefore not taken into consideration in the long-term projections unless circumstances specifically indicate otherwise. No changes to duties in the short or medium term are taken into consideration unless there is a firm plan to introduce changes.

Input costs
Input costs in the budget and target plans are based on past experience and on:

- Contracted raw and packaging materials
- Contracted services within sales, marketing, production and logistics
- Planned commercial investments
- Cost optimisations not related to restructurings
- Expected inflation

In the long term, projections follow the level of inflation unless long-term contracts are in place.

Operating investments
Projections are based on past experience of the level of necessary maintenance of existing production capacity, including replacement of parts. This also includes planned production line overhauls and improvements to existing equipment. Non-contracted capacity increases and new equipment are not included.

Terminal period growth
Growth rates are projected to be equal to or below the expected rate of general inflation and assume no nominal growth. The projected growth rates and the applied discount rates are compared to ensure a sensible correlation between the two.

2.3.3 IMPAIRMENT TEST OF BRANDS

Brands with indefinite useful life

DKK million	2017	2016
Baltika brand	6,425	12,136
International brands	3,000	3,000
Significant brands	**9,425**	**15,136**

In 2017, significant brands represented 62% (2016: 71%) of the total carrying amount of brands with indefinite useful life.

Other brands comprise a total of 17 brands that are not considered individually material compared with the total carrying amount.

PROJECTIONS OF CASH FLOW

Brands are tested for impairment as separate CGUs across regions and sub-regions, and cash flows are determined for each individual brand in the budget. When market dynamics or macroeconomic factors indicate significant changes, cash flows are reassessed based on factors relevant to the individual brand.

Cash flows for larger individual brands usually correlate with the overall development in the regions explained in section 2.3.2 on impairment of goodwill, but from time to time consumer trends or a strategic focus on one brand changes relative to a portfolio of brands, as is the case in for example Baltika Breweries and Chongqing Brewery Group.

The assessment of cash flows for individual brands includes considering expected price developments, expected developments in market size and consumption as well as how each brand is expected to be utilised as part of a portfolio, including considering in which demand spaces the brand plays a key role.

ACCOUNTING ESTIMATES AND JUDGEMENTS

Brands
The test for impairment of brands is performed using the relief from royalty method and is based on the expected future cash flows generated from the royalty payments avoided for the individual brand for the next 20 years and projections for subsequent years.

The risk-free cash flows are discounted using a discount rate reflecting the risk-free interest rate with the addition of the risk premium associated with the individual brand.

Key assumptions
The key assumptions on which management bases its cash flow projection include the royalty rate, the expected useful life, revenue growth and a theoretical tax amortisation benefit.

Expected useful life
Management has assessed that the value of brands with indefinite useful life can be maintained for an indefinite period, as these are well-established brands in their markets, some of which have existed for centuries. The beer industry is characterised as being very stable with consistent consumer demand and a predictable competitive environment, and is expected to be profitable for the foreseeable future. Control of the brands is legally established and is enforceable indefinitely.

In management's opinion, the risk of the useful life of these brands becoming finite is minimal, primarily because of their individual market positions and because current and planned marketing initiatives are expected to sustain the useful life of the brands.

Revenue growth
At the time of acquisition of any individual brand, a revenue growth curve is forecast based on a long-term strategic view of the risk and opportunities relevant to the brand. The curve is forecast for a 20-year horizon. This horizon reliably reflects the lengthy process of implementing brand strategies to support a brand occupying its intended place in the Group's portfolio. The forecast period applied is comparable with the common term of the majority of licence agreements to which the Group is party.

Key assumptions

2017	Average revenue growth	Terminal period growth	Pre-tax discount rate	Post-tax discount rate
Baltika brand	3%	4.0%	11.2%	9.8%
International brands	1%	2.0%	5.6%	4.4%
Chongqing Brewery Group brands	-2%	2.0%	10.4%	8.1%

SECTION 2.3 (CONTINUED)

IMPAIRMENT

In the local markets, the product portfolio usually consists of local power brands and international premium brands. When projecting revenue growth for local brands, in addition to its commercial strength – such as market share and segment position – the forecast takes into consideration the demographics of the primary markets, including expected development in population, consumption levels, generation-shift patterns, rate of urbanisation, beer market maturity, level of premiumisation, circumstances generally limiting the growth opportunities for alcoholic beverages etc.

For brands with global or regional presence, enhanced investments in product development and marketing are expected. The expected growth rate for these brands is generally higher than for more localised brands, and is usually highest early in the 20-year period.

Depending on the nominal growth expectations for the individual brand, the revenue growth in individual years may be above, equal to or below the forecast inflation level in the markets where the brand is present.

When preparing budgets, consideration is given to events or circumstances that are relevant in order to reliably project the short-term performance of each brand. Examples include significant campaign activities (for example UEFA EURO), changes in excise duties etc., which may each have an observable short-term impact but are of a non-recurring nature that is quickly absorbed by the business. Since the impact of such events and circumstances is not material to the long-term projections, it is not taken into consideration when estimating the long-term and terminal period growth rates. Please refer to the description of the impact of increases in excise duties in section 2.3.2.

Tax benefit
The tax rate and amortisation period applied in the test are determined based on current legislation. The impairment test applied tax rates in the range of 15-34% and amortisation periods of 5-10 years.

Royalty rate
Royalties generated by a brand are based on the Group's total income from the brand and are earned globally, i.e. the income is also earned outside the CGU that owns the brand. If external licence agreements for the brand already exist, the market terms of such agreements are taken into consideration when assessing the royalty rate that the brand is expected to generate in a transaction with independent parties. The royalty rate is based on the actual market position of the individual brand in the global, regional and local markets and assumes a 20-year horizon. This term is common to the beverage industry when licensing brands.

For some brands, the share of the total beer market profit exceeds the volume share to an extent that creates significant market entry barriers for competing brands and justifies a higher royalty rate.

Royalty rates

International, premium and speciality beers	3.5-15.0%
Strong regional and national brands	3.0-5.0%
Local and mainstream brands	2.0-3.5%

Discount rates
The discount rate is a WACC that reflects the risk-free interest rate with the addition of a risk premium relevant to each brand.

The risk-free interest rates used in the impairment tests were based on observed market data. For countries where long-term risk-free interest rates are not observable or valid due to specific national or macroeconomic conditions, the interest rate is estimated based on observations from other markets and/or long-term expectations expressed by international financial institutions considered reliable by the Group.

The added credit risk premium (spread) for the risk-free interest rate was fixed at market price or slightly higher, reflecting the expected long-term market price. The aggregate interest rate, including spread, thereby reflected the long-term interest rate applicable to the Group's investments in the individual markets.

Interest rates applied in Eastern Europe
In recent years, the macroeconomic situation has deteriorated significantly in Eastern Europe, resulting in interest rates and inflation increasing to a level significantly higher than the Group's long-term expectations.

The use of expected future interest rates in lieu of appropriate observable interest rates does not impact the conclusion of the impairment test because the relationship between discount rates and growth rates (the real interest rate) is expected to be constant. Expectations for the long-term real interest rate remain a key assumption for the impairment testing in general, and for CGUs with exposure to the Russian market in particular.

In the ten-year period until 2012, the average long-term real interest rate in Russia was negative, as a result of which inflation exceeded the nominal interest rate. The rate has since turned positive and is expected to remain positive in the future. Since 2016, the Bank of Russia has expressed its expectations for the short-term real interest rate. It expects a positive future real interest rate at around 2.5-3.0% in the short term. Due to the current monetary situation in Russia, the short-term interest rate is higher than the long-term interest rate and therefore not directly comparable with the real interest rate applied by the Group. It is the expectation that real interest rates in the future will normalise with short-term interest rates falling to a level below the long-term interest rates.

The current economic environment in Russia indicates that a stable long-term real interest rate lower than the current level will be reached within a few years. In addition, the latest published expectations from key international financial institutions show an increase in the long-term real interest rate to 2.5%.

In previous years a real interest rate of 1.5% was applied but recent developments in the Russian economy and the updated expectations from the financial institutions have led to an increase of 1 percentage point in the real interest rate applied as the long-term growth expectation in the impairment test to 2.5%.

The impairment test of the Baltika brand is sensitive to changes in the real interest rate. Since no expected future long-term real interest rate can be directly observed, the estimate of a real interest rate is subjective and associated with risk.

2.3.4 SENSITIVITY TESTS

GOODWILL

Sensitivity tests have been performed to determine the lowest forecast and terminal period growth rates and/or highest discount rates that can occur in the CGUs, groups of CGUs and brands with indefinite useful life without leading to any impairment loss.

The risk-free interest rates observable for Western Europe remained relatively low at the end of 2017. The sensitivity tests calculate the impact of higher interest rates and allow for a double-digit percentage-point increase in risk-free interest rates.

Due to a challenging macroeconomic situation in some CGUs and groups of CGUs, the Group performed additional sensitivity tests to ensure that a potential impairment is not overlooked. These additional sensitivity tests did not identify any potential impairment.

SECTION 2.3 (CONTINUED)

IMPAIRMENT

The test for impairment of goodwill did not identify any CGUs or groups of CGUs to which goodwill is allocated where a reasonably possible negative change in a key assumption would cause the carrying amount to exceed the recoverable amount.

The goodwill allocated to Eastern Europe was primarily recognised when the Group completed the step acquisition of the remaining 50% of the Baltic Beverage Holding Group from Scottish & Newcastle in 2008. However, the impairment test includes 100% of the cash flow generated by Eastern Europe, resulting in the recoverable amount significantly exceeding the carrying amount.

BRANDS

Following the impairment losses recognised in 2016 and 2017 for the Baltika and Chongqing Brewery Group brands, a reasonably possible negative change in a key assumption would cause the carrying amount to exceed the recoverable amount. The sensitivity to changes in the assumptions is shown in the table.

Key assumptions

The key assumptions relevant to the assessment of the recoverable amount are:

- Volume
- Price
- Discount rate

The assumptions for volume and pricing are closely linked, which, together with the presence of multiple sub-brands in different geographies within each brand, makes individual sensitivity testing on the basis of these two assumptions highly impractical. Instead, sensitivity testing is performed for the overall revenue growth rate, both in the forecast period and the terminal period.

The sensitivity test for the maximum decline in growth rate in the forecast period assumes a year-on-year decline in the nominal growth rate, thereby estimating the accumulated effect of a negative change for the full forecast period.

The sensitivity tests were completed assuming all other assumptions were unchanged, as it is relevant to assess the sensitivity to, for example, a decline in the growth rate independently of changes in the discount rate. This is because the growth rate in itself might be impacted by changes in brand strategy and other market factors.

The sensitivity calculated also assumes a straight-line impact despite the fact that changes in market dynamics and adjustments to these will in practice have different impacts in the individual years and might not apply in the long term.

Baltika brand

The Baltika brand was written down to its recoverable amount at the end of 2017. As a result, any negative change in the key assumptions would lead to further impairment.

Changes in the market dynamics in Russia can have a significant negative impact on the recoverable amount. Macroeconomic recovery could lead to further premiumisation or localisation, which could drive consumers towards international brands or local/regional brands.

Any increase in the real interest rate from the current 2.5%, either because of a higher interest rate or lower inflation, will also significantly reduce the recoverable amount. Such a change could, for example, be driven by accelerated economic growth.

A 1 percentage point increase in the interest rate would result in a reduction in the recoverable amount of DKK 0.9bn, and a 1 percentage point decrease in the terminal growth rate would result in a reduction in the recoverable amount of DKK 0.3bn. The combined effect of a 1 percentage point negative change in the interest rate, the terminal growth rate and the average growth rate in the forecast period (year-on-year) would result in a reduction in the recoverable amount of DKK 1.6bn.

Chongqing Brewery Group brands

The Chongqing Brewery Group brands were written down to their recoverable amount in 2016, and the recoverable amount at the end of 2017 remained close to the carrying amount. As a result, a reasonably possible negative change in the key assumptions would lead to further impairment.

The brands are sensitive to developments in the mainstream segment in China, where pressure from premium and upper-mainstream – in which the brands are not represented – could lead to a further drop in market share and thereby a further reduction of the recoverable amount.

Similarly, a change in consumer trends towards the discount segment could have a negative impact on the recoverable amount.

A 1 percentage point increase in the interest rate would result in a reduction in the recoverable amount of DKK 0.1bn, and a 1 percentage point decrease in the terminal growth rate would result in a reduction in the recoverable amount of less than DKK 0.1bn.

Sensitivity test

DKKbn	Average forecast growth rate	Terminal period growth rate	Risk-free interest rate
Δ	-1 %-point	-1 %-point	+1 %-point
Baltika brand	-0.7	-0.3	-0.9
Chongqing Brewery Group brands	-0.1	-	-0.1

SECTION 2.4
INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

DKK million	Intangible assets				Property, plant and equipment			
2017	Goodwill	Brands	Other intangible assets	Total	Land and buildings	Plant and machinery	Fixtures and fittings, other plant and equipment	Total
Cost								
Cost at 1 January	54,647	28,807	5,758	89,212	17,281	28,285	14,306	59,872
Additions	3	54	164	221	250	2,166	1,419	3,835
Disposal of entities	-62	-8	-52	-122	-259	-235	-110	-604
Disposals	-	-	-94	-94	-135	-333	-1,679	-2,147
Transfers	-	-	14	14	335	-607	269	-3
Foreign exchange adjustments etc.	-2,475	-1,610	-75	-4,160	-726	-1,167	-573	-2,466
Cost at 31 December	**52,113**	**27,243**	**5,715**	**85,071**	**16,746**	**28,109**	**13,632**	**58,487**
Amortisation, depreciation and impairment losses								
Amortisation, depreciation and impairment losses at 1 January	1,783	7,161	3,532	12,476	7,559	16,922	9,581	34,062
Disposal of entities	-62	-8	-51	-121	-173	-216	-82	-471
Disposals	-	-	-46	-46	-87	-255	-1,600	-1,942
Amortisation and depreciation	-	24	741	765	490	1,402	1,924	3,816
Impairment losses	-	4,847	-80	4,767	-30	-34	111	47
Transfers	-	-	-	-	4	26	-86	-56
Foreign exchange adjustments etc.	-105	-471	13	-563	-291	-664	-339	-1,294
Amortisation, depreciation and impairment losses at 31 December	**1,616**	**11,553**	**4,109**	**17,278**	**7,472**	**17,181**	**9,509**	**34,162**
Carrying amount at 31 December	**50,497**	**15,690**	**1,606**	**67,793**	**9,274**	**10,928**	**4,123**	**24,325**
Carrying amount of assets pledged as security for borrowings	-	-	-	-	-	-	23	23

Additions to goodwill are described in section 5.4.

SECTION 2.4 (CONTINUED)

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

DKK million	Intangible assets				Property, plant and equipment			
2016	Goodwill	Brands	Other intangible assets	Total	Land and buildings	Plant and machinery	Fixtures and fittings, other plant and equipment	Total
Cost								
Cost at 1 January	52,122	25,002	5,994	83,118	17,298	27,811	13,715	58,824
Acquisition of entities	255	355	-	610	7	49	5	61
Additions	-	-	312	312	215	1,840	1,473	3,528
Disposal of entities	-124	-3	-350	-477	-441	-608	-270	-1,319
Disposals	-	-	-171	-171	-248	-899	-1,156	-2,303
Transfers	-	-	-27	-27	95	-430	362	27
Foreign exchange adjustments etc.	2,394	3,453	-	5,847	355	522	177	1,054
Cost at 31 December	**54,647**	**28,807**	**5,758**	**89,212**	**17,281**	**28,285**	**14,306**	**59,872**
Amortisation, depreciation and impairment losses								
Amortisation, depreciation and impairment losses at 1 January	1,852	5,300	3,046	10,198	7,268	16,116	8,762	32,146
Disposal of entities	-	-3	-258	-261	-325	-416	-161	-902
Disposals	-	-	-121	-121	-202	-771	-1,111	-2,084
Amortisation and depreciation	-	28	794	822	522	1,438	1,960	3,920
Impairment losses	-	867	53	920	148	131	27	306
Transfers	-	-	-2	-2	10	-20	12	2
Foreign exchange adjustments etc.	-69	969	20	920	138	444	92	674
Amortisation, depreciation and impairment losses at 31 December	**1,783**	**7,161**	**3,532**	**12,476**	**7,559**	**16,922**	**9,581**	**34,062**
Carrying amount at 31 December	**52,864**	**21,646**	**2,226**	**76,736**	**9,722**	**11,363**	**4,725**	**25,810**
Carrying amount of assets pledged as security for borrowings	-	-	-	-	420	-	28	448

Additions to goodwill from acquisition of entities are described in sections 5.2 and 5.4.

SECTION 2.4 (CONTINUED)

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment under construction amounted to DKK 1,435m (2016: DKK 1,386m) and are included in plant and machinery.

Fixtures and fittings, other plant and equipment include transport, office and draught beer equipment, coolers and returnable packaging.

Other intangible assets include software, land use rights and beer delivery rights. The carrying amount of software amounted to DKK 811m (2016: 1,275m).

LEASES

Operating lease liabilities totalled DKK 912m (2016: DKK 1,334m), with DKK 323m (2016: DKK 450m) falling due within one year from the reporting date. Operating leases primarily relate to properties, IT and transport equipment and contain no special purchase rights etc.

Assets held under finance leases with a carrying amount of DKK 23m (2016: DKK 28m) have been pledged as security for lease liabilities of DKK 19m (2016: DKK 26m).

SERVICE AGREEMENTS

The Group has entered into service contracts of various lengths in respect of sales, logistics and IT. Costs related to the contracts are recognised as the services are received.

CAPITAL COMMITMENTS

The Group has entered into various capital commitments that will not take effect until after the reporting date and have therefore not been recognised in the consolidated financial statements. Capital commitments amounted to DKK 515m (2016: DKK 166m).

Amortisation, depreciation and impairment losses

	Intangible assets		Property, plant and equipment	
DKK million	2017	2016	2017	2016
Cost of sales	296	321	2,967	2,946
Sales and distribution expenses	207	228	773	810
Administrative expenses	262	280	202	176
Special items	4,767	913	-79	294
Total	**5,532**	**1,742**	**3,863**	**4,226**

Gain/loss on disposal of assets

DKK million	2017	2016
Gain on disposal of property, plant and equipment and intangible assets, including those held for sale, within beverage activities	62	104
Loss on disposal of property, plant and equipment and intangible assets within beverage activities	-36	-138
Total	**26**	**-34**

ACCOUNTING ESTIMATES AND JUDGEMENTS

Useful lives and residual value of intangible assets with finite useful life and property, plant and equipment

Useful life and residual value are initially assessed both in acquisitions and in business combinations, cf. section 5. The value of the brands acquired and their expected useful life are assessed based on the brands' market position and profitability, and expected long-term developments in the relevant markets.

Management assesses brands and property, plant and equipment for changes in useful life. If an indication of a reduction in the value or useful life exists, the asset is tested for impairment and is written down if necessary, or the amortisation/depreciation period is reassessed and if necessary adjusted in line with the asset's changed useful life.

Reassessment of the expected future use is made in connection with changes in production structure, restructuring and brewery closures. This may result in the expected future use and residual values not being realised, which requires reassessment of useful life, residual value and recognition of impairment losses or losses on disposal of non-current assets.

When changing the amortisation or depreciation period due to a change in the useful life, the effect on amortisation/depreciation is recognised prospectively as a change in accounting estimates.

Lease and service agreements

Management considers the substance of the service being rendered to classify the agreement as either a lease or a service contract. Particular importance is attached to whether fulfilment of the agreement depends on the use of specific assets. The Group assesses whether contracts are onerous by determining only the direct variable costs and not the costs that relate to the business as a whole.

For leases, an assessment is made as to whether the lease is a finance or an operating lease. The Group has mainly entered into operating leases for standardised assets with a short duration relative to the life of the assets, and accordingly the leases are classified as operating leases.

Leases are classified as finance leases if they transfer substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases.

Accounting estimates and judgements related to impairment are described in section 2.3.

SECTION 2.4 (CONTINUED)

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

Cost

Intangible assets and property, plant and equipment are initially recognised at cost and subsequently measured at cost less accumulated amortisation or depreciation and impairment losses.

Cost comprises the purchase price and costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, wages and salaries, and capitalised borrowing costs on specific or general borrowing attributable to the construction of the asset and is included in Plant and machinery.

Research costs are recognised in the income statement as incurred. Development costs are recognised under other intangible assets if the costs are expected to generate future economic benefits.

For assets acquired in business combinations, including brands and property, plant and equipment, cost at initial recognition is determined by estimating the fair value of the individual assets in the purchase price allocation.

Goodwill is only acquired in business combinations and is measured in the purchase price allocation. Goodwill is not amortised.

CO_2 emission rights are measured at cost at the date of allocation (i.e. normally DKK 0), while acquired rights are measured at cost. A liability is recognised (at fair value) only if actual emissions of CO_2 exceed allocated levels based on the holding of rights.

The present value of estimated liabilities related to dismantling and removing an asset and restoring the site on which the asset is located is added to the cost of self-constructed assets if the liabilities are provided for.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

The cost of assets held under finance leases is stated at the lower of fair value of the assets and the present value of the future minimum lease payments. For the calculation of the net present value, the interest rate implicit in the lease or an approximation thereof is used as the discount rate.

Subsequent costs, for example in connection with replacement of components of property, plant and equipment, are recognised in the carrying amount of the asset if it is probable that the costs will result in future economic benefits for the Group. The replaced components are derecognised from the statement of financial position and recognised as an expense in the income statement. Costs incurred for ordinary repairs and maintenance are recognised in the income statement as incurred.

Useful life, amortisation, depreciation and impairment losses

Useful life and residual value are determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued.

Amortisation and depreciation are recognised on a straight-line basis over the expected useful life of the assets, taking into account any residual value. The expected useful life and residual value are determined based on past experience and expectations of the future use of assets.

Depreciation is calculated on the basis of the cost less the residual value and impairment losses.

Amortisation and depreciation are recognised under cost of sales, sales and distribution expenses, and administrative expenses to the extent that they are not included in the cost of self-constructed assets.

Impairment

Impairment losses of a non-recurring nature are recognised under special items.

The expected useful life is as follows:

Brands with finite useful life	Normally 20 years
Software etc.	Normally 3-5 years. Group-wide systems developed as an integrated part of a major business development programme: 5-7 years
Delivery rights	Depending on contract; if no contract term has been agreed, normally not exceeding 5 years
Customer agreements/ relationships	Depending on contract with the customer; if no contract exists, normally not exceeding 20 years
CO_2 rights	Depending on production period

Buildings	20-40 years
Technical installations	15 years
Brewery equipment	15 years
Filling and bottling equipment	8-15 years
Technical installations in warehouses	8 years
On-trade and distribution equipment	5 years
Fixtures and fittings, other plant and equipment	5-8 years
Returnable packaging	3-10 years
Hardware	3-5 years
Land	Not depreciated

Operating leases

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

Government grants and other funding

Grants and funding received for the acquisition of assets and development projects are recognised in the statement of financial position by deducting the grant from the carrying amount of the asset. The grant is recognised in the income statement over the life of the asset as a reduced depreciation charge.

SECTION 3

SPECIAL ITEMS AND PROVISIONS

0.6bn

SPECIAL ITEMS, INCOME (DKK)

Impacted by gain on disposal of entities and reversal of impairment losses.

-5.2bn

SPECIAL ITEMS, EXPENSES (DKK)

Significantly impacted by impairment losses on brands.

SECTION 3.1

SPECIAL ITEMS

During 2017, the Group continued the execution of Funding the Journey, including the focus on cost and efficiency initiatives, and disposal of non-core assets.

The Group recognised gains and losses on the disposal of the subsidiaries Carlsberg Uzbekistan, Nordic Getränke in Germany and a number of entities in China. Additionally, the Group disposed of a number of associates, including United Romanian Breweries and Malterie Soufflet. Please refer to section 5 for a detailed description of disposal of entities.

The year was also impacted by a **write-down of the Baltika brand** as a consequence of changed market dynamics following the PET downsizing, our increased focus in Russia on local and regional brands and, lastly, changes in interest rate assumptions. Furthermore, a minor Finnish brand was written down, resulting in total impairments of DKK 4,847m.

Special items

DKK million	2017	2016
Special items, income		
Gain on disposal of entities and activities	402	2,078
Reversal of impairment losses	216	207
Gain on disposal of property, plant and equipment impaired in prior years	24	26
Reversal of provision recognised in a purchase price allocation in prior years	-	80
Total	**642**	**2,391**
Special items, expenses		
Impairment of brands	-4,847	-867
Restructurings, termination benefits and other impairment losses	-258	-1,203
Loss on disposal of entities and activities	-102	-
Disposal of real estate, including adjustments to gains in prior years	-	-70
Total	**-5,207**	**-2,140**
Special items, net	**-4,565**	**251**
If special items had been recognised in operating profit before special items, they would have been included in the following line items:		
Cost of sales	-4,494	-1,058
Sales and distribution expenses	-86	-334
Administrative expenses	-77	-100
Other operating income	522	2,078
Other operating expenses	-430	-335
Special items, net	**-4,565**	**251**

SECTION 3.1 (CONTINUED)

SPECIAL ITEMS

In 2016, the accelerated premiumisation in China in combination with the continued restructuring and disposal of entities in Chongqing Brewery Group and Eastern Assets impacted the expectations for the **Chongqing Brewery Group brands** and led to further impairments of DKK 800m. Additionally, a **minor brand in Baltika Breweries** was impaired. Please refer to section 2.3 for a detailed description of impairment of brands.

In 2017**, two breweries in Eastern Assets** were redesignated as primary producers of the international brands in China. Following the change in use, the two breweries are expected to generate higher future cash flows than forecast when they were written down in 2015. As a result, impairment losses of DKK 216m were reversed at the end of 2017. Please refer to section 2.3 for a detailed description of the reversal. The reversal of impairments in 2016 related to Carlsberg Uzbekistan, which was disposed of in January 2017, and other assets where the estimated recoverable amount increased due to changes in the expected future use of the assets.

In 2017 and 2016, the Group recognised restructuring costs relating to a general restructuring of the business and impairment losses related to closure of breweries in Chinese entities, totalling DKK -13m (2016: DKK -317m).

In 2017, the Group recognised a gain on disposal of Chinese entities totalling DKK 153m (2016: DKK 1,036m).

As part of the outsourcing of secondary logistics operations, **Carlsberg UK** closed and transferred depots to a third party. The logistics activities will continue until the final cutover date in early 2018. The comparative figures include a provision for an onerous contract as well as a provision related to the brewery accident in 2016.

In 2017, the Group continued to **optimise and standardise business processes across Western Europe**. The optimisation and standardisation project is running at a number of entities, including Kronenbourg and local supply companies. The cost in 2016 mainly comprised restructuring and impairment related to the Group's logistics activities and back-office functions, and included the transfer of over 300 roles from the Group's captive to an external service provider.

Retirement of members of the Executive Committee relates to severance payments to former Executive Vice President, Group HR, Claudia Schlossberger. In 2016, the retirement cost included severance payments and the cost of share-based payments related to the retirement of former Senior Vice President, Western Europe, Jørn Tolstrup Rohde and former Executive Vice President, Group Supply Chain, Peter Ernsting. The cost of share-based payments related to grants made prior to retirement that vest after the date of retirement.

Restructurings, termination benefits and other impairment losses

DKK million	2017	2016
Carlsberg UK, including onerous contract	-70	-395
Carlsberg Deutschland	-	-152
Optimisation and standardisation in Western Europe	-139	-103
Chinese entities	-13	-317
Bihar, India	-	-199
Retirement of members of the Executive Committee	-15	-39
Other, net	-21	2
Total	**-258**	**-1,203**

ACCOUNTING ESTIMATES AND JUDGEMENTS

The use of special items entails management judgement in the separation from other items in the income statement. Management carefully considers such items in order to ensure the correct distinction between operating activities and restructuring of the Group initiated to enhance the Group's future earnings potential and efficiency.

Management reassesses the useful life and residual value of non-current assets used in an entity undergoing restructuring. The extent and amount of onerous contracts as well as employee and other obligations arising in connection with a restructuring are also estimated. Management initially assesses the entire restructuring project and recognises all present costs of the project, but the project is also assessed on an ongoing basis with additional costs possibly occurring during the lifetime of the project.

ACCOUNTING POLICIES

Special items include significant income and expenses of a special nature in terms of the Group's revenue-generating operating activities that cannot be attributed directly to the Group's ordinary operating activities. Such income and expenses include the cost of extensive restructuring of processes and fundamental structural adjustments, as well as any gains or losses arising from disposal of assets that have a material effect over a given period.

Special items also include significant non-recurring items, including termination benefits related to retirement of members of the Executive Committee, impairment of goodwill (including goodwill allocated to associates and joint ventures) and brands, gains and losses on the disposal of activities and associates, revaluation of the shareholding in an entity held immediately before a step acquisition of that entity, and transaction costs in a business combination.

Special items are shown separately from the Group's ordinary operations, as this gives a truer and fairer view of the Group's operating profit.

SECTION 3.2

PROVISIONS

Restructuring provisions relate mainly to termination benefits to employees made redundant, primarily as a result of the restructuring projects accounted for as special items.

In 2017, restructuring provisions of DKK 493m related primarily to Kronenbourg, Carlsberg UK, Carlsberg Deutschland and local supply companies, as described in section 3.1.

Other provisions of DKK 3,258m related primarily to profit sharing in France, employee obligations other than retirement benefits, and ongoing disputes, lawsuits etc.

ACCOUNTING ESTIMATES AND JUDGEMENTS

In connection with large restructurings, management assesses the timing of the costs to be incurred, which influences the classification as current or non-current liabilities. Provision for losses on onerous contracts is based on agreed terms with the other party and expected fulfilment of the contract based on the current estimate of volumes and use of raw materials etc. Warranty provisions are based on the substance of the agreements entered into, including the guarantees issued covering customers in the on-trade.

Management assesses provisions, contingent assets and liabilities and the likely outcome of pending or probable lawsuits etc. on an ongoing basis. The outcome depends on future events, which are by nature uncertain. In assessing the likely outcome of lawsuits and tax disputes etc., management bases its assessment on external legal assistance and established precedents.

ACCOUNTING POLICIES

Provisions, including warranty provisions, are recognised when, as a result of events arising before or at the reporting date, the Group has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Provisions are discounted if the effect is material to the measurement of the liability. The Group's average borrowing rate is used as the discount rate.

Restructuring costs are recognised when a detailed, formal restructuring plan has been announced to those affected no later than at the reporting date. On acquisition of entities, restructuring provisions in the acquiree are only included in the opening balance when the acquiree has a restructuring liability at the acquisition date.

A provision for onerous contracts is recognised when the benefits expected to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

When the Group has a legal obligation to dismantle or remove an asset or restore the site on which the asset is located, a provision is recognised corresponding to the present value of expected future costs.

Provisions

DKK million	Restructurings	Onerous contracts	Other	Total
Provisions at 1 January 2017	661	552	3,151	4,364
Additional provisions recognised	131	-	608	739
Disposal of entities	-3	-8	-64	-75
Used during the year	-283	-60	-217	-560
Reversal of unused provisions	-10	-14	-138	-162
Transfers	10	-1	-	9
Discounting	9	11	64	84
Foreign exchange adjustments etc.	-22	-29	-146	-197
Provisions at 31 December 2017	**493**	**451**	**3,258**	**4,202**
Recognised in the statement of financial position				
Non-current provisions	333	433	2,845	3,611
Current provisions	160	18	413	591
Total	**493**	**451**	**3,258**	**4,202**

SECTION 3.3

CONTINGENT LIABILITIES

The Group operates in very competitive markets where consolidation is taking place within the industry and among our customers and suppliers, all of which in different ways influences our business. In 2014, the Federal Cartel Office in Germany issued a decision and imposed a fine of EUR 62m for alleged infringement of the competition rules in 2007. Management does not agree with the conclusions or findings of the Federal Cartel Office and, accordingly, Carlsberg Deutschland has appealed the decision to the relevant German court.

In the ordinary course of business the Group is furthermore party to certain lawsuits, disputes etc. of various scopes. The resolution of these lawsuits, disputes etc. is associated with uncertainty, as they depend on legal proceedings such as negotiations between the parties affected, governmental actions and court rulings. It is management and legal counsel's opinion that, apart from items recognised in the statement of financial position, the outcome of these lawsuits, disputes etc. cannot be reliably estimated in terms of amount or timing.

GUARANTEES AND COMMITMENTS

The Group has issued guarantees for loans etc. raised by third parties (non-consolidated entities) of DKK 475m (2016: DKK 431m). Guarantees issued for loans raised by associates and joint ventures are described in section 5.5.

Certain guarantees etc. are issued in connection with disposal of entities and activities etc. Apart from items recognised in the statement of financial position or disclosed in the consolidated financial statements, these guarantees etc. will not have a material effect on the Group's financial position.

Contractual commitments, lease liabilities and service agreements are described in section 2.4.

SECTION 4

FINANCING COSTS, CAPITAL STRUCTURE AND EQUITY

Equity and debt are used to finance investments in assets and operations.

Access to funding from a variety of sources secures future operating income.

Available credit resources are used as a measure of immediate access to funding.

Debt refinanced at historically low rates in 2017, as a EUR 1bn bond with a coupon of 2.5% was repaid and partly financed by a new EUR 500m bond issued with a coupon of 0.5%.

-788m

NET FINANCIAL ITEMS (DKK)

Improved from DKK -1,247m in 2016.

19.6bn

NET INTEREST-BEARING DEBT (DKK)

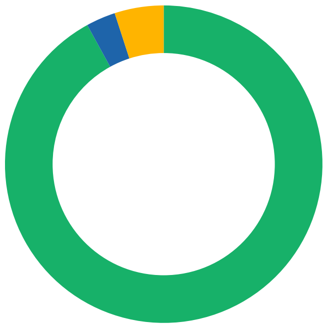
Decreased by DKK 5.9bn in 2017.

21.3bn

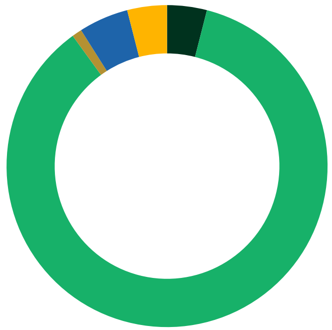
AVAILABLE CREDIT RESOURCES (DKK)

Up from DKK 13.5bn in 2016.

Distribution of gross financial debt – 2017 – Allocation (%)



Distribution of gross financial debt – 2016 – Allocation (%)



2.7%

AVERAGE FUNDING COST (%)

Down from 3.0% in 2016.

1.45x

DEBT TO OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES

An improvement from 1.96x in 2016.

SECTION 4.1

FINANCIAL INCOME AND EXPENSES

Financial items, net, improved by DKK 459m, primarily due to lower net interest expenses (DKK 251m) mainly because of the GBP 300m bond expiring in November 2016 and a reduction in the average net debt, as well as lower other financial expenses. Other financial expenses include write-downs of certain financial receivables and interest related to the lost tax case in Finland in 2016. This was offset by a lower gain on foreign exchange and fair value adjustments (DKK -192m), DKK 224m lower than last year.

The currency translation of foreign entities in other comprehensive income at the reporting date, DKK -3,785m, primarily related to the depreciation of RUB, which had an impact of DKK -2,308m, and depreciation of other Eastern European and Asian currencies.

ACCOUNTING POLICIES

Realised and unrealised gains and losses on derivative financial instruments that are not designated as hedging arrangements and the ineffective portion of those designated as hedging arrangements are included in financial income and expenses.

Interest, losses and write-downs relating to on-trade loans, which are measured at amortised cost, are included as income and expenses in other operating activities, cf. section 1.3.4, as such loans are treated as a prepaid discount to the customer.

Financial items recognised in the income statement

DKK million	2017	2016
Financial income		
Interest income	144	152
Fair value adjustments of financial instruments, net, cf. section 4.8	-	564
Foreign exchange gains, net	484	-
Interest on return on plan assets, defined benefit plans	152	173
Other financial income	23	30
Total	**803**	**919**
Financial expenses		
Interest expenses	-775	-1,034
Capitalised financial expenses	4	3
Fair value adjustments of financial instruments, net, cf. section 4.8	-292	-
Foreign exchange losses, net	-	-148
Interest cost on obligations, defined benefit plans	-250	-296
Other financial expenses	-278	-691
Total	**-1,591**	**-2,166**
Financial items, net, recognised in the income statement	**-788**	**-1,247**

Interest income relates to interest on cash and cash equivalents measured at amortised cost.

Financial items recognised in other comprehensive income

DKK million	2017	2016
Foreign exchange adjustments of foreign entities		
Foreign currency translation of foreign entities	-3,785	5,580
Recycling of cumulative translation differences of entities acquired in step acquisitions or disposed of	-57	263
Total	**-3,842**	**5,843**
Value adjustments of hedging instruments		
Change in fair value of effective portion of cash flow hedges	189	93
Change in fair value of cash flow hedges transferred to the income statement	-142	36
Change in fair value of net investment hedges	-352	12
Total	**-305**	**141**
Financial items, net, recognised in other comprehensive income	**-4,147**	**5,984**

Of the net change in fair value of cash flow hedges transferred to the income statement, DKK -146m (2016: DKK 110m) is included in net revenue and cost of sales and DKK 4m (2016: DKK -74m) is included in financial items.

SECTION 4.2

NET INTEREST-BEARING DEBT

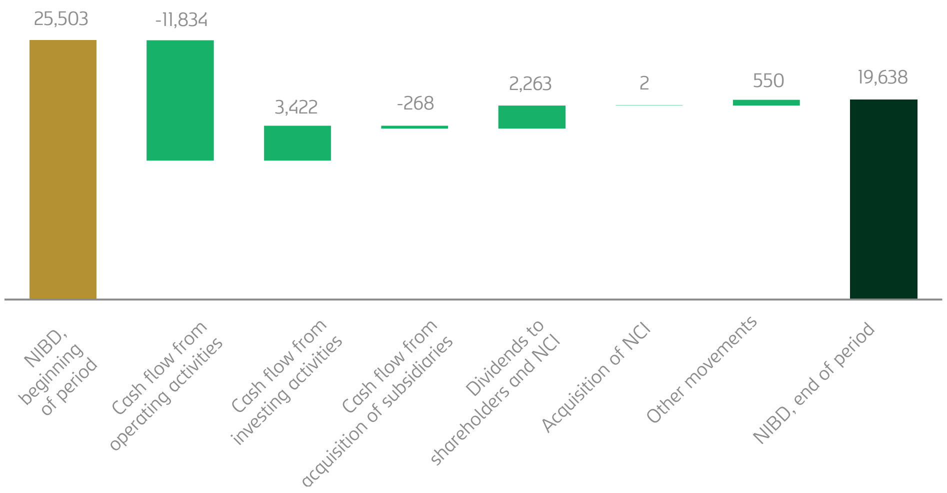
Net interest-bearing debt to operating profit before depreciation, amortisation and impairment losses is the Group's measure of its financial leverage.

Of the gross financial debt at year-end, 96% (DKK 23.3bn) was long term, i.e. with maturity of more than one year.

Net interest-bearing debt

DKK million	2017	2016
Non-current borrowings	23,340	21,137
Current borrowings	849	9,067
Gross financial debt	**24,189**	**30,204**
Cash and cash equivalents	-3,462	-3,502
Net financial debt	**20,727**	**26,702**
Loans to associates, interest-bearing portion	-290	-300
On-trade loans, net	-764	-863
Other receivables, net	-35	-36
Net interest-bearing debt	**19,638**	**25,503**

Changes in net interest-bearing debt (DKKm)



SECTION 4.3

CAPITAL STRUCTURE

4.3.1 CAPITAL STRUCTURE

Management regularly assesses whether the Group's capital structure is in the interests of the Group and its shareholders. The overall objective is to ensure a continued development and strengthening of the Group's capital structure that supports long-term profitable growth and a solid increase in key earnings and ratios.

This includes assessment of and decisions on the split of financing between share capital and borrowings, which is a long-term strategic decision to be made in connection with significant investments and other transactions.

Carlsberg A/S' share capital is divided into two classes (A shares and B shares). Combined with the Carlsberg Foundation's position as majority shareholder (in terms of control), management considers that this division will remain advantageous for all of its shareholders, as this structure enables and supports the long-term development of the Group.

The Group targets a leverage ratio below 2.0x. The leverage ratio is measured as net interest-bearing debt to operating profit before depreciation, amortisation and impairment losses. At the end of 2017, the leverage ratio was 1.45x, and in light of the reduced financial leverage there will be an increase in payout to shareholders.

The Group proposes a dividend of DKK 16.00 per share (2016: DKK 10.00 per share), amounting to DKK 2,441m (2016: DKK 1,526m). The proposed dividend has been included in retained earnings at 31 December 2017.

The Group is rated by Moody's Investors Service and Fitch Ratings. As an element in strategic decisions on capital structure, management assesses the risk of changes in the Group's investment-grade rating. Identification and monitoring of risks that could change the rating were carried out on an ongoing basis throughout the year.

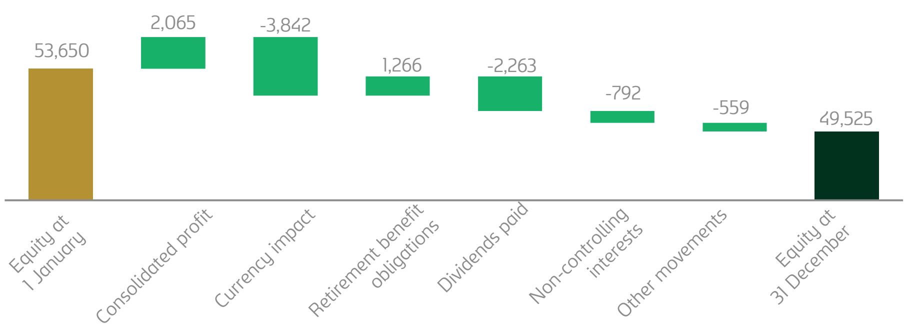
SECTION 4.3 (CONTINUED)

CAPITAL STRUCTURE

4.3.2 EQUITY

According to the authorisation of the Annual General Meeting, the Supervisory Board may, in the period until 19 March 2019, allow the Company to acquire treasury shares up to a total holding of 10% of the nominal share capital at a price quoted on Nasdaq Copenhagen at the time of acquisition with a deviation of up to 10%. The Company holds no class A shares.

Equity (DKKm)



Transactions with shareholders in Carlsberg A/S

DKK million	2017	2016
Dividends paid to shareholders	-1,525	-1,373
Acquisition of treasury shares	-266	-214
Disposal of treasury shares	110	149
Total	**-1,681**	**-1,438**

Transactions with non-controlling interests (NCI)

DKK million	2017	2016
Dividends paid to NCI	-738	-617
Acquisition of NCI	-2	-399
Capital increase	-	1
Total	**-740**	**-1,015**

Dividends paid to non-controlling interests primarily related to entities in Asia.

Share capital

	Class A shares		Class B shares		Total share capital	
	Shares of DKK 20	Nominal value, DKK '000	Shares of DKK 20	Nominal value, DKK '000	Shares of DKK 20	Nominal value, DKK '000
1 January 2016	33,699,252	673,985	118,857,554	2,377,151	152,556,806	3,051,136
No change in 2016	-	-	-	-	-	-
31 December 2016	**33,699,252**	**673,985**	**118,857,554**	**2,377,151**	**152,556,806**	**3,051,136**
No change in 2017	-	-	-	-	-	-
31 December 2017	**33,699,252**	**673,985**	**118,857,554**	**2,377,151**	**152,556,806**	**3,051,136**

A shares carry 20 votes per DKK 20 share. **B shares** carry two votes per DKK 20 share. A preferential right to an 8% non-cumulative dividend is attached to B shares. Apart from votes and dividends, all shares rank equally.

Treasury shares

	Fair value at 31 December, DKKm	Shares of DKK 20	Nominal value, DKKm	Percentage of share capital
1 January 2016		4,555	-	0.0%
Acquisition of treasury shares		335,734	7	0.2%
Used to settle share-based payments		-335,888	-7	-0.2%
31 December 2016	**3**	**4,401**	**-**	**0.0%**
Acquisition of treasury shares		376,888	8	0.2%
Used to settle share-based payments		-214,947	-4	-0.1%
31 December 2017	**124**	**166,342**	**4**	**0.1%**

To facilitate settlement of share-based incentive programmes in 2017, the Company acquired class B treasury shares at an average price of DKK 706 (2016: DKK 637).

ACCOUNTING POLICIES

Proposed dividends
Proposed dividends are recognised as a liability at the date when they are adopted at the Annual General Meeting (declaration date). The dividend recommended by the Supervisory Board, and therefore expected to be paid for the year, is disclosed in the statement of changes in equity.

Treasury shares
Cost of acquisition, consideration received and dividends received from treasury shares are recognised directly in equity as retained earnings. Capital reductions from the cancellation of treasury shares are deducted from the share capital at an amount corresponding to the nominal value of the shares.

Proceeds from the sale of treasury shares in connection with the settlement of share-based payments are recognised directly in equity.

SECTION 4.3 (CONTINUED)

CAPITAL STRUCTURE

4.3.3 FINANCIAL RISK MANAGEMENT

The Group's activities give rise to exposure to a variety of financial risks, including market risk (foreign exchange risk, interest rate risk and raw material risk), credit risk and liquidity risk. These risks are described in the following sections:

- Foreign exchange risk: sections 1.4 and 4.5
- Interest rate risk: section 4.6
- Commodity risk: section 1.3.1
- Credit risk: sections 1.6 and 4.4.2
- Liquidity risk: section 4.7

The Group's financial risks are managed by Group Treasury in accordance with the Financial Risk Management Policy approved by the Supervisory Board and are an integrated part of the overall risk management process at Carlsberg. The risk management governance structure is described in the Management review.

To reduce the exposure to these risks, the Group enters into a variety of financial instruments and generally seeks to apply hedge accounting to reduce volatility in the income statement.

Debt instruments and deposits in foreign currency reduce the overall risk, but do not achieve the objective of reducing volatility in specific items in the income statement.

SECTION 4.4

BORROWINGS AND CASH

4.4.1 BORROWINGS

Borrowings decreased in 2017 as a result of the strong free cash flow generation. A EUR 1bn bond was repaid in October 2017, partly using proceeds from issuing a EUR 500m bond maturing in September 2023 and partly using free cash flow. Bank borrowings also decreased compared with year-end 2016, and a mortgage loan on the brewery in Fredericia, Denmark, was fully repaid.

Gross financial debt

DKK million	2017	2016
Non-current		
Issued bonds	22,215	18,489
Mortgages	-	420
Bank borrowings	21	1,114
Other borrowings	1,104	1,114
Total	**23,340**	**21,137**
Current		
Issued bonds	-	7,424
Current portion of other non-current borrowings	36	193
Bank borrowings	773	1,443
Other borrowings	40	7
Total	**849**	**9,067**
Total borrowings	**24,189**	**30,204**
Fair value	25,840	32,160

An overview of issued bonds (current and non-current) is provided in section 4.6.

Other borrowings include finance lease liabilities of DKK 19m (2016: DKK 26m).

Change in gross financial debt

DKK million	2017
Gross financial debt at 1 January	**30,204**
Proceeds from issue of bonds	3,684
Repayment of bonds	-7,444
Instalments on and proceeds from borrowings, long term	-1,157
Repayment of mortgage	-420
Instalments on and proceeds from borrowings, short term	147
Other	-49
External financing	**-5,239**
Change in bank overdrafts	-812
Other, including foreign exchange adjustments and amortisation	36
Gross financial debt 31 December	**24,189**

ACCOUNTING POLICIES

Borrowings mainly comprise bonds, bank borrowings and finance lease liabilities and are initially recognised at fair value less transaction costs. In subsequent periods, borrowings are measured at amortised cost using the effective interest method. Accordingly, the difference between the fair value less transaction costs and the nominal value is recognised under financial expenses over the term of the loan.

4.4.2 CASH

Cash and cash equivalents include short-term marketable securities with a term of three months or less at the acquisition date that are subject to an insignificant risk of changes in value. Short-term bank deposits amounted to DKK 578m (2016: DKK 1,014m). The average interest rate on these deposits was 6.3% (2016: 5.9%).

Cash and cash equivalents

DKK million	2017	2016
Cash and cash equivalents	3,462	3,502
Bank overdrafts	-342	-1,154
Cash and cash equivalents, net	**3,120**	**2,348**

ASSESSMENT OF CREDIT RISK

The Group is exposed to credit risk on cash and cash equivalents (including fixed deposits), investments and derivative financial instruments with a positive fair value due to uncertainty as to whether the counterparty will be able to meet its contractual obligations as they fall due.

The Group has established a credit policy under which financial transactions may be entered into only with financial institutions with a solid credit rating. The credit exposure on financial institutions is managed by Group Treasury.

SECTION 4.4 (CONTINUED)

BORROWINGS AND CASH

The Group primarily enters into financial instruments and transactions with the Group's relationship banks, i.e. banks extending loans to the Group.

Group Treasury monitors the Group's gross credit exposure to banks and operates with individual limits on banks based on rating and access to netting of assets and liabilities.

EXPOSURE TO CREDIT RISK

The carrying amount of DKK 3,462m (2016: DKK 3,502m) represents the maximum credit exposure related to cash and cash equivalents. Of this amount, DKK 2,131m is cash in Asia.

The credit risk on receivables is described in section 1.6.

SECTION 4.5

FOREIGN EXCHANGE RISK RELATED TO NET INVESTMENTS AND FINANCING ACTIVITIES

4.5.1 CURRENCY PROFILE OF BORROWINGS

The Group is exposed to foreign exchange risk on borrowings denominated in a currency other than the functional currency of the group entities reporting the debt, as well as the risk that arises when net cash inflow is generated in one currency and loans are denominated and have to be repaid in another currency.

Currency profile of borrowings

Before and after derivative financial instruments

DKK million

2017	Original principal	Effect of swap	After swap
CHF	85	914	999
DKK	23	1,764	1,787
EUR	23,775	-5,749	18,026
RUB	-	-1,359	-1,359
USD	-	2,056	2,056
Other	306	2,374	2,680
Total	**24,189**	**-**	**24,189**
Total 2016	**30,204**	**-**	**30,204**

4.5.2 HEDGING OF NET INVESTMENTS IN FOREIGN SUBSIDIARIES

The Group holds a number of investments in foreign subsidiaries where the translation of net assets to DKK is exposed to foreign exchange risks. The Group hedges part of this foreign exchange exposure by entering into forward exchange contracts (net investment hedges). This applies to net investments in CHF, CNY, MYR, NOK and PLN, with the hedging of the two last-mentioned currencies being established in 2017. The basis for hedging is reviewed at least once a year, and the two parameters, risk reduction and cost, are balanced. In economic terms, having debt in foreign currency or creating synthetic debt via forward exchange contracts constitutes hedging of the DKK value of future cash flows arising from operating activities or specific transactions.

The most significant net risk relates to foreign exchange adjustment of net investments in RUB.

Where the fair value adjustments of forward exchange contracts do not exceed the fair value adjustments of the investment, the adjustments of the financial instruments are recognised in other comprehensive income. Fair value adjustments of loans designated as strategic intra-group loans are also recognised in other comprehensive income.

The fair value of derivatives used as net investment hedges recognised at 31 December 2017 amounted to DKK 84m (2016: DKK –104m).

Net investment hedges

	Hedging of investment, amount in local currency		Intra-group loans, amount in local currency		Total adjustment to other comprehensive income (DKK)	
DKK million	2017	2016	2017	2016	2017	2016
RUB	-	-10,000	-	-	34	-133
CNY	-1,250	-1,250	-	-	-3	-7
MYR	-336	-336	-	-	-1	-13
HKD	-	-	1,126	1,345	-138	36
CHF	-260	-330	-	-	163	5
GBP	-	-	72	75	-23	-113
NOK	-1,300	-	3,000	3,000	-158	127
SEK	-	-	8,810	-	-219	106
PLN	-135	-	-	-	-4	-
SGD	-	-	-67	84	-4	5
Other	-	-	-	-	1	-1
Total					**-352**	**12**

4.5.3 EXCHANGE RATE RISK ON CASH AND BORROWINGS

The main principle for funding of subsidiaries is that cash, loans and borrowings should be in local currency or hedged to local currency to avoid foreign exchange risk. However, in some Group entities debt is denominated in a currency other than the local entity's functional currency without the foreign exchange risk being hedged. This applies primarily to a few entities in Eastern Europe that hold cash and loans in EUR and USD and in this way obtain proxy hedging of the foreign exchange risk associated with the purchase of goods in foreign currency in these markets.

SECTION 4.5 (CONTINUED)

FOREIGN EXCHANGE RISK RELATED TO NET INVESTMENTS AND FINANCING ACTIVITIES

4.5.4 IMPACT ON FINANCIAL STATEMENTS AND SENSITIVITY ANALYSIS

IMPACT ON OPERATING PROFIT

For a description of the currency impact on operating profit, please refer to section 1.4.

IMPACT ON FINANCIAL ITEMS, NET

In 2017, the Group had net gains on foreign exchange and fair value adjustments of financial instruments of DKK 192m (2016: gain of DKK 416m), cf. section 4.1.

IMPACT ON STATEMENT OF FINANCIAL POSITION

Fluctuations in foreign exchange rates will affect the level of debt, as funding is obtained in a number of currencies. In 2017, net interest-bearing debt increased by DKK 360m (2016: decreased by DKK 46m) due to changes in foreign exchange rates.

IMPACT ON OTHER COMPREHENSIVE INCOME

For 2017, total losses on net investments, loans granted to subsidiaries as an addition to the net investment and net investment hedges attributable to the shareholders in Carlsberg A/S amounted to DKK -3,806m (2016: gains of DKK 5,584m). Losses were primarily incurred in RUB, and the Asian currencies.

SENSITIVITY ANALYSIS

An adverse development in the exchange rates would, all other things being unchanged, have had the hypothetical impact on the consolidated income statement for 2017 illustrated in the table. The hypothetical impact ignores the fact that the subsidiaries' initial recognition of revenue, cost and debt would be similarly exposed to the changes in the exchange rates. The calculation is made on the basis of items in the statement of financial position at 31 December.

Other comprehensive income is affected by changes in the fair value of currency derivatives designated as cash flow hedges of future purchases and sales. If the foreign exchange rates of the currencies hedged had been 5% higher (RUB: 10% higher) on 31 December 2017, other comprehensive income would have been DKK 139m lower (2016: DKK 133m lower).

APPLIED EXCHANGE RATES

The DKK exchange rates for the most significant currencies applied when preparing the consolidated financial statements are presented above.

The average exchange rate for the year was calculated using the monthly exchange rates weighted according to the phasing of the net revenue per currency throughout the year.

Applied exchange rates

	Closing rate		Average rate	
DKK	2017	2016	2017	2016
Swiss franc (CHF)	6.3621	6.9228	6.7091	6.8166
Chinese yuan (CNY)	0.9539	1.0156	0.9764	1.0125
Euro (EUR)	7.4449	7.4344	7.4384	7.4442
Pound sterling (GBP)	8.3912	8.6832	8.4933	9.1182
Laotian kip (LAK)	0.0007	0.0009	0.0008	0.0008
Norwegian krone (NOK)	0.7566	0.8182	0.7961	0.8028
Polish zloty (PLN)	1.7824	1.6857	1.7500	1.7080
Russian rouble (RUB)	0.1081	0.1165	0.1134	0.1019
Swedish krona (SEK)	0.7563	0.7783	0.7712	0.7866
Ukrainian hryvnia (UAH)	0.2223	0.2616	0.2488	0.2632

Exchange rate sensitivity

DKK million 2017	EUR receivable	EUR payable	EUR borrowings	EUR cash	Gross exposure	Derivative	Net exposure	% change	Effect on P/L	2016 Effect on P/L
EUR/GBP	1,065	-617	-	220	668	-	668	5%	33	33
EUR/NOK	129	-573	-	-3	-447	-	-447	5%	-22	-32
EUR/RUB	9	-268	-	363	104	-	104	10%	10	-18
EUR/UZS	-	-	-	-	-	-	-	-	-	-24
Total									**21**	**-41**

2017	USD receivable	USD payable	USD borrowings	USD cash	Gross exposure	Derivative	Net exposure	% change	Effect on P/L	2016 Effect on P/L
USD/RUB	1	-1	-	188	188	-	188	10%	19	31
USD/UAH	-	-33	-	129	96	-	96	10%	10	13
Total									**29**	**44**

SECTION 4.6

INTEREST RATE RISK

The most significant interest rate risk in the Group relates to borrowings. As the Group's net debt is primarily in EUR, the interest rate exposure relates to the development in the interest rates for EUR.

The interest rate risk is measured by the duration of the net financial debt. The target is to have a duration between two and five years. At 31 December 2017, the duration was 4.6 years (2016: 3.7). Interest rate risks are mainly managed using fixed-rate bonds. No interest rate swaps were in effect at 31 December 2017.

The EUR 750m bond maturing on 3 July 2019 consists of two bond issues of EUR 250m and EUR 500m.

SENSITIVITY ANALYSIS

At the reporting date, 113% of the net financial debt consisted of fixed-rate borrowings with interest rates fixed for more than one year (2016: 76%). The reason for the high percentage of net debt at fixed rate is that the amount of cash and cash equivalents exceeds the amount of borrowing at floating rates. It is estimated that a 1 percentage point interest rate increase would lead to a decrease in annual interest expenses of DKK 27m (2016: increase of DKK 64m). The analysis assumes a parallel shift in the relevant yield curves and 100% effective hedging of changes in the yield curve.

If the market interest rate had been 1 percentage point higher at the reporting date, it would have led to a financial gain of DKK 962m (2016: DKK 978m), and a similar loss had the rate been 1 percentage point lower. However, since all fixed-rate borrowings are measured at amortised cost, there is no impact on other comprehensive income or the income statement.

The sensitivity analysis is based on the financial instruments recognised at the reporting date.

The sensitivity analysis assumes a parallel shift in interest rates and that all other variables remain constant, in particular foreign exchange rates and interest rate differentials between the different currencies. The analysis was performed on the same basis as for 2016. The Group did not enter into new interest rate swaps in 2017.

Interest rate risk

DKK million

2017	Interest rate	Average effective interest rate	Fixed for	Carrying amount	Interest rate risk
Issued bonds					
EUR 750m maturing 3 July 2019	Fixed	2.6%	1-2 years	5,587	Fair value
EUR 750m maturing 15 November 2022	Fixed	2.7%	4-5 years	5,559	Fair value
EUR 500m maturing 6 September 2023	Fixed	0.7%	>5 years	3,690	Fair value
EUR 1,000m maturing 28 May 2024	Fixed	2.6%	>5 years	7,379	Fair value
Total issued bonds		**2.3%**		**22,215**	
Total issued bonds 2016		**2.9%**		**25,913**	
Mortgages					
Floating-rate	Floating	-	<1 year	-	Cash flow
Total mortgages		**-**		**-**	
Total mortgages 2016		**0.7%**		**420**	
Bank borrowings and other borrowings					
Floating-rate	Floating	3.6%	<1 year	849	Cash flow
Fixed-rate	Fixed	0.6%	>1 year	1,125	Fair value
Total bank borrowings and other borrowings				**1,974**	
Total bank borrowings and other borrowings 2016				**3,871**	

Net financial debt by currency

DKK million

				Interest rate	
2017	Net financial debt	Floating[1]	Fixed[1]	Floating[2] %	Fixed[2] %
EUR	17,591	-5,790	23,381	0%	100%
DKK	1,758	1,758	-	100%	-
PLN	-123	-123	-	100%	-
USD	1,606	1,604	2	100%	-
CHF	979	979	-	100%	-
RUB	-1,418	-1,418	-	100%	-
Other	334	336	-2	100%	-
Total	**20,727**	**-2,654**	**23,381**	**-13%**	**113%**
2016					
EUR	18,207	-1,740	19,947	28%	72%
DKK	7,313	7,311	2	100%	-
PLN	-172	-172	-	100%	-
USD	2,922	2,920	2	101%	-1%
CHF	1,715	1,715	-	100%	-
RUB	-2,228	-2,228	-	100%	-
Other	-1,055	-1,417	362	122%	-22%
Total	**26,702**	**6,389**	**20,313**	**24%**	**76%**

[1] Net financial debt consists of current and non-current items after currency derivatives less cash and cash equivalents.
[2] Net financial debt consists of current and non-current items less cash and cash equivalents.

SECTION 4.7

LIQUIDITY RISK

Liquidity risk results from the Group's potential inability to meet the obligations associated with its financial liabilities, for example settlement of financial debt and paying suppliers. The Group's liquidity is managed by Group Treasury. The aim is to ensure effective liquidity management, which involves obtaining sufficient committed credit facilities to ensure adequate financial resources and, to some extent, tapping a range of funding sources.

CREDIT RESOURCES AVAILABLE

Carlsberg uses the term credit resources available to determine the adequacy of access to credit facilities.

Net financial debt is used internally by Group Treasury to monitor the Group's credit resources available. Net financial debt is the Group's net interest-bearing debt, excluding interest-bearing assets other than cash, as these assets are not actively managed in relation to liquidity risk.

At 31 December 2017, net financial debt was DKK 20,727m (2016: DKK 26,702m).

At 31 December 2017, the Group had total unutilised credit facilities of DKK 20,766m (2016: DKK 19,388m), of which DKK 18,687m (2016: DKK 19,029m) were non-current credit facilities. Credit resources available consist of the unutilised non-current credit facilities and cash and cash equivalents of DKK 3,462m (2016: DKK 3,502m) less utilisation of current facilities of DKK 849m (2016: DKK 9,067m).

The credit resources available and the access to unused committed credit facilities are considered reasonable in light of the Group's current needs in terms of financial flexibility.

In addition to efficient working capital management and credit risk management, the Group mitigates liquidity risk by arranging borrowing facilities with solid financial institutions.

The Group uses cash pools in the day-to-day liquidity management for most of the entities in Western Europe, as well as intra-group loans between Group Treasury and subsidiaries. Eastern Europe and Asia are less integrated in terms of cash pools, and liquidity is managed via intra-group loans.

Time to maturity for non-current borrowings

DKK million 2017	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Issued bonds	5,587	-	-	5,559	11,069	22,215
Bank borrowings	20	17	-29	9	4	21
Other non-current borrowings	1,087	-	1	1	15	1,104
Total	**6,694**	**17**	**-28**	**5,569**	**11,088**	**23,340**
Total 2016	**1,078**	**6,679**	**16**	**12**	**13,352**	**21,137**

Committed credit facilities and credit resources available

DKK million 2017	Total committed loans and credit facilities	Utilised portion of credit facilities	Unutilised credit facilities	2016 Unutilised credit facilities
<1 year	2,928	849	2,079	359
Total current committed loans and credit facilities	**2,928**	**849**	**2,079**	**359**
<1 year	-	-	-849	-9,067
1-2 years	6,694	6,694	-	369
2-3 years	17	17	-	-
3-4 years	18,659	-28	18,687	-
4-5 years	5,569	5,569	-	18,660
>5 years	11,088	11,088	-	-
Total non-current committed loans and credit facilities	**42,027**	**23,340**	**17,838**	**9,962**
Cash and cash equivalents			3,462	3,502
Credit resources available (total non-current committed loans and credit facilities - net debt)			**21,300**	**13,464**

SECTION 4.7 (CONTINUED)

LIQUIDITY RISK

The table below lists the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements, and thus summarises the gross liquidity risk.

The risk implied by the values shown in the table reflects the one-sided scenario of cash outflows only. Trade payables and other financial liabilities mainly originate from the financing of assets in ongoing operations, such as property, plant and equipment, and investments in working capital, for example inventories and trade receivables.

The nominal amount/contractual cash flow of the financial debt was DKK 163m higher (2016: DKK 172m higher) than the carrying amount. The difference between the nominal amount and the carrying amount comprises differences between these amounts at initial recognition, which are treated as a cost that is capitalised and amortised over the duration of the borrowings.

The interest expense is the contractual cash flows expected on the gross financial debt existing at 31 December 2017.

The cash flow is estimated based on the notional amount of the above-mentioned borrowings and expected interest rates at year-end 2017 and 2016. Interest on debt recognised at year-end 2017 and 2016, for which no contractual obligation exists (current borrowing and cash pools), has been included for a two-year period.

Maturity of financial liabilities

DKK million

2017	Contractual cash flows	Maturity <1 year	Maturity >1 year <5 years	Maturity >5 years	Carrying amount
Derivative financial instruments					
Derivative financial instruments, payables	104	104	-	-	113
Non-derivative financial instruments					
Gross financial debt	24,352	849	12,316	11,187	24,189
Interest expenses	2,287	512	1,496	279	N/A
Trade payables and other liabilities	15,050	15,050	-	-	15,050
Contingent consideration	3,820	309	3,511	-	3,820
Non-derivative financial instruments	**45,509**	**16,720**	**17,323**	**11,466**	**-**
Financial liabilities	**45,613**	**16,824**	**17,323**	**11,466**	**-**
Financial liabilities 2016	**51,801**	**25,236**	**12,621**	**13,944**	**-**

SECTION 4.8

DERIVATIVE FINANCIAL INSTRUMENTS

Fair value adjustments of fair value hedges, financial derivatives not designated as hedging instruments and ineffectiveness regarding instruments designated in a hedge relationship are recognised in the income statement. In 2017, fair value adjustments were DKK -292m (2016: DKK 564m), cf. section 4.1.

The ineffectiveness includes both the ineffective portion of hedges and technical ineffectiveness relating to exchange rate instruments and aluminium swaps designated as cash flow hedges.

The Group monitors the cash flow hedge relationships on a quarterly basis to assess whether the hedge is still effective. If this is not the case, the accumulated gain/loss on the portion of the hedge that is no longer effective is reclassified to the income statement.

Of the total ineffective portion of hedges for 2017, DKK 1m related to the Group's aluminium-hedging scheme (2016: DKK 65m) and DKK -5m to foreign exchange hedges (2016: DKK 9m). The ineffective portion regarding aluminium relates to hedged transactions that are expected to take place in 2018.

Fair value hedges and financial derivatives not designated as hedging instruments (economic hedges)

DKK million

2017	Fair value adjustment recognised in the income statement	Fair value
Exchange rate instruments	-292	46
Other instruments	4	-
Ineffectiveness	-4	-
Total	**-292**	**46**
2016		
Exchange rate instruments	486	285
Other instruments	4	2
Ineffectiveness	74	-
Total	**564**	**287**

SECTION 4.8 (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivatives classified as a cash flow hedge is presented in the cash flow hedge section below. Other instruments are primarily aluminium hedges, which are not classified as cash flow hedges.

Cash flow hedges comprise aluminium hedges where the hedged item is aluminium cans that will be used in a number of Group entities in 2018 and currency forwards entered into to cover the foreign exchange risk on transactions expected to take place in 2018 and 2019.

The fair value of cash flow hedges recognised at 31 December 2017 includes the ineffective portion of the financial instruments designated as cash flow hedges.

The impact on other comprehensive income from exchange rate instruments relates to hedges of Group entities' purchases and sales in currencies other than their functional currencies. The impact on other comprehensive income from other instruments relates to hedges of Group entities' exposure to changes in aluminium prices.

DETERMINATION OF FAIR VALUE

The Group has no financial instruments measured at fair value on the basis of level 1 input (quoted prices) or level 3 input (non-observable data) other than certain put options cf. section 5.4.

The methods and assumptions used in determining the fair values of each category of financial assets and financial liabilities are described in their relevant sections.

The carrying amount of financial assets and liabilities approximates their fair value, except for borrowings, cf. section 4.4.

Cash flow hedges

DKK million

2017	Fair value adjustment recognised in other comprehensive income	Fair value	Expected recognition
Interest rate instruments	1	-	N/A
Exchange rate instruments	64	27	2018-2019
Other instruments	-18	65	2018
Total	**47**	**92**	
2016			
Interest rate instruments	1	-	N/A
Exchange rate instruments	-11	-37	2017-2018
Other instruments	139	83	2017
Total	**129**	**46**	

ACCOUNTING ESTIMATES AND JUDGEMENTS

When entering into financial instruments, management assesses whether the instrument is an effective hedge of recognised assets and liabilities, expected future cash flows or financial investments. The effectiveness of recognised hedging instruments is assessed at least quarterly.

Fair values of derivative financial instruments are calculated on the basis of current market data and generally accepted valuation methods. Internally calculated values are used, and these are compared with external market quotes on a quarterly basis. For currency and aluminium derivatives, the calculation is as follows:

a) the forward market rate is compared with the agreed rate on the derivatives, and the difference in cash flow at the future point in time is calculated
b) the amounts are discounted to present value.

When entering into a contract, management assesses whether the contract contains embedded derivatives and whether they meet the criteria for separate classification and recognition. The Group currently does not have any embedded derivatives that meet the criteria for separate classification and recognition.

ACCOUNTING POLICIES

Derivative financial instruments are initially recognised at fair value on the trade date and subsequently remeasured at their fair value at the reporting date. Attributable transaction costs are recognised in the income statement.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as one of: fair value hedges - hedges of the fair value of recognised assets or liabilities; cash flow hedges - hedges of particular risks associated with the cash flow of recognised assets and liabilities; or net investment hedges – hedges of currency fluctuations in subsidiaries, associates or joint ventures.

The fair values of derivative financial instruments are presented in other receivables or payables, and positive and negative values are offset only when the Group has the right and the intention to settle several financial instruments net.

Changes in the fair value of a **fair value hedge** are recognised in the income statement. Changes in the value of the hedged portion of assets or liabilities are also recognised. Except for foreign currency hedges, hedging of future cash flows according to a firm agreement is treated as a fair value hedge of a recognised asset or liability.

Changes in the effective portion of the fair value of derivative financial instruments that are designated and qualify as a **cash flow hedge** are recognised in other comprehensive income and accumulated in a separate reserve in equity. When the hedged transaction results in gains or losses, amounts previously recognised in other comprehensive income are transferred to the same item as the hedged item when the hedged risk impacts the income statement. If the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the non-financial asset is recognised.

Derivatives designated as and qualifying for recognition as a cash flow hedge of financial investments are recognised in other comprehensive income. On complete or partial disposal of the financial investment, the portion of the hedging instrument that is recognised in other comprehensive income and relates to that financial investment is recognised in the income statement when the gain or loss on disposal is recognised.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement as financial income or financial expenses.

Changes in the fair value of derivative financial instruments that are used **to hedge net investments** in foreign subsidiaries, associates and joint ventures and that effectively hedge currency fluctuations in these entities are recognised in other comprehensive income and accumulated in a separate translation reserve in equity.

SECTION 5

ACQUISITIONS, DISPOSALS, ASSOCIATES AND JOINT VENTURES

300m

In gains on disposal of entities recognised in special items (DKK).

510m

In net cash proceeds from disposal of entities included in cash flow from investments (DKK).

SECTION 5.1

INVESTMENT MODEL AND RISKS

MARKET ACCESS

In the beer industry, access to the local market is very much dependent on establishing good relationships, for example with customers in the on- and off-trade market, national distributors, local suppliers of raw and packaging materials and relevant authorities governing the beverage industry. Often the most efficient way of establishing such relations is by engaging with a local partner that already has the relevant relationships.

Therefore, when the Group expands its business into new markets, it often does so in collaboration with a local partner. Such a partnership can have different legal forms and impacts the consolidated financial statements to a varying degree depending on the legal form.

INVESTMENT MODEL

Entering into a partnership can both reduce the financial exposure and mitigate the business risks associated with entering new markets. The financial exposure, however, varies depending on the structure of the partnership.

In some markets, the Group enters as a non-controlling shareholder, provides a degree of financing and contributes knowledge of the beer industry, but leaves the controlling influence with the partner. Other investments are structured as joint ventures where the Group and our local partner jointly make the operational decisions and share strategic and tactical responsibility.

More commonly, the Group structures its partnership such that the Group exercises management control, usually by way of a majority of the voting rights, whereby the investment is fully consolidated. Such partnerships are just as important as other types of partnership to be successful in the local markets, but the Group has increased financial exposure. Investments in businesses in which the Group exercises management control often involve put and/or call options or a similar structure.

IMPACT ON FINANCIAL STATEMENTS

Investments in partnerships where the Group is the non-controlling shareholder and joint ventures are consolidated in the financial statements using the equity method. The accounting risk associated with these governance models is limited to the investment, the proportionate share of the net result of the business and any specific additional commitments or loans the Group provides to the partnership.

In businesses where the Group exercises management control, the full exposure to the earnings and other financial risks impacts the consolidated financials. From an accounting point of view, the Group treats any put options held by partners in such entities as if they had already been exercised by the partner, i.e. anticipating that the acquisition will occur. The accounting impact is that the non-controlling interests are not recognised, and no part of net profits or equity is attributed to them. Instead the dividends the partner receives from the business – for accounting purposes – are classified as interest expenses.

SECTION 5.1 (CONTINUED)

INVESTMENT MODEL AND RISKS

Common to all partnerships is the risk of disagreement and, ultimately, dissolution.

A dissolution will initially impact the accounting treatment of an investment and depend on whether the Group or our partner is exiting the business. In the long term, however, the impact can be significant to the operation of the local entity and the collaboration with customers, distributors, authorities etc. if the partner was instrumental in managing these relationships. There is therefore a risk that the dissolution of a partnership may have a negative impact on the underlying business and the financial performance recognised in the consolidated financial statements.

SECTION 5.2

ACQUISITIONS AND DISPOSALS

ACQUISITION OF ENTITIES

The Group did not complete any acquisitions of entities in 2017.

In 2016, the Group gained control of two entities that individually and collectively were not material to the Group. The purchase price allocation was completed for one of the entities, while the other was recognised at provisional values at 31 December 2016. In 2017, the provisional values were finalised without any changes in goodwill, which amounted to DKK 205m.

DISPOSAL OF ENTITIES

In 2017, the Group disposed of the subsidiaries Carlsberg Uzbekistan (January) and Nordic Getränke in Germany (March). The Group also disposed of the associates United Romanian Breweries (March), Malterie Soufflet in Russia (April) and Nya Carnegiebryggeriet in Sweden (March). The last of these was sold to a subsidiary of Sicera, a joint venture of the Group.

The restructuring of the Group's Chinese activities in Chongqing Brewery Group and Eastern Assets in 2017 and 2016 resulted in the disposal of five entities (2016: nine) comprising brewing and malting activities. Most of the breweries had been closed before the disposals.

In 2016, as part of an asset swap, the associate Xinjiang Hops was disposed of in June and the Group acquired a 35% non-controlling interest in Xinjiang Wusu Breweries in exchange. Following the completion, the Group holds 100% of Xinjiang Wusu Breweries. The gain on disposal of Xinjiang Hops was recognised in special items, income, while the cost of the acquisition of the non-controlling interest was recognised in the statement of equity. The cash flows were recognised accordingly and amounted to approximately DKK 200m, net.

In 2016, the Group also disposed of its 59% controlling interest in Carlsberg Malawi (August), its wholly owned entities Danish Malting Group (January) and Carlsberg Vietnam Breweries - Vung Tau (July), as well as the associate Sejet Planteforædling (December) and other minor entities.

The disposals completed in both 2017 and 2016 were part of the structural changes under the Funding the Journey programme, and all related to non-core assets.

Entities disposed of

DKK million	2017	2016
Non-current assets	453	687
Current assets	269	995
Assets held for sale	103	-
Non-current liabilities	-321	-156
Current liabilities	-221	-630
Net assets of entities disposed of	**283**	**896**
Non-controlling interests	-3	-83
Net assets of entities disposed of, attributable to shareholders in Carlsberg A/S	**280**	**813**
Recycling of cumulative exchange differences	-57	263
Directly attributable expenses	-4	7
Gain on disposal, net, recognised in special items, cf. section 3.1	300	2,078
Prepayment received in prior period	-	-25
Cash consideration received, cf. section 5.2	**519**	**3,136**

! ACCOUNTING ESTIMATES AND JUDGEMENTS

Assessment of control

The classification of entities where Carlsberg does not control 100% of the voting rights is based on an assessment of the contractual and operational relationship between the parties. This includes assessing the conditions in shareholder agreements, contracts etc. Consideration is also given to the extent to which each party can govern the financial and operating policies of the entity, how the operation of the entity is designed, and which party possesses the relevant knowledge and competences to operate the entity.

Another factor relevant to this assessment is the extent to which each of the parties can direct the activities and affect the returns, for example by means of rights, exclusively reserved matters or casting votes.

SECTION 5.2 (CONTINUED)

ACQUISITIONS AND DISPOSALS

ACCOUNTING POLICIES

For acquisition of subsidiaries, associates and joint ventures, the acquisition method is used. The acquired entities' identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if they are separable or arise from a contractual right. Deferred tax on revaluations is recognised.

The acquisition date is the date when the Group effectively obtains control of an acquired subsidiary or significant influence over an associate or a joint venture.

The cost of a business combination comprises the fair value of the consideration agreed upon. When a business combination agreement provides for an adjustment to the cost of the combination that is contingent on future events, the fair value of that adjustment is included in the cost of the combination.

Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with a functional currency other than the presentation currency used in the Group are treated as assets and liabilities belonging to the foreign entity and translated into the foreign entity's functional currency at the exchange rate at the transaction date.

If uncertainties regarding measurement of acquired identifiable assets, liabilities and contingent liabilities exist at the acquisition date, initial recognition will take place on the basis of preliminary fair values. If identifiable assets, liabilities and contingent liabilities are subsequently determined to have a different fair value at the acquisition date from that first assumed, goodwill is adjusted up until 12 months after the acquisition. The effect of the adjustments is recognised in the opening balance of equity, and the comparative figures are restated accordingly if the amount is material.

Except in cases of material error, changes in estimates of contingent purchase considerations are recognised in the income statement under special items, unless they qualify for recognition directly in equity. Changes in estimates of contingent purchase considerations in business combinations completed no later than 31 December 2009 are recognised as an adjustment to goodwill.

Disposals

Gains or losses on the disposal or winding-up of subsidiaries, associates and joint ventures are stated as the difference between the sales price and the carrying amount of net assets, including goodwill at the date of disposal or winding-up, foreign exchange adjustments recognised in other comprehensive income, and costs to sell or winding-up expenses.

Partial disposal of investments with loss of control

When the Group loses control of a subsidiary through a partial disposal of its shareholding or voting rights, the retained shareholding in the entity is classified as an associate or a security depending on the level of control after the disposal. The shareholding in the associate or the security held after the partial disposal is measured at fair value at the date of disposal. The fair value is recognised as the new cost of the shareholding in the associate or the security. The resulting gain or loss is recognised under special items.

SECTION 5.3

CASH FLOW EFFECT FROM ACQUISITIONS AND DISPOSALS

Elements of cash consideration paid and received

DKK million	2017	2016
Cash consideration received/paid, associates	242	716
Cash and cash equivalents acquired/disposed of	-2	-210
Cash consideration received/paid, subsidiaries	270	2,179
Total cash consideration received, net	**510**	**2,685**
- of which consideration received for entities disposed	519	3,136

SECTION 5.4

NON-CONTROLLING INTERESTS

The Group has entities, primarily in Asia, that are not wholly owned.

Non-controlling interests' share of profit for the year

DKK million	2017	2016
Lao Brewery	304	288
Chongqing Brewery Group	230	-164
Carlsberg Malaysia Group	182	173
Asia, other	79	63
Other regions	11	11
Total	**806**	**371**

CONTINGENT CONSIDERATIONS

Contingent considerations relate to subsidiaries of the Group that are operated in cooperation with local partners who hold options to sell their shares to the Group.

The contingent consideration primarily relates to put options on 49% of the shares in Olympic Brewery, Greece, 21% in Brewery Alivaria, Belarus, and 33% in the parent company holding 100% and 90% of the shares in the businesses in India and Nepal respectively. The total contingent consideration recognised amounted to DKK 3,820m at 31 December 2017 (2016: DKK 3,027m).

SECTION 5.4 (CONTINUED)

NON-CONTROLLING INTERESTS

In accordance with the Group's accounting policy, shares subject to put options are consolidated as if the shares had already been acquired. The ownership percentage at which these subsidiaries are consolidated therefore differs from the legal ownership interest retained by the Group. The legal and consolidated ownership is stated in section 10.

The carrying amount of contingent considerations regarding the expected future exercise of put options held by non-controlling interests is determined in accordance with the terms of the agreements made with the holders of the options. Therefore, not all are measured at fair value. For put options measured at fair value in accordance with the terms of the agreement, the value is estimated using generally accepted valuation methods, including discounted cash flows and multiples. Estimates are based on updated information since initial recognition of the contingent consideration, including new budgets and sales forecasts, discount rates etc. The determination of the fair value makes use of non-observable data (level 3 input) such as entity-specific discount rates and industry-specific expectations of price developments. These inputs are identical to the input applied in the test for impairment, cf. section 2.3.

The total fair value adjustment recognised in 2017 amounted to DKK 793m (2016: DKK 1,011m). Of this, the fair value adjustment of contingent considerations for acquisitions completed before 1 January 2010 amounted to DKK 3m (2016: DKK 6m), which was recognised as an adjustment to goodwill.

ACCOUNTING POLICIES

On acquisition of non-controlling interests (i.e. subsequent to the Group obtaining control), acquired net assets are not measured at fair value. The difference between the cost and the non-controlling interests' share of the total carrying amount, including goodwill, is transferred from the non-controlling interests' share of equity to equity attributable to shareholders in Carlsberg A/S. The amount deducted cannot exceed the non-controlling interests' share of equity immediately before the transaction.

On disposal of shareholdings to non-controlling interests, the difference between the sales price and the share of the total carrying amount, including goodwill acquired by the non-controlling interests, is transferred from equity attributable to shareholders in Carlsberg A/S to the non-controlling interests' share of equity.

Fair value adjustment of put options granted to non-controlling interests on or after 1 January 2010 is recognised directly in the statement of changes in equity. Fair value adjustment of put options granted no later than 31 December 2009 is recognised in goodwill.

Transactions with non-controlling interests

DKK million 2017	Attributable to shareholders in Carlsberg A/S	Attributable to non-controlling interests
Consideration paid for acquisition of non-controlling interests	-2	-
Proportionate share of equity acquired from non-controlling interests	2	-2
Fair value adjustment of contingent considerations	-790	-
Recognised in equity	**-790**	**-2**
2016	**-807**	**-597**

Transactions with non-controlling interests primarily comprise transactions with shareholdings in:
2017: Carlsberg South Asia Pte Ltd (holding company of the investments in India and Nepal) and Olympic Brewery SA.
2016: Xinjiang Wusu Breweries Co., Ltd., Carlsberg South Asia Pte Ltd, and Olympic Brewery SA.

SECTION 5.5

ASSOCIATES AND JOINT VENTURES

The total investments in associates and joint ventures amounted to DKK 4,266m at 31 December 2017 (2016: DKK 4,701m).

While none of the investments are individually material, they include the investments in the businesses in Portugal (44%), Cambodia (50%), Myanmar (51%) and five associates in China (each 50%). The total investment in these associates amounted to DKK 2,611m at 31 December 2017, while the share of profit after tax amounted to DKK 166m for 2017.

Despite the legal ownership of 51% of Myanmar Carlsberg, the entity is classified as an associate due to the shareholders' agreement with the partner.

Key figures for associates and joint ventures

DKK million	Carlsberg Group share			
2017	Profit after tax	Other comprehensive income	Total comprehensive income	Investments in associates and joint ventures
Associates	252	-12	240	3,200
Joint ventures	10	-	10	1,066
	262	**-12**	**250**	**4,266**
2016				
Associates	220	3	223	3,500
Joint ventures	104	-	104	1,201
	324	**3**	**327**	**4,701**

SECTION 5.5 (CONTINUED)

ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures decreased compared with 2016, primarily due to the disposal of the associates United Romanian Breweries, Malterie Soufflet in Russia and Nya Carnegiebryggeriet in Sweden, as well as foreign exchange losses.

For associates in which the Group holds an ownership interest of less than 20%, the Group participates in the management of the company and is therefore exercising significant influence.

The Group also has minor investments in entities in which the Group is unable to exercise significant influence.

Fair value of investment in listed associates

DKK million	2017	2016
The Lion Brewery Ceylon, Biyagama, Sri Lanka	442	439

None of the associates and joint ventures are material to the Group.

CONTINGENT LIABILITIES

The Group did not issue any guarantees for loans etc. raised by associates and joint ventures in 2017 or 2016.

ACCOUNTING POLICIES

Investments in associates and joint ventures are recognised according to the equity method and measured at the proportionate share of the entities' net asset values calculated in accordance with the Group's accounting policies. The proportionate share of unrealised intra-group profits and the carrying amount of goodwill are added, whereas the proportionate share of unrealised intra-group losses is deducted.

Investments in associates and joint ventures with negative net asset values are measured at DKK 0. If the Group has a legal or constructive obligation to cover a deficit in the associate or joint venture, the deficit is recognised under provisions. Any amounts owed by associates and joint ventures are written down to the extent that the amount owed is deemed irrecoverable.

SECTION 5.6

ASSETS AND LIABILITIES HELD FOR SALE

For 2017, assets and liabilities held for sale amounted to DKK 0. In 2016, assets held for sale, DKK 125m, consisted primarily of Carlsberg Uzbekistan and two associates, which were all disposed of in 2017.

Assets and liabilities held for sale

DKK million	2017	2016
Assets		
Property, plant and equipment	-	61
Inventories	-	15
Other current assets	-	29
Total assets in a disposal group held for sale	**-**	**105**
Assets held for sale	-	20
Total assets held for sale	**-**	**125**
Liabilities		
Other liabilities	-	15
Total liabilities held for sale	**-**	**15**

In 2016, a reversal of impairment of DKK 105m was recognised in special items prior to the classification as assets held for sale. Except for the reversal of impairment, the classification of assets as held for sale did not impact the income statement or statement of cash flows for 2016.

ACCOUNTING POLICIES

Assets held for sale comprise non-current assets and disposal groups held for sale. Disposal groups are defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction and those liabilities directly associated with the assets that will be transferred in the transaction.

Assets are classified as held for sale if management has decided to sell the asset or disposal group and taken the necessary steps to carry out the sale such that the carrying amount will be recovered principally through a sale within 12 months in accordance with a formal plan rather than through continuing use. Comparative figures are not restated.

Assets or disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets are not depreciated or amortised from the date when they are reclassified as held for sale.

If a sale is not completed as expected, the asset or disposal group is reclassified to the items in the statement of financial position from which the asset or disposal group was originally separated. This reclassification is made at the carrying amount less any depreciation charges that would have been recognised if the asset had not been classified as held for sale.

SECTION 6

TAX

2,427m

CORPORATION TAX (DKK)

Excluding impairment of brands, down from DKK 2,565m in 2016.

29%

TAX RATE (%)

Excluding impairment of brands.

SECTION 6.1

CORPORATION TAX

The nominal weighted tax rate for the Group is calculated as domestic tax rates applicable to profits in the entities as a proportion of each entity's share of the Group's profit before tax.

The tax rate of 41.4% was negatively impacted by the impairment of brands in Russia and Finland, which was recognised in special items. Excluding impairment of brands, the effective tax rate would have been 29%.

In 2016, the tax rate of 33% was negatively impacted, mainly by the lost tax case in Finland. The tax expense related to this is non-recurring and had no impact on cash flow.

Valuation allowances on tax losses in 2017 and 2016 also impacted negatively.

Fair value adjustments of hedging instruments arise in Denmark, but it is not possible to deduct all fair value adjustments due to local thin capitalisation rules. Tax on such adjustments therefore fluctuates from year to year.

Reconciliation of the effective tax rate for the year

	2017		2016	
	%	DKK million	%	DKK million
Nominal weighted tax rate	22.5%	793	21.7%	1,575
Change in tax rate	-3.6%	-127	-1.1%	-81
Adjustments to tax for prior years	-0.7%	-24	2.2%	159
Non-capitalised tax assets, net movements	11.2%	394	7.5%	543
Non-taxable income	-1.0%	-37	-	-
Non-deductible expenses	8.6%	302	3.9%	283
Tax incentives etc.	-1.4%	-49	-0.8%	-56
Special items	-1.2%	-41	-2.5%	-184
Withholding taxes	9.4%	329	3.7%	268
Other and tax in associates and joint ventures	-2.4%	-82	-1.6%	-115
Effective tax rate for the year	**41.4%**	**1,458**	**33.0%**	**2,392**
Tax on impairment of brands		969		173
Effective tax rate for the year adjusted for impairment of brands	**29.0%**	**2,427**	**31.6%**	**2,565**

ACCOUNTING POLICIES

Tax for the year comprises current tax and changes in deferred tax for the year, including changes as a result of a change in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, while the tax expense relating to items recognised in other comprehensive income is recognised in the statement of comprehensive income.

If the Group obtains a tax deduction on computation of the taxable income in Denmark or in foreign jurisdictions as a result of share-based payment programmes, the tax effect of the programmes is recognised in tax on the profit/loss for the year. However, if the total tax deduction exceeds the total tax expense, the tax benefit for the excess deduction is recognised directly in equity.

SECTION 6.1 (CONTINUED)

CORPORATION TAX

Corporation tax

DKK million	2017 Income statement	2017 Other comprehensive income	2017 Total comprehensive income	2016 Income statement	2016 Other comprehensive income	2016 Total comprehensive income
Tax for the year can be specified as follows						
Current tax	2,319	-36	2,283	2,700	18	2,718
Change in deferred tax during the year	-710	152	-558	-393	-41	-434
Change in deferred tax as a result of change in tax rate	-127	-	-127	-74	2	-72
Adjustments to tax for prior years	-24	-	-24	159	-	159
Total	**1,458**	**116**	**1,574**	**2,392**	**-21**	**2,371**

Tax recognised in other comprehensive income

DKK million	2017 Recognised item before tax	2017 Tax income/ expense	2017 After tax	2016 Recognised item before tax	2016 Tax income/ expense	2016 After tax
Foreign exchange adjustments	-3,842	-	-3,842	5,843	-	5,843
Hedging instruments	-305	25	-280	141	-30	111
Retirement benefit obligations	1,266	-138	1,128	-957	55	-902
Share of other comprehensive income in associates and joint ventures	-12	-	-12	3	-	3
Other	-	-3	-3	-	-4	-4
Total	**-2,893**	**-116**	**-3,009**	**5,030**	**21**	**5,051**

SECTION 6.2

DEFERRED TAX

Of the total deferred tax assets recognised, DKK 531m (2016: DKK 673m) related to tax loss carryforwards, the utilisation of which depends on future positive taxable income exceeding the realised deferred tax liabilities. It is management's opinion that these tax loss carryforwards can be utilised.

Tax assets not recognised of DKK 1,411m (2016: DKK 1,287m) primarily related to tax losses that are not expected to be utilised in the foreseeable future. Tax losses that will not expire amounted to DKK 776m (2016: DKK 525m).

Deferred tax of DKK 115m (2016: DKK 113m) was recognised in respect of earnings in entities in the Eastern Europe region that are intended for distribution in the short term, as tax of 5% is payable on distributions.

For other subsidiaries where reserves are planned to be distributed, any distribution of earnings will not trigger a significant tax liability based on current tax legislation.

Deferred tax on temporary differences relating to investments in subsidiaries, associates and joint ventures amounted to DKK 0m (2016: 0m).

SECTION 6.2 (CONTINUED)

DEFERRED TAX

ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group recognises deferred tax assets, including the expected tax value of tax loss carryforwards, if management assesses that these tax assets can be offset against positive taxable income in the foreseeable future. This judgement is made annually and based on budgets and business plans for the coming years, including planned commercial initiatives.

Carlsberg operates in a large number of tax jurisdictions where tax legislation is highly complex and subject to interpretation. Management makes judgements on uncertain tax positions to ensure recognition and measurement of tax assets and liabilities.

ACCOUNTING POLICIES

Current tax payable and receivable are recognised in the statement of financial position as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax on all temporary differences between the carrying amount and the tax base of assets and liabilities is measured using the balance sheet liability method. However, deferred tax is not recognised on temporary differences relating to goodwill that is not deductible for tax purposes or on office premises and other items where temporary differences, apart from business combinations, arise at the acquisition date without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on management's planned use of the asset or settlement of the liability.

If specific dividend plans exist for subsidiaries, associates and joint ventures in countries levying withholding tax on distributions, deferred tax is recognised on expected dividend payments. Deferred tax assets, including the tax base of tax loss carryforwards, are recognised under other non-current assets at the expected value of their utilisation, either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax assets and tax liabilities are offset if the entity has a legally enforceable right to offset current tax liabilities and tax assets or intends either to settle current tax liabilities and tax assets or to realise the assets and settle the liabilities simultaneously. Deferred tax assets are subject to annual impairment tests and are recognised only to the extent that it is probable that the assets will be utilised. Adjustments are made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the reporting date and when the deferred tax is expected to crystallise as current tax. The change in deferred tax as a result of changes in tax rates is recognised in the income statement. Changes to deferred tax on items recognised in other comprehensive income are, however, recognised in other comprehensive income.

Deferred tax

DKK million	2017	2016
Deferred tax at 1 January, net	4,640	4,227
Adjustments to prior years	12	123
Acquisition and disposal of entities	5	61
Recognised in other comprehensive income	152	-41
Recognised in the income statement	-710	-393
Change in tax rate	-127	-72
Foreign exchange adjustments	-34	735
Deferred tax at 31 December, net	**3,938**	**4,640**
Recognised as follows		
Deferred tax liabilities	5,601	6,250
Deferred tax assets	-1,663	-1,610
Deferred tax at 31 December, net	**3,938**	**4,640**

Specification of deferred tax

	Deferred tax assets		Deferred tax liabilities	
DKK million	2017	2016	2017	2016
Intangible assets	1,107	446	4,736	5,072
Property, plant and equipment	528	412	1,727	1,909
Current assets	176	141	30	60
Provisions and retirement benefit obligations	1,094	1,281	30	195
Fair value adjustments	144	154	5	10
Tax losses etc.	1,233	1,407	1,692	1,235
Total before set-off	**4,282**	**3,841**	**8,220**	**8,481**
Set-off	-2,619	-2,231	-2,619	-2,231
Deferred tax assets and liabilities at 31 December	**1,663**	**1,610**	**5,601**	**6,250**
Expected to be used as follows				
Within one year	250	311	1,850	1,149
After more than one year	1,413	1,299	3,751	5,101
Total	**1,663**	**1,610**	**5,601**	**6,250**

SECTION 7

STAFF COSTS AND REMUNERATION

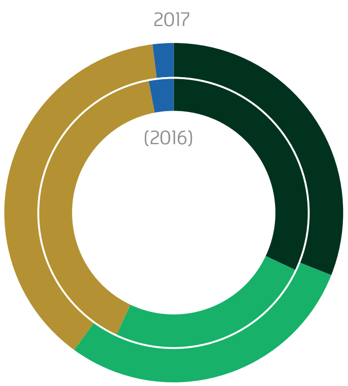
Pensions

Defined benefit obligations decreased due to the implementation of risk sharing in Switzerland and gains on investments in plan assets in the UK.

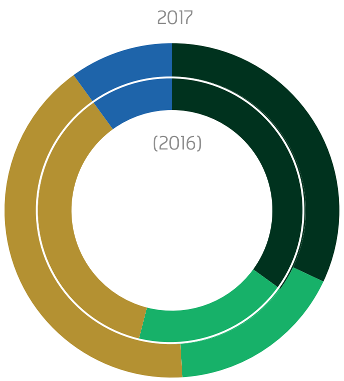
41,430

The average number of employees decreased by 632, mainly as a result of disposal of entities and restructuring projects.

Employees
By region (%)



By function (%)



SECTION 7.1

STAFF COSTS

The average number of employees decreased during 2017, due to disposal of entities and restructuring projects. The disposal of Carlsberg Uzbekistan and Nordic Getränke in 2017 and the full-year effect of the disposals in 2016 impacted the average headcount for 2017 by around 1,300 employees. In addition, various restructuring projects in the UK, France and China as well as brewery closures in China also contributed to the reduction of the average headcount for 2017.

The decrease from the disposals and restructurings was partially offset by an increase in the sales force in Russia, which as a consequence of the new trade law has to be employed by the selling company instead of the distributors.

Staff costs

DKK million	2017	2016
Salaries and other remuneration	7,980	8,060
Severance payments	415	506
Social security costs	1,321	1,359
Retirement benefit costs – defined contribution plans	275	273
Retirement benefit costs – defined benefit plans	219	310
Share-based payments	33	52
Other employee benefits	97	75
Total	**10,340**	**10,635**
Average number of employees	**41,430**	**42,062**
Staff costs are included in the following line items in the income statement		
Cost of sales	2,653	2,689
Sales and distribution expenses	5,391	5,347
Administrative expenses	2,098	2,239
Other operating activities, net	57	37
Special items (restructurings)	141	323
Total	**10,340**	**10,635**

SECTION 7.2

REMUNERATION

The remuneration policy applicable to the Supervisory Board, the executive directors and key management personnel is described in detail in the Remuneration Report.

Cf. Management review, page 40.

Remuneration of the executive directors and key management personnel is based on a fixed salary, cash bonus payments and non-monetary benefits such as company car, telephone etc. Furthermore, share option programmes and incentive schemes have been established for the executive directors and other management personnel.

These programmes and schemes cover a number of years.

Employment contracts for the executive directors contain terms and conditions that are considered common to executive board members in Danish listed companies, including terms of notice and non-competition clauses.

For 2017, the potential maximum bonus for the CEO and CFO was 100% of fixed salary, with a bonus equal to 60% of fixed salary payable for on-target performance. A scorecard of performance measures is used to assess performance, cf. the Remuneration report.

The remuneration of key management personnel was lower than in 2016 as a result of the Executive Committee having fewer members and of lower severance payments.

In respect of other benefits and bonus schemes, the remuneration of CEOs in subsidiaries is based on local terms and conditions.

KEY MANAGEMENT PERSONNEL

Key management personnel comprise the Executive Committee, excluding the executive directors. Other management personnel comprise Vice Presidents and other key employees in central functions as well as the management of significant subsidiaries. The key management personnel, together with the executive directors, are responsible for planning, directing and controlling the Group's activities.

ACCOUNTING POLICIES

Staff costs are recognised in the financial year in which the employee renders the related service. The cost of share-based payments, which is expensed over the vesting period of the programme according to the service conditions, is recognised in staff costs and provisions or equity, depending on how the programme is settled with the employees.

Remuneration

	Executive directors				Key management personnel		Supervisory Board	
	Cees 't Hart		Heine Dalsgaard					
DKK million	2017	2016	2017	2016	2017	2016	2017	2016
Fixed salary	12.0	12.0	7.3	4.2	30.7	35.7	9.58	8.92
Cash bonus	9.3	10.0	5.6	7.3	12.2	11.2	-	-
Special bonus[1]	-	-	3.1	11.9	-	-	-	-
Severance payments	-	-	-	-	15.3	29.5	-	-
Non-monetary benefits	1.3	1.3	0.3	0.2	9.2	5.7	-	-
Funding the Journey cash plan	-	-	-	-	10.9	20.7	-	-
Share-based payments	20.6	12.8	9.0	1.9	0.7	5.2	-	-
Total	**43.2**	**36.1**	**25.3**	**25.5**	**79.0**	**108.0**	**9.58**	**8.92**

[1] Special bonus covering remuneration waived from previous employer, in total DKK 15m, which was paid out equally over the two years

SECTION 7.3

SHARE-BASED PAYMENTS

The Group has set up share-based incentive programmes to attract, retain and motivate the Group's executive directors and other levels of management personnel, and to align their interests with those of the shareholders. No share-based incentive programme has been set up for Carlsberg A/S' Supervisory Board.

In 2017, performance share awards were granted to the Executive Board only.

In March 2017, 10,863 regular performance shares awarded in 2014 under the long-term incentive programme vested. Immediately after vesting, they were converted to Carlsberg B shares and transferred to the eligible employees.

ACCOUNTING ESTIMATES AND JUDGEMENTS

For share options granted after 1 January 2015, the volatility is based on the historical volatility of the price of Carlsberg A/S' class B shares over the previous eight years. From 1 January 2010 until 31 December 2014, the volatility was based on presently observed data on Bloomberg's Options Valuation Function, while prior to 2010 it was based on the historical volatility of the price of Carlsberg A/S' class B shares over the previous two years. For performance shares, the volatility is based on similar data over the previous three years.

The risk-free interest rate is the interest rate on Danish government bonds of the relevant maturity, while the dividend yield is calculated as the expected future dividends at the grant date. In 2016, the yield was calculated using a dividend of DKK 9.00 per share divided by the share price. The fair value at 31 December 2017 has been calculated by applying an expected dividend of DKK 10.00 per share.

For share options and performance shares granted or measured after 1 January 2010, the expected life is based on exercise at the end of the exercise period, whereas for share options granted prior to 2010, it was based on exercise in the middle of the exercise period.

ACCOUNTING POLICIES

The fair value of equity-settled programmes is measured at the grant date and recognised under staff costs over the vesting period with a corresponding increase in equity.

The fair value of granted share options is estimated using the Black-Scholes call option-pricing model, taking into account the terms and conditions upon which the options were granted.

The share price and the exercise price for share options are calculated as the average price of Carlsberg A/S' class B shares on Nasdaq Copenhagen during the first five trading days after publication of Carlsberg A/S' Financial statement following the granting of the options.

The fair value of granted performance shares is estimated using a stochastic (quasi-Monte Carlo) valuation model and a Black-Scholes call option-pricing model, taking into account the terms and conditions upon which the performance shares were granted.

On initial recognition of share options and performance shares, an estimate is made of the number of awards expected to vest.

The estimated number is subsequently revised for changes in the number of awards expected to vest. Accordingly, recognition is based on the number of awards that ultimately vest.

General terms and conditions

	Share options		Regular performance shares		Funding the Journey performance shares	
	2017	2016	2017	2016	2017	2016
Granted during the year	-	17,650	74,877	25,079	-	37,242
Number of employees	-	1	2	2	-	2
DKK million						
Fair value at grant date	-	2	39	13	-	22
Cost of share-based payment granted in the year recognised in the income statement	-	1	10	3	-	5
Total cost of share-based payments granted 2014-2017 (2013-2016)	7	7	19	40	8	5
Not recognised in respect of share-based payments expected to vest	4	11	38	34	8	17
Fair value of outstanding options and performance shares at 31 December	63	69	171	195	27	22

SECTION 7.3 (CONTINUED)

SHARE-BASED PAYMENTS

Share-based incentive programmes

	Exercise price	Number				
	Fixed, weighted average	Executive directors	Key management personnel	Other management personnel	Resigned employees	Total
Share options						
Share options outstanding at 31 December 2015	**360.10**	**97,334**	**14,894**	**67,700**	**650,085**	**830,013**
Granted	597.60	17,650	-	-	-	17,650
Forfeited/expired	516.42	-	-	-7,433	-55,126	-62,559
Exercised	476.56	-	-	-37,462	-275,615	-313,077
Transferred	439.48	-	-6,200	-1,900	8,100	-
Share options outstanding at 31 December 2016	**248.66**	**114,984**	**8,694**	**20,905**	**327,444**	**472,027**
Forfeited/expired	203.50	-	-	-	-1,599	-1,599
Exercised	536.25	-	-	-9,800	-195,800	-205,600
Transferred	310.43	-	-8,694	-4,505	13,199	-
Share options outstanding at 31 December 2017	**522.85**	**114,984**	**-**	**6,600**	**143,244**	**264,828**
Regular performance shares						
Performance shares outstanding at 31 December 2015		**-**	**35,810**	**199,460**	**14,654**	**249,924**
Granted		25,079	-	-	-	25,079
Forfeited/expired/adjusted		-	-3,471	-20,078	4,371	-19,178
Exercised/settled		-	-2,396	-18,172	-4,481	-25,049
Transferred		-	-15,327	1,340	13,987	-
Performance shares outstanding at 31 December 2016		**25,079**	**14,616**	**162,550**	**28,531**	**230,776**
Granted		74,877	-	-	-	74,877
Forfeited/expired/adjusted		-	-4,783	-26,816	-6,832	-38,431
Exercised/settled		-	-810	-7,926	-2,127	-10,863
Transferred		-	-	-5,713	5,713	-
Performance shares outstanding at 31 December 2017		**99,956**	**9,023**	**122,095**	**25,285**	**256,359**
Funding the Journey performance shares						
Performance shares outstanding at 31 December 2015		**-**	**-**	**-**	**-**	**-**
Granted		37,242	-	-	-	37,242
Performance shares outstanding at 31 December 2016		**37,242**	**-**	**-**	**-**	**37,242**
No changes in 2017		-	-	-	-	-
Performance shares outstanding at 31 December 2017		**37,242**	**-**	**-**	**-**	**37,242**

The granted number of performance shares included in the specification is the number of performance shares that are expected to vest. The estimated number is revised on a regular basis until vesting. Transferred performance shares comprise performance shares that have been granted to employees who have either moved between management categories or left the Group during the year. Adjusted performance shares comprise the change in the number of performance shares expected to vest, based on an assessment of the extent to which the vesting conditions are expected to be met.

SECTION 7.3 (CONTINUED)

SHARE-BASED PAYMENTS

Key information

	Share options		Regular performance shares		Funding the Journey performance shares	
	2017	2016	2017	2016	2017	2016
Average share price at the exercise date	701	630	-	-	-	-
Weighted average contractual life for awards outstanding at 31 December	4.9	5.9	0.8	1.1	1.2	2.2
Range of exercise prices for share options outstanding at 31 December	417.34-597.60	203.50-597.60	-	-	-	-
Exercisable outstanding share options at 31 December	16,289	128,488	None	None	None	None
Weighted average exercise price for exercisable share options at 31 December	417	482	-	-	-	-
Assumptions						
Exercise price	No grant	597.60	None	None	No grant	None
Expected volatility	-	26%	22%	24%/23%	-	-
Risk-free interest rate	-	-	0.0%	0.0%	-	-
Expected dividend yield	-	1.5%	1.6%	1.5%/1.4%	-	1.5%/1.4%
Expected life of options, years	-	8.0	3.0	3.0/2.5	-	3.0/2.5
Fair value at measurement date	-	121.89	523.50	523.37/528.36	-	583.61/603.07

Terms and conditions

	Share options	Regular performance shares	Funding the Journey performance shares
Years granted	2001-2016	Since 2013	Only 2016
Settlement features	Each share option entitles the holder to purchase one class B share in Carlsberg A/S. The Group has purchased treasury shares to meet the exercisable part of this obligation, cf. section 4.3.2.	Each performance share granted entitles the holder to receive a number of Carlsberg B shares. For each grant, the exact number of shares granted is determined after publication of the Annual Report for the last year in the vesting period.	Each performance share granted entitles the holder to receive a number of Carlsberg B shares. The exact number of shares vesting is determined after publication of the Annual Report for the last year in the vesting period.
Timing of valuation of award	Immediately following the publication of the Annual Report for the Group for the prior reporting period.	Immediately following the publication of the Annual Report for the Group for the prior reporting period.	Immediately following the publication of the Annual Report for the Group for the prior reporting period.
Vesting conditions	3 years of service.	3 years of service and achievement of 3 KPIs in the vesting period.	3 years of service and achievement of the Funding the Journey financial targets.
Earliest time of exercise	3 years from grant date.	N/A	N/A
Latest time of exercise	8 years from grant date.	Shares are transferred to the employee immediately after they have vested.	Shares are transferred to the employee immediately after they have vested.

Upon resignation, a proportion of share options may be exercised within one to three months unless special severance terms have been agreed. Special terms and conditions apply in the case of retirement, illness, death or changes in Carlsberg A/S' capital resources.

SECTION 7.4

RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

A number of the Group's employees are covered by retirement benefit plans. The nature of the retirement benefit plans varies depending on labour market conditions in the individual countries. Benefits are generally based on wages and salaries and length of employment.

Retirement benefit obligations cover both present and future retirees' entitlement to retirement benefits.

DEFINED CONTRIBUTION PLANS

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate independent entity. The Group's legal or constructive obligation is limited to the contributions.

Approximately 56% (2016: approximately 47%) of the Group's retirement benefit costs relates to defined contribution plans. In 2017, the expense recognised in relation to these contributions was DKK 275m (2016: DKK 273m).

DEFINED BENEFIT PLANS

The defined benefit plans typically guarantee employees a certain level of pension benefits for life based on seniority and the salary at the time of retirement. The Group assumes the risk associated with future developments in interest rates, inflation, mortality and disability etc.

The majority of the obligations are funded, with assets placed in independent pension funds mainly in Switzerland, the UK and Hong Kong. In some countries, primarily Germany, Sweden and China, the obligation is unfunded. For these unfunded plans, the retirement benefit obligations amounted to DKK 1,820m (2016: DKK 1,922m) or approximately 14% (2016: 13%) of the gross obligation.

In 2017, the Group's defined benefit plans decreased by DKK 1.5bn compared with 2016. The decrease mainly relates to the implementation of risk-sharing methodology in Switzerland and gains on plan assets in the UK. The pension funds in Switzerland are based on shared contributions by employer and employees, which are more similar to a defined contribution scheme. However, certain guarantees in the schemes mean they are accounted for as defined benefit schemes under IAS 19. Under Swiss law, risks relating to pensions in Switzerland are typically shared between the employer and the employees. Important aspects of the risk sharing for the pension situation includes employee contributions and future benefits changes, some of which can be undertaken by trustees without the need to make formal plan amendments.

Obligation, net

	2017			2016		
DKK million	Present value of obligation	Fair value of plan assets	Obligation, net	Present value of obligation	Fair value of plan assets	Obligation, net
Obligation at 1 January	**14,813**	**9,935**	**4,878**	**14,269**	**9,034**	**5,235**
Recognised in the income statement						
Current service cost	253	-	253	310	-	310
Past service cost	-38	-	-38	-	-	-
Net interest on the net defined benefit liability (asset)	250	152	98	296	173	123
Curtailments and settlements	4	-	4	-	-	-
Total	**469**	**152**	**317**	**606**	**173**	**433**
Remeasurements						
Gain/loss from changes in actuarial assumptions	-330	1	-331	-81	-	-81
Gain/loss from changes in financial assumptions	-377	558	-935	1,561	523	1,038
Total	**-707**	**559**	**-1,266**	**1,480**	**523**	**957**
Other changes						
Contributions to plans	-	209	-209	-	1,232	-1,232
Benefits paid	-692	-570	-122	-646	-491	-155
Disposals of entities	-3	-	-3	-46	-	-46
Transfers	-17	1	-18	80	60	20
Foreign exchange adjustments etc.	-794	-568	-226	-930	-596	-334
Obligation at 31 December	**13,069**	**9,718**	**3,351**	**14,813**	**9,935**	**4,878**

The total return on plan assets for the year amounted to DKK 711m (2016: DKK 696m).

SECTION 7.4 (CONTINUED)

RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

Applying risk sharing indicates that a deficit may not necessarily be the employer's sole responsibility and has led to changes in the calculation of the defined benefit scheme to reflect the shared risk. The implementation of risk sharing has impacted the Group's defined benefit plans by approximately DKK -0.7bn. The impact from the UK plan amounted to DKK -0.6bn.

The Group expects to contribute DKK 76m (2016: DKK 76m) to the plan assets in 2018. Plan assets do not include shares in or properties used by Group companies.

The actuarial gain and foreign exchange adjustment recognised in other comprehensive income for 2017 was DKK 1,504m (2016: DKK -623m). The development in foreign exchange adjustments was mainly affected by the depreciation of CHF.

The accumulated actuarial loss and foreign exchange adjustment recognised at 31 December 2017 was DKK 3,421m (2016: DKK -4,925m), of which actuarial losses, net, totalled DKK 3,548m (2016: DKK 4,814m).

The most significant plans are in the UK and Switzerland, representing 47% and 37% (2016: 46% and 40%) respectively, whereas the eurozone countries represented 6% (2016: 5%) of the gross obligation at 31 December 2017.

Assumptions applied

In 2017, the discount rate used for the pension plans in Western Europe was determined by reference to market yields on corporate bonds. In the Asian countries where no deep market in high-quality corporate bonds exists, the discount rate was determined by reference to market yields on government bonds.

The mortality tables used in Carlsberg UK are S1PMA/S2PFA tables for post-retirement and AMC00/AFC00 for pre-retirement, both with CMI_2016 projections, while the Swiss entities use BVG 2015 GT for valuation of their retirement obligations.

Breakdown of plan assets

	2017		2016	
	DKK million	%	DKK million	%
Shares	1,241	13%	2,767	28%
Bonds and other securities	6,314	65%	4,116	41%
Real estate	2,028	21%	2,095	21%
Cash and cash equivalents	135	1%	957	10%
Total	**9,718**	**100%**	**9,935**	**100%**

Assumptions applied

%

2017	CHF	UK	EUR	Other	Weighted average
Discount rate	0.6%	2.5%	0.8-1.6%	0.5-7.8%	1.8%
Growth in wages and salaries	1.0%	2.3%	0.0-2.7%	2.0-10.0%	2.1%
2016					
Discount rate	0.5%	2.7%	1.1-1.7%	0.5-5.0%	1.5%
Growth in wages and salaries	1.0%	2.5%	2.2-2.3%	2.3-10.0%	1.7%

SECTION 7.4 (CONTINUED)

RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

Sensitivity analysis

The sensitivity analysis is based on a change in one of the assumptions, while all other assumptions remain constant. This is highly unlikely, however, as a change in one assumption would probably affect other assumptions as well. When calculating the obligation on the basis of a changed assumption, the same method has been applied as when calculating the defined benefit obligation.

Expected maturity and duration

Defined benefit obligations are primarily expected to mature after five years. The expected duration of the obligations at year-end 2017 was 24 years. The duration is calculated using a weighted average of the duration divided by the obligation.

Sensitivity analysis

DKK million	2017	2016
Reported retirement benefit obligation	13,069	14,813
Discount rate		
Discount assumption +0.5%	-972	-1,316
Discount assumption -0.5%	1,155	1,512
Growth in wages and salaries		
Wages and salaries assumption +0.5%	141	204
Wages and salaries assumption -0.5%	-110	-194
Mortality		
Mortality assumption +1 year	517	422
Mortality assumption -1 year	-484	-425

Maturity of retirement benefit obligations

DKK million	<1 year	1-5 years	>5 years	Total
Retirement benefits	421	1,267	3,824	5,512

ACCOUNTING ESTIMATES AND JUDGEMENTS

The value of the Group's defined benefit plans is based on valuations from external actuaries. The valuation is based on a number of actuarial assumptions, including discount rates, expected return on plan assets, expected growth in wages and salaries, mortality and retirement benefits.

The actuarial assumptions used to calculate the defined benefit plans vary from country to country due to local economic and labour market conditions.

The present value of the net obligation is calculated by using the projected unit credit method and discounting the defined benefit plan by a discount rate for each country. The discount rate is determined by reference to market yields on high-quality corporate bonds. Where high-quality corporate bonds are not available, the market yields on government bonds are used instead.

Mortality assumptions are based on the Group entity's best estimate of the mortality of plan members during and after employment, and include expected changes in mortality, for example using estimates of mortality improvements. Due to the broad range of entities comprising the retirement benefit obligation, several different mortality tables are used to calculate the future retirement benefit obligation.

ACCOUNTING POLICIES

Contributions paid to a **defined contribution plan** are recognised in the income statement in the period during which services are rendered by employees. Any contributions outstanding are recognised in the statement of financial position as other liabilities.

The Group's net liability recognised in the statement of financial position in respect of **defined benefit plans** is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets calculated by a qualified actuary.

The present value is determined separately for each plan by discounting the estimated future benefits that employees have earned in return for their service in the current and prior years.

The costs of a defined benefit plan are recognised in the income statement and include service costs, net interest based on actuarial estimates and financial expectations at the beginning of the year.

Service costs comprise **current service cost and past service cost. Current service cost** is the increase in the present value of the defined benefit obligation resulting from employee services in the current period. **Past service cost** is the change in the present value of the obligation regarding employee services in prior years that arises from a plan amendment or a curtailment. Past service costs are recognised immediately, provided employees have already earned the changed benefits.

Realised gains and losses on curtailment or settlement are recognised under staff costs.

Interest on retirement benefit obligations and the interest on return on plan assets are recognised as financial income or financial expenses.

Differences between the development in retirement benefit assets and liabilities and realised amounts at year-end are designated as actuarial gains or losses and recognised in other comprehensive income. As they will never be reclassified to the income statement, they are presented in retained earnings.

If a retirement benefit plan constitutes a net asset, the asset is recognised only if it offsets future refunds from the plan or will lead to reduced future payments to the plan.

Realised gains and losses on the adjustment of retirement benefit obligations as a result of large-scale termination of jobs in connection with restructurings are recognised under special items.

SECTION 8

OTHER DISCLOSURE REQUIREMENTS

4,925m

Profit attributable to shareholders in Carlsberg A/S, adjusted for special items after tax (DKK).

32.3

Earnings per share, adjusted for special items after tax (DKK).

SECTION 8.1

EARNINGS PER SHARE

For all share-based incentive instruments the average market price of Carlsberg B shares in the year was higher than the exercise price and the fair value at the grant date.

As a result, in 2017, diluted earnings per share did not exclude any share-based incentive instruments (2016: 264,001) that could potentially dilute earnings in the future.

Earnings per share

DKK	2017	2016
Basic earnings per share of DKK 20 (EPS)	8.3	29.4
Diluted earnings per share of DKK 20 (EPS-D)	8.2	29.4
Earnings per share, adjusted (EPS-A)	32.3	25.4

Number of shares

1,000 shares		
Average number of shares	152,557	152,557
Average number of treasury shares	-61	-5
Average number of shares outstanding	152,496	152,552
Average dilutive effect of share-based incentives	360	264
Diluted average number of shares outstanding	**152,856**	**152,816**

Profit attributable to shareholders

DKK million		
Consolidated profit	2,065	4,857
Non-controlling interests	-806	-371
Profit attributable to shareholders in Carlsberg A/S	**1,259**	**4,486**
Special items after tax	3,666	-605
Profit attributable to shareholders in Carlsberg A/S, adjusted	**4,925**	**3,881**

SECTION 8.2

RELATED PARTIES

RELATED PARTIES EXERCISING CONTROL

The Carlsberg Foundation, H.C. Andersens Boulevard 35, 1553 Copenhagen V, Denmark, exercises control over Carlsberg A/S. The Foundation holds 30.3% of the shares and 75.3% of the voting power in Carlsberg A/S, excluding treasury shares.

The following transactions took place between the Carlsberg Foundation and the Carlsberg Group in 2017:

The Carlsberg Foundation received a dividend of DKK 10.00 per share from Carlsberg A/S, the same as every other shareholder.

Funding and grants received for research and development activities from the Carlsberg Foundation amounted to DKK 43m (2016: DKK 25m) and related to the operation of the Carlsberg Research Laboratory, of which DKK 17m has been deferred to be used for research projects in the future years.

Disposal of the Carlsberg Academy to the Carlsberg Foundation. The Academy was valued at market price using the same conditions/price as applicable to other buildings in the area.

The Carlsberg Foundation sold unused building rights for the Researcher Apartments to Carlsberg Byen. The building rights were valued at market price using the same conditions/price applicable to other building rights in the area.

Carlsberg Breweries A/S leases storage facilities in the Researcher Apartments. The annual lease, DKK 173 thousand, and the lease terms are on market conditions.

A collaboration between Carlsberg foundations and the Carlsberg Group to launch a campaign at Copenhagen Airport to celebrate Carlsberg's 170-year anniversary.

The Carlsberg Science to Business forum is organised by the Carlsberg Foundation and the Group. The Carlsberg Foundation pays for presenters' costs, which amount to DKK 250-300 thousand. The Group contributes the meeting room and approximately 30 working hours.

An agreement between the Group and the Carlsberg foundations on delivery of beer and soft drinks was formalised to the effect that the Carlsberg foundations are charged an ordinary listing price minus a discount of 25% for Carlsberg products and 15% for third-party products. In 2017, the deliveries amounted to a value of DKK 227 thousand (total sales of goods).

It is estimated that the benefit for the Carlsberg Group corresponds to the value of the services provided to the Carlsberg Foundation, which in turn corresponds to what each party would have had to invest to have the same deliverables provided by external parties.

OTHER RELATED PARTIES

Related parties also comprise Carlsberg A/S' Supervisory Board and Executive Board, their close family members and companies in which these persons have significant influence.

During the year, there were no transactions between these parties and the Group, except for remuneration as disclosed in section 7.

In 2017, the Group had no significant transactions with its associates and joint ventures.

The income statement and the statement of financial position include the following transactions

DKK million	2017	2016
Associates and joint ventures		
Revenue	59	104
Cost of sales	-609	-230
Loans	290	300
Receivables	239	90
Borrowings	-22	-
Trade payables and other liabilities etc.	-4	-18

SECTION 8.3

FEES TO AUDITORS

Fees to auditors appointed by the Annual General Meeting

DKK million	PwC 2017	KPMG 2016
Statutory audit	17	22
Assurance engagements	1	1
Tax advisory	-	3
Other services	5	9

Other services delivered by PwC Denmark in addition to audit include fees for review services, issuing comfort letters in connection with prospectuses and agreed-upon procedures regarding financial information.

SECTION 8.4

EVENTS AFTER THE REPORTING PERIOD

Apart from the events recognised or disclosed in the consolidated financial statements, no events have occurred after the reporting period of importance to the consolidated financial statements.

In February 2018, the Group acquired the remaining 49% of the shares in Olympic Brewery, Greece. The transaction has no significant impact on the consolidated financial statements.

SECTION 9

BASIS FOR PREPARATION

Changes from 2018

CLASSIFICATION OF REVENUE

Application of the new IFRS revenue standard changes the classification of certain marketing activities, which will be recognised as revenue as of 1 January 2018.

SECTION 9.1

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the consolidated financial statements, management makes various accounting estimates and judgements that form the basis of presentation, recognition and measurement of the Group's assets, liabilities, income and expenses. The estimates and judgements made are based on historical experience and other factors that management assesses to be reliable, but that, by nature, are associated with uncertainty and unpredictability and may therefore prove incomplete or incorrect.

Areas involving significant estimates and judgements:

Impairment testing, useful life and residual value	Section 2
Restructurings, provisions and contingencies	Section 3
Receivables	Section 1
Deferred tax assets	Section 6
Defined benefit obligations	Section 7
Acquisitions and disposals, including contingent considerations	Section 5

SECTION 9.2

GENERAL ACCOUNTING POLICIES

The Group's 2017 consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and additional requirements in the Danish Financial Statements Act.

The consolidated financial statements are presented in Danish kroner (DKK), which is the Parent Company's functional currency, and all values are rounded to the nearest DKK million, except when otherwise stated.

Assets and liabilities measured or disclosed at fair value are categorised within the fair value hierarchy. The Group has no financial instruments measured at fair value based on level 1 (quoted prices). The methods and assumptions applied to determine the fair value of derivative financial instruments, loans and borrowings and on-trade loans (level 2) and of contingent consideration (level 3) are disclosed in the relevant sections. The carrying amount of other financial assets and liabilities approximates their fair value.

The accounting policies set out below have been used consistently in respect of the financial year and the comparative figures.

DEFINING MATERIALITY

Significant items are presented individually in the financial statements as required by IAS 1. Other items that may not be significant but are considered relevant to stakeholders and the understanding of the Group's business model, including research, real estate, geographical diversity etc., are also presented in the financial statements.

SECTION 9.2 (CONTINUED)

GENERAL ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The consolidated financial statements are prepared as a consolidation of the financial statements of the Parent Company, Carlsberg A/S, and its subsidiaries according to the Group's accounting policies.

The Group controls an investee if it has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

Entities over which the Group exercises significant influence, but which it does not control, are considered associates. Significant influence is generally obtained by direct or indirect ownership or control of more than 20% but less than 50% of the voting rights. For associates in which the Group holds an interest of less than 20%, the Group participates in the management of the company and is therefore exercising significant influence. The assessment of whether Carlsberg A/S exercises control or significant influence includes potential voting rights exercisable at the reporting date. Entities that by agreement are managed jointly with one or more other parties are considered joint ventures. Associates and joint ventures are consolidated using the equity method, cf. section 5.

On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates and joint ventures are eliminated in proportion to the Group's ownership share of the entity. Unrealised losses are eliminated in the same way as unrealised gains to the extent that impairment has not taken place.

On acquisition, investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of identifiable net assets, including recognised contingent liabilities.

The accounting items of subsidiaries are included in full in the consolidated financial statements. Non-controlling interests' shares of the profit/loss for the year and of the equity of subsidiaries are included in the Group's profit/loss and equity respectively, but are disclosed separately. Entities acquired or formed in the year are recognised in the consolidated financial statements from the date of acquisition or formation. Entities disposed of or wound up are recognised in the consolidated income statement until the date of disposal or winding-up. The comparative figures are not restated for entities acquired or disposed of.

FOREIGN CURRENCY TRANSLATION

A functional currency is determined for each of the reporting entities in the Group. The functional currency is the primary currency used for the reporting entity's operations. Transactions denominated in currencies other than the functional currency are considered transactions denominated in foreign currencies.

On initial recognition, transactions denominated in foreign currencies are translated to the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised as financial income or expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the reporting date. The difference between the exchange rates at the reporting date and at the date at which the receivable or payable arose or the exchange rate in the latest consolidated financial statements is recognised as financial income or financial expenses.

On recognition in the consolidated financial statements of entities with a functional currency other than the presentation currency of Carlsberg A/S (DKK), the income statement and statement of cash flows are translated at the exchange rates at the transaction date, and the statement of financial position items are translated at the exchange rates at the reporting date. An average exchange rate for the month is used at the transaction date to the extent that this does not significantly deviate from the exchange rate at the transaction date. Foreign exchange differences arising on translation of the opening balance of equity of foreign entities at the exchange rates at the reporting date, and on translation of the income statement from the exchange rates at the transaction date to the exchange rates at the reporting date, are recognised in other comprehensive income and attributed to a separate translation reserve in equity.

Foreign exchange adjustment of balances with foreign entities that are considered part of the investment in the entity is recognised in other comprehensive income. Correspondingly, foreign exchange gains and losses on the part of loans and derivative financial instruments that is designated as hedges of investments in foreign entities with a functional currency other than that of Carlsberg A/S, and that effectively hedges against corresponding foreign exchange gains and losses on the investment in the entity, are also recognised in other comprehensive income and attributed to a separate translation reserve in equity.

On recognition in the consolidated financial statements of associates and joint ventures with a functional currency other than the presentation currency of Carlsberg A/S (DKK), the share of profit/loss and other comprehensive income for the year is translated at average exchange rates and the share of equity, including goodwill, is translated at the exchange rates at the reporting date. Foreign exchange differences arising on the translation of the share of the opening balance of equity of foreign associates and joint ventures at the exchange rates at the

SECTION 9.2 (CONTINUED)

GENERAL ACCOUNTING POLICIES

reporting date, and on translation of the share of profit/loss and other comprehensive income for the year from average exchange rates to the exchange rates at the reporting date, are recognised in other comprehensive income and attributed to a separate translation reserve in equity.

On complete or partial disposal of a foreign entity or on repayment of balances that constitute part of the net investment in the foreign entity, the share of the cumulative amount of the exchange differences recognised in other comprehensive income relating to that foreign entity is recognised in the income statement when the gain or loss on disposal is recognised.

INCOME STATEMENT

The presentation of the Group's income statement is based on the internal reporting structure, as IFRS does not provide a specific disclosure requirement.

Special items not directly attributable to ordinary operating activities and that are significant and non-recurring are shown separately in order to give a truer and fairer view of the Group's operating profit.

CASH FLOW

Cash flow is calculated using the indirect method and is based on operating profit before special items adjusted for depreciation, amortisation and impairment losses.

Cash flow cannot be derived directly from the statement of financial position and income statement.

FINANCIAL RATIOS AND NON-IFRS FINANCIAL MEASURES

The Group uses certain additional financial measures to provide management, investors and investment analysts with additional measures to evaluate and analyse the Company's results. These non-IFRS financial measures are defined and calculated by the Group, and therefore may not be comparable with other companies' measures.

The non-IFRS financial measures disclosed in the Annual Report are:

- Earnings per share, adjusted
- Organic development
- Pro rata volumes
- Volumes

Earnings per share (EPS) and diluted earnings per share (EPS-D) are calculated in accordance with IAS 33.

The Danish Finance Society does not acknowledge use of special items and states that adjustments of tax should be based on the marginal tax rate. When calculating financial measures, the Group uses operating profit before special items and the effective tax rate for measures adjusted for tax.

Other financial ratios are calculated in accordance with the Danish Finance Society's online guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios", unless specifically stated.

SECTION 9.2 (CONTINUED)

GENERAL ACCOUNTING POLICIES

Calculation of key figures and financial ratios stated in the Annual Report

Cash flow from operating activities per share (CFPS)	Cash flow from operating activities[5] divided by the number of shares outstanding, fully diluted for share options and performance shares in the money in accordance with IAS 33[1].
Debt/operating profit before depreciation, amortisation and impairment losses[2]	Net interest-bearing debt[3] divided by operating profit before special items adjusted for depreciation, amortisation and impairment losses.
Earnings per share (EPS)	Consolidated profit for the year, excluding non-controlling interests, divided by the average number of shares outstanding.
Earnings per share, adjusted (EPS-A)[4]	Consolidated profit for the year adjusted for special items after tax, excluding non-controlling interests, divided by the average number of shares outstanding.
Earnings per share, diluted (EPS-D)	Consolidated profit for the year, excluding non-controlling interests, divided by the average number of shares outstanding, fully diluted for share options and performance shares in the money in accordance with IAS 33[1].
Equity ratio	Equity attributable to shareholders in Carlsberg A/S at year-end as a percentage of total assets at year-end.
Financial gearing	Net interest-bearing debt[3] at year-end divided by total equity at year-end.
Free cash flow per share (FCFPS)	Free cash flow[5] divided by average number of shares outstanding, fully diluted for share options and performance shares in the money in accordance with IAS 33[1].
Interest cover[2]	Operating profit before special items divided by interest expenses, net.
Number of shares, average	Number of issued shares, excluding treasury shares, as an average for the year (=average number of shares outstanding).
Number of shares, year-end	Total number of issued shares, excluding treasury shares, at year-end (=number of shares outstanding at year-end).
Operating margin[2]	Operating profit before special items as a percentage of revenue.
Operating profit[2]	Expression used for operating profit before special items.
Organic development[4]	Measure of growth excluding the impact of acquisitions, divestments and foreign exchange from year-on-year comparisons.
Payout ratio	Dividend for the year as a percentage of consolidated profit, excluding non-controlling interests.
Pro rata volumes[4]	The Group's sale of beverages in consolidated entities, plus 100% of the sale of the Group's international brands in associates and joint ventures and the proportionate share of the sale of local brands in these entities.
Return on invested capital including goodwill (ROIC)[2]	Operating profit before special items adjusted for tax as a percentage of average invested capital[6] calculated as a 12-month rolling average.
Return on invested capital excluding goodwill (ROIC excl. goodwill)[2]	Operating profit before special items adjusted for tax as a percentage of average invested capital excluding goodwill[6] calculated as a 12-month rolling average.

[1] The dilutive effect is calculated as the difference between the number of shares that could be acquired at fair value for the proceeds from exercise of the share options and performance shares, and the number of shares that could be issued assuming these are exercised.
[2] The calculation is based on operating profit before special items, whereas the Danish Finance Society defines the ratio using operating profit.
[3] The calculation of net interest-bearing debt is specified in section 4.2.
[4] This key figure or ratio is not defined by the Danish Finance Society.
[5] The calculation of operating cash flow and free cash flow is specified in the statement of cash flows.
[6] The calculation of invested capital is specified in section 2.1.

SECTION 9.3

CHANGES IN ACCOUNTING POLICIES

9.3.1 CHANGED ACCOUNTING POLICIES AND CLASSIFICATION IN THE ANNUAL REPORT 2017

The Annual Report has been prepared using the same accounting policies for recognition and measurement as those applied to the consolidated financial statements for 2016.

As of 1 January 2017, the following amendments and improvements became applicable without having any impact on the Group's accounting policies, as they cover areas that are not relevant for the Group or limit choices of accounting policies that have not been used by the Group:

- Amendments to IAS 7 "Disclosure Initiative"
- Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"
- Part of Annual Improvements to IFRS Standards 2014-2016 Cycle

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, cf. section 4.4.

Furthermore, as of 1 January 2017, the Group has changed:

- The segmentation format, such that Carlsberg Supply Company, previously included in "Not allocated", is now included in "Western Europe".
- The calculation of return on invested capital (ROIC).

The effect of those changes for 2016 is disclosed in the consolidated financial statements for 2016, section 9.3.

9.3.2 CHANGES IN ACCOUNTING POLICIES AND CLASSIFICATION FOR 2018

IFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS"

The implementation of IFRS 15 "Revenue from Contracts with Customers" will impact the Group's financials and revenue stream, as the standard requires marketing activities with customers to be recognised as revenue. For the Group, IFRS 15 results only in changes in classification and does not have an impact on the timing of revenue recognition.

Supporting marketing activities provided for or organised together with our customers will be considered a part of the customer relationship and related costs will be recognised as discounts, not as marketing expenses.

When applying the new policy, judgement is required to decide whether supporting an activity with a customer should be classified as a discount or a marketing expense, taking into account the drivers behind and the purpose of the activity. Generally, if the purpose of marketing activities is to increase sales with the individual customer, the activities should be seen as a reduction of the transaction price and therefore classified as a discount.

The effect of the changes from implementing IFRS 15 is shown in section 9.5.

IFRS 9 "FINANCIAL INSTRUMENTS"

IFRS 9 "Financial Instruments" introduces new hedge-accounting rules and a new impairment model for financial assets: the expected credit loss (ECL) model.

The new hedge-accounting rules imply that it will generally be easier to apply hedge accounting, as the new rules are more in line with the Group's risk management practice. Based on an assessment of the Group's current hedge arrangements, primarily aluminium hedges, an increased portion will qualify for hedge accounting, resulting in an increased portion of the fair value adjustment being recognised in other comprehensive income. The total ineffective portion of hedges for 2017, DKK 1m, related to the Group's aluminium hedging. The change in accounting policies applies to all hedging instruments.

The new impairment model for financial assets requires recognition of impairment losses based on expected credit losses (ECL) rather than incurred losses as is the case under current practice. The ECL model involves a three-stage approach under which financial assets move through the stages as their credit quality changes.

The stages determine how impairment losses are measured and the effective interest is applied. For trade receivables, the Group applies the simplified approach, which permits the use of lifetime ECL. Provision rates are determined based on grouping of trade receivables sharing the same credit risk characteristics and days past due.

Regarding on-trade loans, impairment losses will be recognised based on 12-month or lifetime ECL depending on whether a significant increase in credit risk has arisen since initial recognition. Impairment losses on loans to associates will be recognised based on a 12-month ECL model.

The impact from implementation of IFRS 9 and calculating ECL has only an insignificant impact on provisions and the income statement.

CHANGES IN CLASSIFICATION

In addition to the above changes in accounting policies, the classification of certain costs of the central supply chain and IT functions will change. These costs will be reclassified from administrative expenses to the functions they support, primarily production, logistics and sales. The reclassification is aligned with changes in the internal reporting, control and monitoring of the Group's strategic and financial targets and is a natural step in managing the functional activities under the Group's new strategy.

SECTION 9.3 (CONTINUED)

CHANGES IN ACCOUNTING POLICIES

IMPACT FROM CHANGES IN ACCOUNTING POLICIES AND CLASSIFICATION FOR 2018

The changes in accounting policies and classification of central supply chain costs and IT costs will only impact the classification of revenue and expenses in the consolidated financial statements. The impact on administrative expenses will be a reduction of DKK 314m, which will be reclassified to cost of sales and sales and distribution expenses. Operating profit before special items will remain unchanged.

The impact from the implementation of IFRS 15 on the consolidated financial statements for 2017 will be a reduction of revenue as a result of increased discounts of DKK 1.2bn.

As a consequence, all regions will see a negative impact on net revenue, with Western Europe and Asia experiencing the largest impacts due to the business models chosen, and on their share of sales to/from retailers and the wholesale market.

The total impact from the changes in accounting policies and classification will be an increase in operating margin of 0.2 percentage point due to lower net revenue. Average trade working capital as a percentage of net revenue will increase by approximately 0.3 percentage point.

Return on invested capital (ROIC) will remain unchanged.

CHANGES TO VOLUME REPORTING

As of 1 January 2018, the Group has decided to change the definition of volumes to include only the Group's sales of beverages in consolidated entities. Compared with 2017, the new definition excludes volumes in associates and joint ventures.

SECTION 9.4

NEW LEGISLATION

NEW AND AMENDED IFRS STANDARDS AND INTERPRETATIONS NOT YET APPLICABLE WITHIN THE EU

The following new or amended IFRS Standards and Interpretations of relevance to the Group have been issued and adopted by the EU but are not applicable to the financial reporting for 2017:

- IFRS 9 "Financial Instruments", effective for financial years beginning on or after 1 January 2018.
- IFRS 15 "Revenue from Contracts with Customers", including clarifications and amendments to IFRS 15 "Effective date of IFRS 15", effective for financial years beginning on or after 1 January 2018.
- IFRS 16 "Leases", effective for financial years beginning on or after 1 January 2019.

The impact of IFRS 9 and IFRS 15 is described in section 9.3.

NEW AND AMENDED IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED BY THE EU

The following new or amended IFRS Standards and Interpretations of relevance to the Group have been issued but not yet adopted by the EU:

- Annual Improvements to IFRS Standards 2014-2016 Cycle, effective for financial years beginning on or after 1 January 2018.
- Annual Improvements to IFRS Standards 2015-2017 Cycle, effective for financial years beginning on or after 1 January 2019.
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration", effective for financial years beginning on or after 1 January 2018.
- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments".
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions", effective for financial years beginning on or after 1 January 2018.
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation", effective for financial years beginning on or after 1 January 2019.
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures", effective for financial years beginning on or after 1 January 2019.

The new and amended Standards and Interpretations are not mandatory for the financial reporting for 2017. The Group expects to adopt the Standards and Interpretations when they become mandatory.

The implementation of IFRS 16 "Leases" will result in almost all leases being recognised in the statement of financial position, as the distinction between operating and finance leases is removed. The expected impact for the Group is an increase in property, plant and equipment and in financial liabilities. Information on current lease agreements is disclosed in section 2.4.

Furthermore, an improvement in operating profit before special items is expected, as the lease cost includes an interest element, which will be recognised as a financial item. In the cash flow statement, the interest element will be presented in interest etc. paid.

The implementation of the standard is not expected to have a material impact on the consolidated financial statements.

SECTION 9.5

IMPACT FROM CHANGES IN ACCOUNTING POLICIES AND CLASSIFICATION

The impact from changes in accounting policies and classification as described in section 9.3 in the consolidated financial statements is shown in the tables.

Section 9.5 is not part of the consolidated financial statements and has not been audited.

Impact on the income statement from changes in accounting policies and classification

						2017
		H1		H2		Full year
DKK million	Reported	Restated	Reported	Restated	Reported	Restated
Net revenue	**31,765**	**31,176**	**30,043**	**29,479**	**61,808**	**60,655**
Cost of sales	-15,619	-15,681	-14,706	-14,766	-30,325	-30,447
Gross profit	**16,146**	**15,495**	**15,337**	**14,713**	**31,483**	**30,208**
Sales and distribution expenses	-9,617	-9,105	-8,488	-8,039	-18,105	-17,144
Administrative expenses	-2,540	-2,401	-2,337	-2,162	-4,877	-4,563
Other operating activities, net	41	41	72	72	113	113
Share of profit after tax of associates and joint ventures	95	95	167	167	262	262
Operating profit before special items	**4,125**	**4,125**	**4,751**	**4,751**	**8,876**	**8,876**

Restated net revenue by region

							2017
DKK million	Q1	Q2	Q3	Q4	H1	H2	Full year
Western Europe	7,673	10,570	9,450	8,023	18,243	17,473	35,716
Eastern Europe	2,329	3,173	3,136	2,287	5,502	5,423	10,925
Asia	3,415	3,985	3,768	2,776	7,400	6,544	13,944
Not allocated	12	19	20	19	31	39	70
Beverages, total	**13,429**	**17,747**	**16,374**	**13,105**	**31,176**	**29,479**	**60,655**
Non-beverage	-	-	-	-	-	-	-
Carlsberg Group, total	**13,429**	**17,747**	**16,374**	**13,105**	**31,176**	**29,479**	**60,655**
Operating margin (%)							
Western Europe					12.7%	16.1%	14.4%
Eastern Europe					19.0%	21.6%	20.3%
Asia					20.2%	21.7%	20.8%
Not allocated					-	-	-
Beverages, total					**13.3%**	**16.3%**	**14.8%**
Non-beverage					-	-	-
Carlsberg Group, total					**13.2%**	**16.1%**	**14.6%**

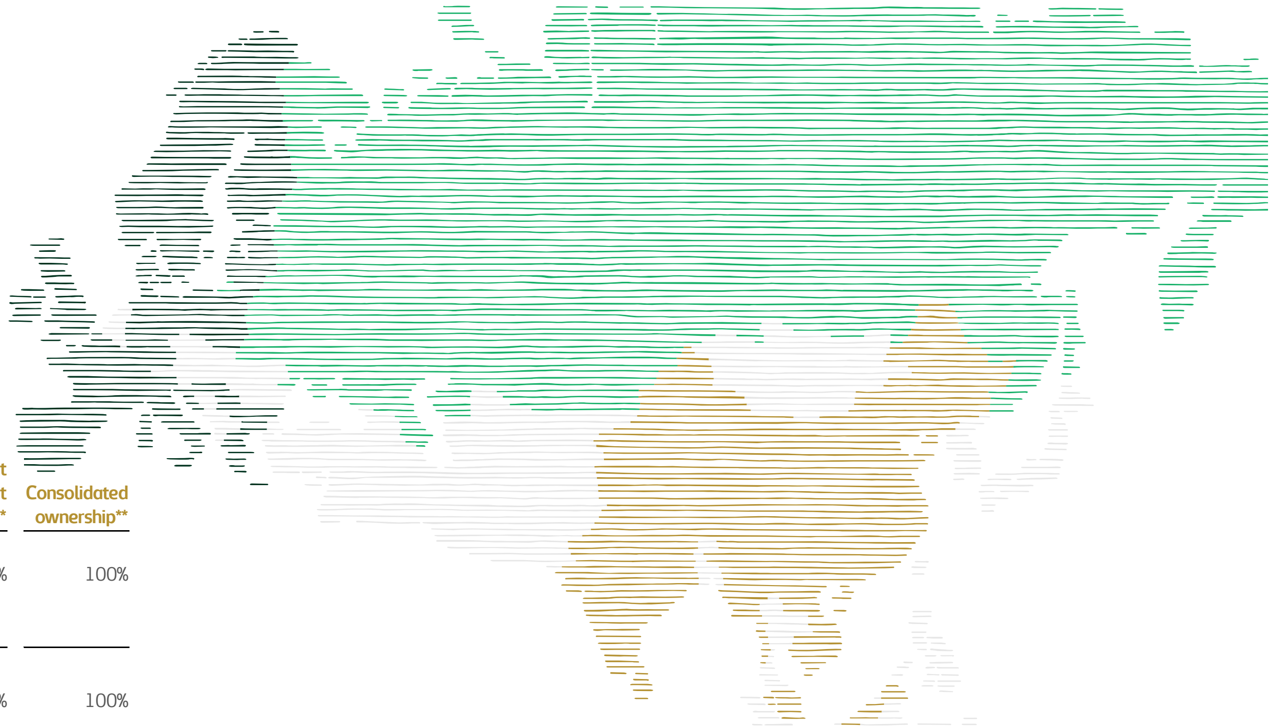
SECTION 9.5 (CONTINUED)

IMPACT FROM CHANGES IN ACCOUNTING POLICIES AND CLASSIFICATION

Changes to volume reporting

	Reported volumes Pro rata, million hl							Restated volumes Excl. associates and joint ventures, million hl						
2017	Q1	Q2	Q3	Q4	H1	H2	Full year	Q1	Q2	Q3	Q4	H1	H2	Full year
Beer sales														
Western Europe	9.8	14.3	13.1	10.5	24.1	23.6	47.7	9.5	13.8	12.6	10.2	23.3	22.8	46.1
Eastern Europe	6.1	8.4	8.7	6.6	14.5	15.3	29.8	6.1	8.4	8.7	6.6	14.5	15.3	29.8
Asia	8.3	9.8	10.3	6.5	18.1	16.8	34.9	7.3	8.9	9.3	5.7	16.2	15.0	31.2
Total	**24.2**	**32.5**	**32.1**	**23.6**	**56.7**	**55.7**	**112.4**	**22.9**	**31.1**	**30.6**	**22.5**	**54.0**	**53.1**	**107.1**
Other beverages														
Western Europe	3.5	4.3	3.9	3.8	7.8	7.7	15.5	3.3	4.0	3.6	3.6	7.3	7.2	14.5
Eastern Europe	0.3	0.7	0.6	0.3	1.0	0.9	1.9	0.3	0.7	0.6	0.3	1.0	0.9	1.9
Asia	0.9	1.0	0.9	0.7	1.9	1.6	3.5	0.7	0.8	0.7	0.6	1.5	1.3	2.8
Total	**4.7**	**6.0**	**5.4**	**4.8**	**10.7**	**10.2**	**20.9**	**4.3**	**5.5**	**4.9**	**4.5**	**9.8**	**9.4**	**19.2**
Total volumes														
Western Europe	13.3	18.6	17.0	14.3	31.9	31.3	63.2	12.8	17.8	16.2	13.8	30.6	30.0	60.6
Eastern Europe	6.4	9.1	9.3	6.9	15.5	16.2	31.7	6.4	9.1	9.3	6.9	15.5	16.2	31.7
Asia	9.2	10.8	11.2	7.2	20.0	18.4	38.4	8.0	9.7	10.0	6.3	17.7	16.3	34.0
Total	**28.9**	**38.5**	**37.5**	**28.4**	**67.4**	**65.9**	**133.3**	**27.2**	**36.6**	**35.5**	**27.0**	**63.8**	**62.5**	**126.3**

GROUP COMPANIES



	Reference	Number of subsidiaries	Type of investment	Parent direct ownership*	Consolidated ownership**
Carlsberg Breweries A/S, Copenhagen, Denmark		10	O	100%	100%
Western Europe					
Carlsberg Danmark A/S, Copenhagen, Denmark			O	100%	100%
Carlsberg Supply Company Danmark A/S, Copenhagen, Denmark			O	100%	100%
Carlsberg Sweden Holding 2 AB, Stockholm, Sweden			O	100%	100%
Carlsberg Sverige AB, Stockholm, Sweden		2	O	100%	100%
Carlsberg Supply Company Sverige AB, Falkenberg, Sweden			O	100%	100%
Ringnes Norge AS, Oslo, Norway		7	O	100%	100%
Ringnes AS, Oslo, Norway		1	O	100%	100%
Ringnes Supply Company AS, Oslo, Norway			O	100%	100%
Oy Sinebrychoff Ab, Kerava, Finland			O	100%	100%
Sinebrychoff Supply Company Oy, Kerava, Finland			O	100%	100%
Carlsberg Deutschland Holding GmbH, Hamburg, Germany		3	O	100%	100%
Carlsberg Deutschland GmbH, Hamburg, Germany		8	O	100%	100%
Carlsberg Supply Company Deutschland GmbH, Hamburg, Germany			O	100%	100%
Carlsberg Polska Sp. z o.o., Warsaw, Poland			O	100%	100%
Carlsberg Supply Company Polska SA, Warsaw, Poland		1	O	100%	100%
Saku Õlletehase AS, Tallinn, Estonia			O	100%	100%
Aldaris JSC, Riga, Latvia			O	99%	99%
Svyturys-Utenos Alus UAB, Utena, Lithuania			O	99%	99%

O	Subsidiary
X	Associate or joint venture
*	Parent direct ownership shows the legal ownership held by the immediate holding company in the Group. Crossholdings held by fully owned companies of the Group are aggregated.
**	Consolidated ownership shows the share of the result of the entity that is attributed to the shareholders of Carlsberg A/S in the consolidated financial statements.
A	Listed company.
B	Company not audited by PwC.
C	Consolidation percentage is higher than the ownership share due to written put options.
D	Sicera AG is legally owned 65% by the Group but recognised as a joint venture, as the shareholders' agreement stipulates joint control by the shareholders of the company.
E	Classification as subsidiary, joint venture or associate and the consolidated ownership of the entity is determined by the Group's ownership of the entity's parent company.
F	Chongqing Jianiang Brewery Ltd is owned by Chongqing Brewery Co., Ltd (51%) and Carlsberg Brewery Hong Kong Ltd (49%), resulting in a consolidated ownership of 79%.
G	Lion Brewery (Ceylon) PLC is owned by Carlsberg Brewery Malaysia Berhad (25%) and Ceylon Beverage Holdings PLC (52%). Carlsberg owns 8% of Ceylon Beverage Holdings PLC and 51% of Carlsberg Brewery Malaysia Berhad, resulting in a one-line consolidated ownership of 17%.
H	Maybev Pte Ltd is owned by Carlsberg Singapore Pte Ltd (51%), which is owned by Carlsberg Brewery Malaysia Berhad (51%), resulting in a consolidated ownership of 26%.
I	The Group own 67% of Carlsberg South Asia Pte Ltd., which is the holding company of South Asian Breweries Pte. Ltd., Carlsberg India Pvt. Ltd and Gorkha Brewery Pvt. Ltd. The consolidation percentage of Carlsberg South Asia Pte Ltd. is 100% due to a written put option.
J	A separate annual report is not prepared.
K	The Group acquired the remaining 49% of the shares in February 2018.

	Reference	Number of subsidiaries	Type of investment	Parent direct ownership*	Consolidated ownership**
Western Europe					
Carlsberg UK Holdings Limited, Northampton, United Kingdom		1	**O**	100%	100%
Carlsberg UK Limited, Northampton, United Kingdom		8	**O**	100%	100%
Carlsberg Supply Company UK Limited, Northampton, United Kingdom			**O**	100%	100%
Emeraude S.A.S., Strasbourg, France		11	**O**	100%	100%
Kronenbourg S.A.S., Strasbourg, France		7	**O**	100%	100%
Kronenbourg Supply Company S.A.S., Strasbourg, France			**O**	100%	100%
Feldschlösschen Getränke Holding AG, Rheinfelden, Switzerland		2	**O**	100%	100%
Feldschlösschen Getränke AG, Rheinfelden, Switzerland		1	**O**	100%	100%
Feldschlösschen Supply Company AG, Rheinfelden, Switzerland			**O**	100%	100%
Carlsberg Supply Company AG, Ziegelbrücke, Switzerland		2	**O**	100%	100%
Carlsberg Italia S.p.A., Lainate, Italy		3	**O**	100%	100%
Olympic Brewery SA, Thessaloniki, Greece	**B, C, K**	1	**O**	51%	100%
Carlsberg Serbia Ltd., Celarevo, Serbia		2	**O**	100%	100%
Carlsberg Croatia d.o.o., Koprivnica, Croatia			**O**	100%	100%
Carlsberg Bulgaria AD, Mladost, Bulgaria			**O**	100%	100%
Carlsberg Hungary Kft., Budaőrs, Hungary			**O**	100%	100%
CTDD Beer Imports Ltd., Montreal, Canada			**O**	100%	100%
Carlsberg Canada Inc., Mississauga, Canada			**O**	100%	100%
Sicera AG, Glarus, Switzerland	**D**		**X**	65%	65%
Nya Carnegiebryggeriet AB, Stockholm, Sweden	**E**		**X**	98%	63%
E. C. Dahls Bryggeri AS, Trondheim, Norway	**E**		**X**	100%	65%
HK Yau Limited, Hong Kong	**E**		**X**	100%	65%
UAB "Svyturys Brewery", Klaipeda, Lithuania	**E**		**X**	100%	65%
London Fields Brewery Opco Ltd., London, United Kingdom	**E**		**X**	100%	65%
Super Bock Group, S.G.P.S., S.A., Leca do Balio, Portugal			**X**	44%	44%
Nuuk Imeq A/S, Nuuk, Greenland	**B**		**X**	32%	32%

	Reference	Number of subsidiaries	Type of investment	Parent direct ownership*	Consolidated ownership**
Eastern Europe					
Baltika Breweries LLC, Saint Petersburg, Russia		5	**O**	100%	100%
Carlsberg Azerbaijan, Baku, Azerbaijan			**O**	100%	100%
PJSC Carlsberg Ukraine, Zaporizhzhya, Ukraine		2	**O**	99%	99%
OJSC Brewery Alivaria, Minsk, Belarus	**C**		**O**	68%	89%
Carlsberg Kazakhstan, Almaty, Kazakhstan		1	**O**	100%	100%
Baltic Beverages Holding AB, Stockholm, Sweden		1	**O**	100%	100%
Asia					
Carlsberg Brewery Hong Kong Ltd, Hong Kong, China		3	**O**	100%	100%
Carlsberg Brewery (Guangdong) Ltd, Huizhou, China			**O**	99%	99%
Kunming Huashi Brewery Company Limited, Kunming, China			**O**	100%	100%
Xinjiang Wusu Breweries Co., Ltd., Urumqi, China		4	**O**	100%	100%
Ningxia Xixia Jianiang Brewery Limited, Xixia, China			**O**	70%	70%
Carlsberg (China) Breweries and Trading Company Limited, Dali, China			**O**	100%	100%
Chongqing Brewery Co., Ltd, Chongqing, China	**A**		**O**	60%	60%
Chongqing Jianiang Brewery Ltd., Chongqing, China	**F**	6	**O**	51%	79%
Carlsberg Beer Enterprise Management (Chongqing) Company Limited, Chongqing, ("Eastern Assets"), China		2	**O**	100%	100%
Tibet Lhasa Brewery Company Limited, Lhasa, China			**X**	50%	50%
Lanzhou Huanghe Jianiang Brewery Company Limited, Lanzhou, China			**X**	50%	50%
Qinghai Huanghe Jianiang Brewery Company Ltd., Xining, China			**X**	50%	50%
Jiuquan West Brewery Company Limited, Jiuquan, China			**X**	50%	50%
Tianshui Huanghe Jianiang Brewery Company Ltd, Tianshui, China			**X**	50%	50%

	Reference	Number of subsidiaries	Type of investment	Parent direct ownership*	Consolidated ownership**
Asia					
Carlsberg Brewery Malaysia Berhad, Selangor Darul Ehsan, Malaysia	**A**		**O**	51%	51%
Carlsberg Marketing Sdn BHD, Selangor Darul Ehsan, Malaysia	**E**		**O**	100%	51%
Euro Distributors Sdn BHD, Selangor Darul Ehsan, Malaysia	**E**		**O**	100%	51%
Lion Brewery (Ceylon) PLC, Biyagama, Sri Lanka	**A, B, G**		**X**	25%	17%
Carlsberg Singapore Pte Ltd, Singapore	**E**		**O**	100%	51%
Maybev Pte Ltd., Singapore	**H**		**O**	51%	26%
Carlsberg South Asia Pte Ltd, Singapore	**I**		**O**	67%	100%
South Asian Breweries Pte. Ltd., Singapore	**I**		**O**	100%	100%
Carlsberg India Pvt. Ltd, New Delhi, India	**I**		**O**	100%	100%
Gorkha Brewery Pvt. Ltd., Kathmandu, Nepal	**I**	1	**O**	90%	90%
Carlsberg Vietnam Trading Co. Ltd., Hanoi, Vietnam			**O**	100%	100%
Carlsberg Vietnam Breweries Ltd., Hue, Vietnam			**O**	100%	100%
Hanoi Beer Alcohol and Beverage Joint Stock Corporation, Hanoi, Vietnam	**B**		**X**	17%	17%
Lao Brewery Co. Ltd., Vientiane, Laos			**O**	61%	61%
Paduak Holding Pte. Ltd., Singapore			**O**	100%	100%
Myanmar Carlsberg Co. Ltd, Yangon, Myanmar	**B**		**X**	51%	51%
Caretech Limited, Hong Kong, China	**B**		**X**	50%	50%
Cambrew Limited, Phnom Penh, Cambodia	**B, E**		**X**	100%	50%
Carlsberg Distributors Taiwan Limited, Taipei, Taiwan			**X**	50%	50%
CB Distribution Co., Ltd., Bangkok, Thailand			**O**	100%	100%
Brewery Invest Pte Ltd, Singapore			**O**	100%	100%
Carlsberg Asia Pte Ltd, Singapore		1	**O**	100%	100%

	Reference	Number of subsidiaries	Type of investment	Parent direct ownership*	Consolidated ownership**
Not allocated					
Carlsberg Finans A/S, Copenhagen, Denmark			**O**	100%	100%
Carlsberg International A/S, Copenhagen, Denmark			**O**	100%	100%
Carlsberg Invest A/S, Copenhagen, Denmark		1	**O**	100%	100%
Carlsberg Global Business Services A/S, Copenhagen, Denmark			**O**	100%	100%
Carlsberg Insurance A/S, Copenhagen, Denmark			**O**	100%	100%
Carlsberg Shared Services Sp. z o.o., Poznan, Poland			**O**	100%	100%
Non-beverage					
Ejendomsaktieselskabet Tuborg Nord C, Copenhagen, Denmark			**O**	100%	100%
Ejendomsaktieselskabet af 4. marts 1982, Copenhagen, Denmark			**O**	100%	100%
Carlsberg Ejendomme Holding A/S, Copenhagen, Denmark			**O**	100%	100%
Boliginteressentskabet Tuborg, Copenhagen, Denmark	**J**		**O**	100%	100%
Carlsberg Byen P/S, Copenhagen, Denmark	**B**		**X**	25%	25%

PARENT COMPANY

PARENT COMPANY FINANCIAL STATEMENTS

Income statement 125

Statement of comprehensive income 125

Statement of financial position 126

Statement of changes in equity 127

Statement of cash flows 128

Notes 129

SECTION 1
SUBSIDIARIES AND RELATED PARTIES

1.1 Investments in subsidiaries 129
1.2 Related parties 129

SECTION 2
CAPITAL STRUCTURE

2.1 Financial income and expenses 130
2.2 Receivables and borrowings 130
2.3 Net interest-bearing debt 131
2.4 Share capital 131

SECTION 3
STAFF COSTS AND REMUNERATION

3.1 Staff costs and remuneration of executive directors 132
3.2 Share-based payments 133
3.2 Retirement benefit obligations and similar obligations 134

SECTION 4
OTHER DISCLOSURE REQUIREMENTS

4.1 Other operating activities, net 135
4.2 Provisions 135
4.3 Special items 135
4.4 Asset base and leases 135
4.5 Fees to auditors 135
4.6 Tax 136
4.7 Contingent liabilities and other commitments 137
4.8 Events after the reporting period 137

SECTION 5
GENERAL ACCOUNTING POLICIES

5 General accounting policies 137

INCOME STATEMENT

DKK million	Section	2017	2016
Administrative expenses		-75	-67
Other operating activities, net	4.1	-48	-38
Operating profit before special items		**-123**	**-105**
Special items	4.3	50	-50
Financial income	2.1	1,530	1,378
Financial expenses	2.1	-6	-10
Profit before tax		**1,451**	**1,213**
Corporation tax	4.6	31	29
Profit for the year		**1,482**	**1,242**
Attributable to			
Dividend to shareholders		2,441	1,526
Reserves		-959	-284
Profit for the year		**1,482**	**1,242**

STATEMENT OF COMPREHENSIVE INCOME

DKK million	Section	2017	2016
Profit for the year		**1,482**	**1,242**
Other comprehensive income			
Retirement benefit obligations	3.3	3	-3
Corporation tax	4.6	-1	1
Items that will not be reclassified to the income statement		**2**	**-2**
Other comprehensive income		**2**	**-2**
Total comprehensive income		**1,484**	**1,240**

STATEMENT OF FINANCIAL POSITION

DKK million	Section	31 Dec. 2017	31 Dec. 2016
ASSETS			
Non-current assets			
Intangible assets	4.4	8	9
Property, plant and equipment	4.4	454	270
Investments in subsidiaries	1.1	45,340	45,513
Receivables	2.2	490	490
Deferred tax assets	4.6	127	136
Total non-current assets		**46,419**	**46,418**
Current assets			
Receivables from subsidiaries	2.2	98	103
Tax receivables		12	-
Other receivables	2.2	215	68
Total current assets		**325**	**171**
Total assets		**46,744**	**46,589**

DKK million	Section	31 Dec. 2017	31 Dec. 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	2.4	3,051	3,051
Retained earnings		41,908	42,072
Total equity		**44,959**	**45,123**
Non-current liabilities			
Retirement benefit obligations and similar obligations	3.3	34	41
Provisions	4.2	51	102
Other liabilities		-	1
Total non-current liabilities		**85**	**144**
Current liabilities			
Borrowings	2.2	1,477	1,175
Trade payables		122	25
Provisions	4.2	54	79
Corporation tax		-	1
Other liabilities etc.		47	42
Total current liabilities		**1,700**	**1,322**
Total liabilities		**1,785**	**1,466**
Total equity and liabilities		**46,744**	**46,589**

STATEMENT OF CHANGES IN EQUITY

DKK million	Shareholders in Carlsberg A/S		
2017	**Share capital**	**Retained earnings**	**Total equity**
Equity at 1 January	**3,051**	**42,072**	**45,123**
Profit for the year	**-**	**1,482**	**1,482**
Other comprehensive income			
Retirement benefit obligations	-	3	3
Corporation tax	-	-1	-1
Other comprehensive income	**-**	**2**	**2**
Total comprehensive income for the year	**-**	**1,484**	**1,484**
Acquisition/disposal of treasury shares	-	-118	-118
Settlement of share-based payments	-	-38	-38
Share-based payments	-	9	9
Share-based payments to employees in subsidiaries	-	24	24
Dividends paid to shareholders	-	-1,525	-1,525
Total changes in equity	**-**	**-164**	**-164**
Equity at 31 December	**3,051**	**41,908**	**44,959**

DKK million	Shareholders in Carlsberg A/S		
2016	**Share capital**	**Retained earnings**	**Total equity**
Equity at 1 January	**3,051**	**42,219**	**45,270**
Profit for the year	**-**	**1,242**	**1,242**
Other comprehensive income			
Retirement benefit obligation	-	-3	-3
Corporation tax	-	1	1
Other comprehensive income	**-**	**-2**	**-2**
Total comprehensive income for the year	**-**	**1,240**	**1,240**
Acquisition/disposal of treasury shares	-	-1	-1
Settlement of share-based payments	-	-64	-64
Share-based payments	-	2	2
Share-based payments to employees in subsidiaries	-	49	49
Dividends paid to shareholders	-	-1,373	-1,373
Total changes in equity	**-**	**-147**	**-147**
Equity at 31 December	**3,051**	**42,072**	**45,123**

The proposed dividend of DKK 16.00 per share, in total DKK 2,441m (2016: DKK 10.00 per share, in total DKK 1,526m), is included in retained earnings at 31 December 2017.

Dividends paid out in 2017 for 2016 amount to DKK 1,525m (paid out in 2016 for 2015: DKK 1,373m). Dividends paid out to shareholders of Carlsberg A/S do not impact taxable income in Carlsberg A/S.

STATEMENT OF CASH FLOWS

DKK million	2017	2016
Operating profit before special items	-123	-105
Adjustment for depreciation and amortisation	17	14
Operating profit before depreciation and amortisation	**-106**	**-91**
Adjustment for other non-cash items	-12	-74
Change in working capital[1]	101	-179
Interest etc. received	3	16
Interest etc. paid	-6	-15
Corporation tax paid	25	92
Cash flow from operating activities	**5**	**-251**
Acquisition of property, plant and equipment and intangible assets	-205	-6
Total operational investments	**-205**	**-6**
Disposal of securities	-	1
Dividends from subsidiaries and joint ventures	1,526	1,373
Total financial investments	**1,526**	**1,374**
Other investments in property, plant and equipment	-	-20
Disposal of other property, plant and equipment	25	21
Total other activities[2]	**25**	**1**
Cash flow from investing activities	**1,346**	**1,369**
Free cash flow	**1,351**	**1,118**
Shareholders in Carlsberg A/S	-1,681	-1,438
External financing	330	318
Cash flow from financing activities	**-1,351**	**-1,120**
Net cash flow	**-**	**-2**
Cash and cash equivalents at 1 January	-	2
Cash and cash equivalents at 31 December	**-**	**-**

[1] Change in working capital includes receivables of DKK 16m (2016: DKK -22m), trade payables and other liabilities of DKK 112m (2016: DKK -180m), and other provisions of DKK -27m (2016: DKK 23m).
[2] Other activities cover real estate activities.

SECTION 1

SUBSIDIARIES AND RELATED PARTIES

SECTION 1.1

INVESTMENTS IN SUBSIDIARIES

Please see section 10 in the consolidated financial statements for a list of companies in the Carlsberg Group. The carrying amount includes goodwill of DKK 11,207m (2016: DKK 11,207m) on acquisition of subsidiaries. Share-based payments to employees in subsidiaries comprise exercised as well as outstanding share-based incentive instruments.

DKK million	2017	2016
Cost		
Cost at 1 January	45,513	45,481
Share-based payments to employees	-173	32
Cost at 31 December	**45,340**	**45,513**
Carrying amount at 31 December	**45,340**	**45,513**

ACCOUNTING ESTIMATES AND JUDGEMENTS

Management performs an annual test on investments in subsidiaries for indications of impairment. Impairment tests are conducted in the same way as for goodwill in the Group, cf. section 2.3 in the consolidated financial statements.

It is management's assessment that no indications of impairment existed at year-end 2017. Impairment tests have therefore not been carried out for subsidiaries.

ACCOUNTING POLICIES

Dividends on investments in subsidiaries are recognised as income in the income statement of the Parent Company in the financial year in which the dividend is declared.

Investments in subsidiaries are measured at the lower of cost and recoverable amount.

SECTION 1.2

RELATED PARTIES

The Carlsberg Foundation, H.C. Andersens Boulevard 35, 1553 Copenhagen V, Denmark, exercises control over Carlsberg A/S. The Foundation holds 30.3% of the shares and 75.3% of the voting power in Carlsberg A/S, excluding treasury shares.

The following transactions took place between the Carlsberg Foundation and the Carlsberg Group in 2017:

The Carlsberg Foundation received a dividend of DKK 10.00 per share from Carlsberg A/S, the same as every other shareholder.

Funding and grants received for research and development activities from the Carlsberg Foundation amounted to DKK 43m (2016: DKK 25m) and related to the operation of the Carlsberg Research Laboratory, of which DKK 17m has been deferred to be used for research projects in the future years.

Disposal of the Carlsberg Academy to the Carlsberg Foundation. The Academy was valued at market price using the same conditions/price as applicable to other buildings in the area.

The Carlsberg Foundation sold unused building rights for the Researcher Apartments to Carlsberg Byen. The building rights were valued at market price using the same conditions/price applicable to other building rights in the area.

Carlsberg Breweries A/S leases storage facilities in the Researcher Apartments. The annual lease, DKK 173 thousand, and the lease terms are on market conditions.

A collaboration between Carlsberg foundations and the Carlsberg Group to launch a campaign at Copenhagen Airport to celebrate Carlsberg's 170-year anniversary.

The Carlsberg Science to Business forum is organised by the Carlsberg Foundation and the Group. The Carlsberg Foundation pays for presenters' costs, which amount to DKK 250-300 thousand. The Group contributes the meeting room and approximately 30 working hours.

An agreement between the Group and the Carlsberg foundations on delivery of beer and soft drinks was formalised to the effect that the Carlsberg foundations are charged an ordinary listing price minus a discount of 25% for Carlsberg products and 15% for third-party products. In 2017, the deliveries amounted to a value of DKK 227 thousand (total sales of goods).

It is estimated that the benefit for the Carlsberg Group corresponds to the value of the services provided to the Carlsberg Foundation, which in turn corresponds to what each party would have had to invest to have the same deliverables provided by external parties.

SECTION 2

CAPITAL STRUCTURE

SECTION 1.2 (CONTINUED)

RELATED PARTIES

OTHER RELATED PARTIES

Related parties also comprise Carlsberg A/S' Supervisory Board and Executive Board, their close family members and companies in which these persons have significant influence.

During the year, there were no transactions between these parties and the Group, except for remuneration as disclosed in section 3.

No losses on loans to or receivables from subsidiaries or joint ventures were recognised or provided for in either 2017 or 2016.

The income statement and the statement of financial position include the following transactions with subsidiaries

DKK million	2017	2016
Other operating activities, net	10	7
Interest income	3	4
Interest expenses	-6	-6
Dividends received	1,526	1,373
Loans	500	528
Receivables	86	63
Borrowings	-1,477	-1,175
Trade payables	-13	-8

SECTION 2.1

FINANCIAL INCOME AND EXPENSES

Interest income relates to interest from cash and cash equivalents and loans to subsidiaries.

Other financial income relates to foreign exchange gains.

Interest expenses primarily relate to interest on borrowings.

No financial items were recognised directly in other comprehensive income.

Financial items recognised in the income statement

DKK million	2017	2016
Financial income		
Interest income	3	4
Dividends from subsidiaries	1,526	1,373
Other financial income	1	1
Total	**1,530**	**1,378**
Financial expenses		
Interest expenses	-6	-6
Other financial expenses	-	-4
Total	**-6**	**-10**
Financial items, net, recognised in the income statement	**1,524**	**1,368**

The average effective interest rate on loans to subsidiaries was 0.7% (2016: 0.8%) and on loans from subsidiaries 0.5% (2016: 0.5%).

SECTION 2.2

RECEIVABLES AND BORROWINGS

Receivables

DKK million	2017	2016
Loans to subsidiaries	500	528
Receivables from subsidiaries	86	63
Other receivables	217	70
Total	**803**	**661**

The fair value of receivables and borrowings in subsidiaries corresponds to the carrying amount in all material respects.

Borrowings

DKK million	2017	2016
Current borrowings		
Borrowings from subsidiaries	1,477	1,175
Total	**1,477**	**1,175**
Fair value	1,477	1,175

Borrowings are measured at amortised cost.

SECTION 2.3

NET INTEREST-BEARING DEBT

Net interest-bearing debt

DKK million	2017	2016
Current borrowings	1,477	1,175
Gross interest-bearing debt	**1,477**	**1,175**
Receivables	-1	-1
Loans to subsidiaries	-500	-528
Net interest-bearing debt	**976**	**646**
Changes in net interest-bearing debt		
Net interest-bearing debt at 1 January	**646**	**320**
Cash flow from operating activities, excluding interest-bearing part	-5	257
Cash flow from investing activities	-1,346	-1,369
Dividends to shareholders	1,525	1,373
Acquisition/disposal of treasury shares and settlement of share-based payments	156	65
Total change	**330**	**326**
Net interest-bearing debt at 31 December	**976**	**646**

SECTION 2.4

SHARE CAPITAL

At 31 December 2017, the fair value of treasury shares amounted to DKK 124m (2016: DKK 3m). The holdings of treasury shares are specified in section 4.3 in the consolidated financial statements.

According to the authorisation of the Annual General Meeting, the Supervisory Board may, in the period until 19 March 2019, allow the Company to acquire treasury shares up to a total holding of 10% of the nominal share capital at a price quoted on Nasdaq Copenhagen at the time of acquisition with a deviation of up to 10%.

In the financial year, the Company acquired class B treasury shares of a nominal amount of DKK 8m (2016: DKK 7m) at an average price of DKK 706 (2016: DKK 637). Class B treasury shares are primarily acquired and disposed of to facilitate settlement of the share-based incentive programmes. The Company holds no class A shares.

Transactions with shareholders in Carlsberg A/S

	2017	2016
Dividends to shareholders	-1,525	-1,373
Acquisition of treasury shares	-266	-214
Disposal of treasury shares	110	149
Total	**-1,681**	**-1,438**

Share capital

	Class A shares		Class B shares		Total share capital	
	Shares of DKK 20	Nominal value, DKK '000	Shares of DKK 20	Nominal value, DKK '000	Shares of DKK 20	Nominal value, DKK '000
1 January 2016	33,699,252	673,985	118,857,554	2,377,151	152,556,806	3,051,136
No change in 2016	-	-	-	-	-	-
31 December 2016	**33,699,252**	**673,985**	**118,857,554**	**2,377,151**	**152,556,806**	**3,051,136**
No change in 2017	-	-	-	-	-	-
31 December 2017	**33,699,252**	**673,985**	**118,857,554**	**2,377,151**	**152,556,806**	**3,051,136**

A shares carry 20 votes per DKK 20 share. **B shares** carry two votes per DKK 20 share. A preferential right to an 8% non-cumulative dividend is attached to B shares. Apart from votes and dividends, all shares rank equally.

SECTION 3

STAFF COSTS AND REMUNERATION

SECTION 3.1

STAFF COSTS AND REMUNERATION OF EXECUTIVE DIRECTORS

Remuneration of executive directors is based on a fixed salary, cash bonus payments and non-monetary benefits, such as company car, telephone etc. Furthermore, share option programmes and incentive schemes have been established for executive directors. These programmes and schemes cover a number of years. The remuneration is specified in section 3.2.

Employment contracts for executive directors contain terms and conditions that are considered common to executive board members in Danish listed companies, including terms of notice and non-competition clauses.

Staff costs and remuneration also cover costs and remuneration regarding executive directors of the Company who are contractually employed by other Group companies where the related cost is recognised and payment is made in those companies.

Remuneration of executive directors and the Supervisory Board as well as their holdings of shares in the Company are specified in the Management review and section 7 in the consolidated financial statements.

Staff costs and remuneration

DKK million	2017	2016
Salaries and other remuneration	104	89
Retirement benefit costs - defined contribution plans	5	4
Share-based payments	30	15
Total	**139**	**108**
Staff costs are included in the following items in the income statement		
Administrative expenses	39	36
Other operating activities, net	57	36
Total staff costs recognised by the Parent Company	**96**	**72**
Staff costs recognised by other Group companies	43	36
Total	**139**	**108**

The Company had an average of 81 (2016: 77) full-time employees during the year.

SECTION 3.2

SHARE-BASED PAYMENTS

SHARE OPTIONS

No share options were granted in 2017. In 2016, 17,650 share options were granted to 1 employee. The grant date fair value of these options was DKK 2m. The total cost of the share options was DKK 7m, which is recognised under staff costs. Refunds etc. between Carlsberg A/S and its subsidiaries are recognised directly in equity.

REGULAR PERFORMANCE SHARES

In 2017, a total of 74,877 (2016: 25,079) regular performance shares were granted to 2 employees (2016: 2). The grant date fair value of these performance shares was DKK 39m (2016: DKK 13m). The total cost of the performance shares was DKK 15m (2016: DKK 13m), which is recognised under staff costs. Refunds etc. between Carlsberg A/S and its subsidiaries are recognised directly in equity.

FUNDING THE JOURNEY PERFORMANCE SHARES

In 2016, a total of 37,242 performance shares were granted to 2 employees under the Funding the Journey performance share programme. The grant date fair value of these performance shares was DKK 22m. The total cost of the performance shares was DKK 8m, which is recognised under staff costs. Refunds etc. between Carlsberg A/S and its subsidiaries are recognised directly in equity.

Share-based incentive programmes

	Exercise price	Number			
Share options	Fixed, weighted average	Executive directors	Other employees	Resigned employees	Total
Share options outstanding at 31 December 2015	**540.07**	**97,334**	**-**	**541,055**	**638,389**
Granted	597.60	17,650	-	-	17,650
Exercised	550.10	-	-	-233,500	-233,500
Share options outstanding at 31 December 2016	**536.93**	**114,984**	**-**	**307,555**	**422,539**
Exercised	568.23	-	-	-174,000	-174,000
Share options outstanding at 31 December 2017	**529.76**	**114,984**	**-**	**133,555**	**248,539**
Regular performance shares					
Performance shares outstanding at 31 December 2015		**-**	**564**	**34**	**598**
Granted		25,079	-	-	25,079
Adjusted		-	19	-	19
Exercised/settled		-	-	-32	-32
Performance shares outstanding at 31 December 2016		**25,079**	**583**	**2**	**25,664**
Granted		74,877	-	-	74,877
Adjusted		-	-31	-1	-32
Exercised		-	-32	-1	-33
Performance shares outstanding at 31 December 2017		**99,956**	**520**	**-**	**100,476**
Funding the Journey performance shares					
Performance shares outstanding at 31 December 2015		**-**	**-**	**-**	**-**
Granted		37,242	-	-	37,242
Performance shares outstanding at 31 December 2016		**37,242**	**-**	**-**	**37,242**
No changes in 2017		-	-	-	-
Performance shares outstanding at 31 December 2017		**37,242**	**-**	**-**	**37,242**

SECTION 3.2 (CONTINUED)

SHARE-BASED PAYMENTS

ACCOUNTING POLICIES

The fair value of share-based incentives granted to employees in the Parent Company's subsidiaries is recognised as investments in subsidiaries as the services rendered in exchange for the granted incentives are received in the subsidiaries and offset directly against equity.

The difference between the purchase price and the sales price for the exercise of share-based incentives by employees in subsidiaries is settled between Carlsberg A/S and the individual subsidiary and offset directly against investments in subsidiaries.

The difference at the reporting date between the fair value of the Parent Company's equity instruments and the exercise price of outstanding share-based incentives is recognised as a receivable in Carlsberg A/S and offset directly against investments in subsidiaries.

Share-based incentives granted to the Parent Company's own employees are recognised and measured in accordance with the accounting policies used by the Group. Please refer to the consolidated financial statements for a description of accounting policies.

SECTION 3.3

RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

Retirement benefit obligations and similar obligations comprise payments to retired directors that are not covered by an insurance company. The plan is unfunded.

Total obligations at 31 December 2017 amounted to DKK 34m (2016: DKK 41m) and include actuarial gains of DKK 3m (2016: DKK -3m) and benefits paid in the year of DKK 4m (2016: DKK 2m).

Of the expected payment obligation, DKK 3m is due within one year and DKK 18m after more than five years from the reporting date.

The actuarial assumptions underlying the calculations are based on local economic conditions and labour market conditions.

The discount rate was 0.5% compared to 0.5% in 2016. The rate of increase in future retirement obligations was 2% (2016: 2%).

During the year, DKK 0m (2016: DKK 0m) was recognised in the income statement.

At 31 December 2017, DKK 3m (2016: DKK -3m) was recognised in other comprehensive income.

Key information

	Share options		Regular performance shares		Funding the Journey performance shares	
	2017	2016	2017	2016	2017	2016
Average share price at the exercise date for share options exercised in the year	675	629	-	-	-	-
Weighted average contractual life for awards outstanding at 31 December	5.2	6.5	2.0	2.1	1.2	2.2
Range of exercise prices for share options outstanding at 31 December	503.00-597.60	417.34-597.60	-	-	-	-
Exercisable outstanding share options at 31 December	-	79,000	None	None	None	None
Weighted average exercise price for share options exercisable at 31 December	-	504	-	-	-	-

The assumptions underlying the calculation of the fair value of share-based payment awards are described in section 7.3 in the consolidated financial statements.

SECTION 4

OTHER DISCLOSURE REQUIREMENTS

SECTION 4.1

OTHER OPERATING ACTIVITIES, NET

Other operating activities are secondary to the principal activities of the Group and include income and expenses relating to rental properties, research activities, and gains and losses on the disposal of intangible assets and property, plant and equipment.

Other operating activities, net

DKK million	2017	2016
Gains on disposal of real estate	22	25
Real estate, net	-23	-26
Research activities, including the Carlsberg Research Laboratory, net	-47	-34
Other, net	-	-3
Total	**-48**	**-38**

Research expenses are partially financed through funding received from the Carlsberg Foundation for the operation of the Carlsberg Research Laboratory and other grants. The funding and grants are recognised in the income statement in the same period as the activities to which they relate.

SECTION 4.2

PROVISIONS

Provisions primarily comprise warranty provisions regarding real estate disposed of and provisions for ongoing disputes and lawsuits etc.

At 31 December 2017, provisions amounted to DKK 105m (2016: DKK 181m). Additional provisions recognised amounted to DKK 4m (2016: DKK 50m), and DKK 27m (2016: DKK 21m) was utilised in the year. Reversal of provisions amounted to DKK -53m (2016: DKK -7m).

Of total provisions, DKK 54m (2016: DKK 79m) falls due within one year and DKK 0m (2016: DKK 0m) after more than five years from the end of the reporting period.

SECTION 4.3

SPECIAL ITEMS

Special items, net, amounted to DKK 50m and relate to reversal of provisions related to disposal of property, plant and equipment in prior years. In 2016, special items amounted to DKK -50m and related to an adjustment to the gain on disposal of property, plant and equipment in prior years.

SECTION 4.4

ASSET BASE AND LEASES

The carrying amount of intangible assets was DKK 8m (2016: DKK 9m), and the carrying amount of property, plant and equipment was DKK 454m (2016: DKK 270m). Property, plant and equipment comprise mainly land and buildings of DKK 182m (2016: DKK 189m). Property, plant and equipment under construction amounted to DKK 262m (2016: DKK 72m).

Depreciation, amortisation and impairment of DKK 17m (2016: DKK 14m) were included in administrative expenses.

For accounting policies on property, plant and equipment, and on impairment of assets in the Group, please refer to sections 2.3-2.4 in the consolidated financial statements.

Carlsberg A/S has entered into an operating lease relating to transport equipment. The lease contains no special purchase rights etc. Future lease payments total DKK 1m (2016: DKK 1m). Operating lease payments recognised in the income statement in 2017 amounted to DKK 1m (2016: DKK 1m).

Carlsberg A/S has entered into contractual commitments regarding development of property, plant and equipment of DKK 390m (2016: DKK 54m).

SECTION 4.5

FEES TO AUDITORS

The audit fee to PwC, which is appointed by the Annual General Meeting to perform the statutory audit, amounted to DKK 0.5m (2016: DKK 0.5m to KPMG).

SECTION 4.6

TAX

Deferred tax assets amounted to DKK 127m (2016: DKK 136m) and primarily comprise tax on property, plant and equipment of DKK 41m (2016: DKK 46m), provisions and retirement benefit obligations of DKK 20m (2016: DKK 36m) and tax losses etc. of DKK 76m (2016: DKK 64m). The utilisation of tax loss carryforwards depends on future positive taxable income exceeding the realised deferred tax liabilities. Deferred tax liabilities amounted to DKK 10m (2016: DKK 10m) and were offset against the deferred tax asset.

The changes in deferred tax comprise tax recognised in total comprehensive income of DKK 26m (2016: DKK -59m) and a joint taxation contribution of DKK -35m (2016: DKK 5m).

Together with changes to tax for prior years, the total tax for the year recognised in the income statement comprised income of DKK -31m (2016: DKK 29m). Of the deferred tax assets, DKK 1m (2016: DKK 5m) is expected to be used within one year. All tax assets have been recognised.

The administration company, Carlsberg A/S, has unlimited and joint legal responsibility with the other companies under the joint taxation scheme for withholding taxes on dividends, interest and royalties.

Reconciliation of tax for the year

DKK million	2017	2016
Tax in Denmark	319	267
Adjustments to tax for prior years	-15	-11
Non-deductible expenses	5	17
Tax-free dividend and tax-exempted items	-340	-302
Tax for the year	**-31**	**-29**

ACCOUNTING ESTIMATES AND JUDGEMENTS

Carlsberg A/S recognises deferred tax assets, including the tax base of tax loss carryforwards, if management assesses that these tax assets can be offset against positive taxable income in the foreseeable future. This judgement is made annually and based on budgets and business plans for the coming years, including planned commercial initiatives.

ACCOUNTING POLICIES

Carlsberg A/S is the administration company and is subject to the Danish rules on mandatory joint taxation of the Carlsberg Group's Danish companies. Carlsberg A/S accordingly pays all income taxes to the tax authorities under the joint taxation scheme.

Danish subsidiaries are included in the joint taxation from the date when they are included in the consolidated financial statements and up to the date when they are excluded from the consolidation. The jointly taxed Danish companies are taxed under the on-account tax scheme.

On payment of joint taxation contributions, the current Danish corporation tax is allocated between the Danish jointly taxed companies in proportion to their taxable income. Companies with tax losses receive joint taxation contributions from other companies that have used the tax losses to reduce their own taxable profit (full absorption).

Tax on profit/loss for the year comprises profit/loss from real estate partnerships (joint ventures), as these are not individually taxed but included in the taxable income of the partners. In addition, tax on profit/loss and deferred tax are calculated and recognised as described in section 6 in the consolidated financial statements.

Corporation tax

	2017			2016		
DKK million	Income statement	Other comprehensive income	Total comprehensive income	Income statement	Other comprehensive income	Total comprehensive income
Tax for the year						
Change in deferred tax during the year	-16	1	-15	-18	-1	-19
Adjustments to current tax for prior years	-6	-	-6	-88	-	-88
Adjustments to deferred tax for prior years	-9	-	-9	77	-	77
Total	**-31**	**1**	**-30**	**-29**	**-1**	**-30**

SECTION 4.7

CONTINGENT LIABILITIES AND OTHER COMMITMENTS

Carlsberg A/S has issued guarantees to subsidiaries for pension obligations of DKK 349m (2016: DKK 359m).

Carlsberg A/S is jointly registered for Danish VAT and excise duties with Carlsberg Breweries, Carlsberg Danmark and various other minor Danish subsidiaries, and Carlsberg A/S is jointly and severally liable for payment of VAT and excise duties.

Carlsberg A/S is party to certain lawsuits, disputes etc. of various scopes. In management's opinion, apart from as recognised in the statement of financial position or disclosed in the financial statements, the outcome of these lawsuits, disputes etc. will not have a material negative effect on the Company's financial position.

Carlsberg A/S has issued a guarantee in respect of rental obligations of DKK 63m (2016: DKK 12m).

SECTION 4.8

EVENTS AFTER THE REPORTING PERIOD

Apart from the events recognised or disclosed in the financial statements, no events have occurred after the reporting date of importance to the financial statements.

SECTION 5

GENERAL ACCOUNTING POLICIES

The 2017 financial statements of Carlsberg A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Danish Financial Statements Act.

The financial statements are presented in Danish kroner (DKK), which is the presentation currency.

The accounting policies for the Parent Company are the same as for the Group, cf. section 9 in the consolidated financial statements and the individual sections.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing Carlsberg A/S' financial statements, management makes various accounting estimates and judgements that form the basis of presentation, recognition and measurement of the Company's assets and liabilities.

The estimates and judgements made are based on historical experience and other factors that management assesses to be reliable, but that by their very nature are associated with uncertainty and unpredictability. These estimates and judgements may therefore prove incomplete or incorrect, and unexpected events or circumstances may arise.

The significant accounting estimates and judgements made and accounting policies specific to the Parent Company are presented in the explanatory notes.

REPORTS

MANAGEMENT STATEMENT

The Supervisory Board and the Executive Board have today discussed and approved the Annual Report of the Carlsberg Group and the Parent Company for 2017.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act.

In our opinion the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Carlsberg Group's and the Parent Company's assets, liabilities and financial position at 31 December 2017 and of the results of the Carlsberg Group's and the Parent Company's operations and cash flows for the financial year 2017.

Further, in our opinion the Management review includes a fair review of the development in the Carlsberg Group's and the Parent Company's operations and financial matters, of the result for the year, and of the Carlsberg Group's and the Parent Company's financial position as well as describing the significant risks and uncertainties affecting the Carlsberg Group and the Parent Company.

We recommend that the Annual General Meeting approve the Annual Report.

Copenhagen, 7 February 2018

Executive Board of Carlsberg A/S

Cees 't Hart
President & CEO

Heine Dalsgaard
CFO

Supervisory Board of Carlsberg A/S

Flemming Besenbacher
Chairman

Lars Rebien Sørensen
Deputy Chairman

Hans Andersen

Carl Bache

Richard Burrows

Donna Cordner

Nancy Cruickshank

Eva V. Decker

Kees van der Graaf

Finn Lok

Erik Lund

Søren-Peter Fuchs Olesen

Peter Petersen

Nina Smith

Lars Stemmerik

REPORTS

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CARLSBERG A/S

OUR OPINION

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements (pp 51-118 and pp 121-137) give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Supervisory Board.

What we have audited

The Consolidated Financial Statements and Parent Company Financial Statements of Carlsberg A/S for the financial year 1 January to 31 December 2017 comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes, including summary of significant accounting policies for the Group as well as for the Parent Company. Collectively referred to as the "Financial Statements".

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment

We were first appointed auditors of Carlsberg A/S on 30 March 2017 for the financial year 2017.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2017. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

REVENUE RECOGNITION

KEY AUDIT MATTER

Recognition of the Group's revenue is complex due to the extent of different revenue streams ranging from sales of goods, royalty income, porterage income and sales of by-products recognised when all significant risks and rewards have been transferred to the customer or in terms of the licence agreement.

We focused on this area, as there is a risk of non-compliance with accounting policies due to complexity originating from different customer behaviour, structures, market conditions and terms in the various countries.

Furthermore, the various discounts and locally imposed duties and fees in regard to revenue recognition in the Carlsberg Group are complex and introduce an inherent risk to the revenue recognition process.

The revenue recognition and accounting treatment are described in section 1.2 "Revenue and segmentation of operations – Accounting estimates and judgements" of the Consolidated Financial Statements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Our audit procedures included considering the appropriateness of the Group's revenue recognition accounting policies and assessing compliance with applicable accounting standards.

We tested the relevant controls, including applicable information systems and Management's monitoring of controls used to ensure the completeness, accuracy and timing of revenue recognised.

We discussed the key assumptions related to the recognition and classification of revenue with Management. Further we performed substantive procedures regarding invoicing, significant contracts, significant transactions (including discounts) and locally imposed duties and fees in order to assess the accounting treatment and principles applied.

We applied data analysis in our testing of revenue transaction in order to identify transactions outside the ordinary transaction flow including journal entry testing and cut-off testing at year-end.

RECOVERABILITY OF THE CARRYING AMOUNT OF GOODWILL AND BRANDS

KEY AUDIT MATTER

The principal risk is in relation to Management's assessment of the future timing and amount of cash flows, which are used to project the recoverability of the carrying amount of goodwill and brands. There is a specific risk related to macroeconomic conditions and volatile earnings caused by volume decline, intensified competition and changed regulations in key markets – conditions that could also result in Management deciding to change brand strategy to drive business performance.

Bearing in mind the generally long-lived nature of the Carlsberg Group's assets, the most critical assumptions are Management's view of cash-generating units, prices, volumes, discount rates, growth rates, royalty rates, expected useful life and costs, and future free cash flows.

We focused on this area, as Management is required to exercise considerable judgement because of the inherent complexity in estimating future cash flows.

The key assumptions and accounting treatment are described in section 2.3 "Impairment" of the Consolidated Financial Statements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

In addressing the risk, we walked through and tested relevant controls designed and operated by the Group relating to the assessment of the carrying amount of goodwill and brands.

We considered the appropriateness of Management's defined cash-generating units (CGUs) within the business. We evaluated whether there were factors requiring Management to change their definition. We examined the methodology used by Management to assess the carrying amount of goodwill and brands assigned to CGUs and the process for identifying CGUs that require impairment testing to determine compliance with IFRS.

We performed detailed testing for the assets where an impairment review was required or indications of impairment were identified. For those assets we analysed the reasonableness of key assumptions in relation to the ongoing operation of the assets.

We corroborated estimates of future cash flows and challenged whether they are reasonable and supported by the most recent approved Management budgets, including expected future performance of the CGUs, and challenged whether these are appropriate in light of future macroeconomic expectations in the markets.

We used our internal valuation specialists and evaluated the assumptions used by Management, including assessment of price and volume forecasts, discount rates and long-term growth rates, and tested the mathematical accuracy of the relevant value-in-use models prepared by Management.

Further, we assessed the appropriateness of disclosures including sensitivity analysis prepared for the key assumptions.

STATEMENT ON THE MANAGEMENT REVIEW

Management is responsible for Management's Review (pp 3-50 and pp 119-120).

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 7 February 2018

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

Mogens Nørgaard Mogensen
State Authorised Public Accountant
mne21404

Gert Fisker Tomczyk
State Authorised Public Accountant
mne9777

Carlsberg A/S
100 Ny Carlsberg Vej
1799 Copenhagen V
Denmark
Phone +45 3327 3300
www.carlsberggroup.com
CVR No. 61056416

Proofreading: Borella projects
Editor: Carlsberg Group Investor Relations
Design & layout: Operate & SkabelonDesign
Photos: Nana Reimers et al