
# ANNUAL REPORT 2019

Carlsberg Group

# MANAGEMENT REVIEW



# FINANCIAL STATEMENTS



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**SAIL'22 Win in craft & speciality**

Front page: Our modern craft brewery opened in 2018 in Klaipeda, Lithuania. In addition to brewing a broad range of craft-style beers under the Svyturys and Raudonu Plytund (Red Brick) brands, the brewery houses a gastrobar, shop and beer museum. Since it opened, more than 120,000 people have visited the brewery, which also hosts music events and art performances. In July, the brewery hosts the biggest Lithuanian beer festival, Brewmaster's Day, featuring beer tastings, excursions, street-food stands, music and stand-up comedy, and attracting crowds of about 20,000.

LETTER FROM THE CHAIRMAN & THE CEO

# A YEAR OF GOOD PERFORMANCE

**2019 was a good year that saw the highest ever cash returns to shareholders.**

Chairman Flemming Besenbacher

**2019 was a year of good performance, with organic revenue growth, margin expansion, strong cash flow and a significant increase in cash returns to shareholders.**

The essence of our purpose is to brew for a better today and tomorrow. We are proud to be a company with a purpose that reflects our unique heritage and ambition for the future.

Bringing our purpose to life through the execution of SAIL'22 means that we grow our business, create value for our shareholders and make a positive contribution to the societies in which we operate. Read more about our purpose on page 22.

We are pleased that we were able to report progress on the financial, strategic and organisational health of the Carlsberg Group for 2019.

## FINANCIAL HEALTH

Since the launch of SAIL'22 in early 2016, we have seen improved financial performance, as evidenced by organic top- and bottom-line growth, strong cash flow, a healthy balance sheet and reduced leverage. This has enabled us to significantly increase the cash returns to shareholders.

Organic revenue grew by 3.2%, the result of 3% price/mix and 0.1% volume growth. These figures point to our ability to premiumise our portfolio by offering attractive and desirable consumer propositions. The top-line growth was achieved despite lapping a very hot 2018 summer in Western Europe and facing a difficult competitive situation in Russia.

The positive top line, combined with our continued focus on efficiencies and costs, led to organic operating profit growth of 10.5% and an improvement of 100bp in our operating margin. ROIC improved from 8.1% to 8.8%.

Our financial results are discussed on pages 11-12.

During the year, we adjusted our earnings expectations twice. In August, we increased the full-year guidance from mid- to high-single-digit percentage organic growth, and in October we further increased this to around 10%. The reasons for the earnings adjustments were strong results in Asia, particularly in China, and solid Q3 figures in Western Europe.

In 2019, we acquired the remaining 25% of Cambrew in Cambodia and the remaining 1.2% of Carlsberg Ukraine, giving us full ownership of both these businesses. In addition, we acquired a minority stake in the Chinese craft brewery Jing-A Brewing Co.

In line with our capital allocation principles, we have invested in our business, reduced leverage to well below 2x net interest-bearing debt/ EBITDA and delivered on our dividend policy of a payout ratio of around 50%. Consequently, in February 2019 we launched a 12-month DKK 4.5bn share buy-back programme.

The value of shares repurchased in fiscal 2019 amounted to DKK 4.1bn. Coupled with the dividend of DKK 18 per share paid in March, the total cash amount returned to shareholders during 2019 was DKK 6.8bn.

On 4 February 2020, we initiated a new share buy-back programme of DKK 5.0bn. Read more about the share buy-back programmes on page 31.

At the Annual General Meeting on 16 March 2020, the Supervisory Board will propose a 17% increase in the dividend to DKK 21 per share. The Board will also propose that 4.4m treasury shares be cancelled.

## STRATEGIC HEALTH

SAIL'22 continues to define our strategic agenda, and we saw good execution of our strategic priorities in 2019.

Enabled by the Funding the Journey benefits, since 2016 we have invested in and strengthened our core beer business, increased the attractiveness of our portfolio with stronger craft & speciality brands and alcohol-free brews, and improved internal capabilities, for example within supply chain, the commercial area, innovation and digital.

As shown on page 30, performance in 2019 against our SAIL'22 KPIs was positive. We saw volume growth of 16% in craft & speciality and 7% in alcohol-free brews. Gross brand

**We are pleased to report that our winning culture has taken solid root in our business.**

CEO Cees 't Hart


contribution from core beer was up 3%, and in Asia revenue grew organically by 12.3% and operating profit by 23.4%.

We contributed positively towards the SAIL'22 financial KPIs of organic operating profit growth, improved ROIC and optimal capital allocation.

As part of our sustainability programme, Together Towards ZERO, we have set clear targets for carbon, water, responsible drinking and health & safety. During the year, we made progress on all of these. We are particularly pleased to report that since 2015, we have reduced carbon emissions at our breweries by 30%, with five of our sites now carbon-neutral.

Our Sustainability Report contains a wealth of data and a qualitative overview of our achievements to date and our future plans. In the 2019 report, we put special focus on our many partnerships, which are crucial for achieving our ambitious targets. In this Annual Report, you can find highlights of Together Towards ZERO on pages 6 and 27-29.

## ORGANISATIONAL HEALTH

We are pleased to report that our winning culture has taken solid root in our business. Important evidence of this was provided by the employee survey conducted in 2019, which showed improved organisational health as well as employee engagement and satisfaction. The survey also revealed a high level of commitment to the triple A concept (alignment, accountability, action), which guides our behaviour and fosters a team-based performance culture.

There has also been a significant improvement in the quality and capability of our leaders. This is seen in a high level of internal recruitment for vacant management positions at all levels.

## THANK YOU

We would like to thank our shareholders for their support and trust. We also want to thank everyone in the Carlsberg Group for their dedication, enthusiasm and continued delivery towards a successful SAIL'22.

Finally, we would like to acknowledge the excellent relationships that we have with our customers and suppliers, and to express our gratitude to our consumers around the world.

| | |
|---|---|
| Flemming Besenbacher<br>Chairman | Cees 't Hart<br>CEO |

STRATEGIC PRIORITIES

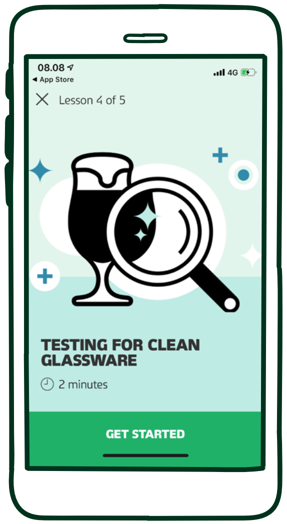
# ACCELERATING TOGETHER


**Our headline for 2019 was "Accelerating Together" and by that continue the execution of SAIL'22, supporting organic top-line growth of 3.2% and operating profit growth of 10.5%.**

## STEPPING UP ON DIGITAL

An important priority of SAIL'22 is to leverage digital across our business. Our current focus is on step-changing the quality of our interface with our customers, especially in the on-trade, and advanced analytics. On the first, examples include rolling out our on-line ordering platform – Carl's Shop – digitalising DraughtMaster and developing apps to enhance the business of our on-trade customers. On analytics, we are starting to use machine learning to improve demand forecasting, customer analytics and equipment efficiency.

SAIL'22 **EXCEL IN EXECUTION**




READ MORE ABOUT OUR STRATEGY AND KPIs ON PAGES 24-30

## GROWING ALCOHOL-FREE BREWS

### VOLUME GROWTH OF 7%

Our alcohol-free brews delivered solid volume growth of 7%. In Western Europe, volumes grew by 10%, supported by particularly strong growth in markets such as Poland, Finland and Sweden. In 2019, we introduced alcohol-free brews on DraughtMaster, which will be an important lever for growing sales of alcohol-free brews in the on-trade.

SAIL'22 **WIN IN ALCOHOL-FREE BREWS**


## GROWING IN ASIA

### REVENUE GROWTH OF 12.3%

Our Asian business had another strong year, delivering organic revenue growth of 12.3%. This was the result of organic volume growth of 6.0% and price/mix of 6%. A strong driver of the latter was our successful premiumisation efforts, evidenced by strong growth of 1664 Blanc and Tuborg as well as premium offerings for our local power brands.

SAIL'22 **GROW IN ASIA**


## GROWING CRAFT & SPECIALITY

### VOLUME GROWTH OF 16%

The growth of our craft & speciality portfolio continued in 2019. 1664 Blanc became our largest brand in the category, fuelled by very strong growth in China, Russia, Ukraine, France, Denmark and the Baltics. Our local craft & speciality portfolio includes exciting craft beer brands such as Jacobsen in Denmark, Nya Carnegie in Sweden and Valaisanne in Switzerland.

SAIL'22 **WIN IN CRAFT & SPECIALITY**

STRATEGIC PRIORITIES

# TOGETHER TOWARDS ZERO

**We believe sustainability and profitability can work together in harmony. Our aim is to create sustainable value growth by optimising the balance between our financial performance and sustainability progress.**

In 2019, we continued to make good progress towards our ambitious targets for Together Towards ZERO, which has clear priorities and ambitions within the areas of carbon, water, responsible drinking and health & safety.


**13%**
reduction in relative carbon emissions.

**3%**
reduction in relative water usage.

**99%**
of our products now carry responsible drinking messages.

**15%**
reduction in lost-time accident rate.

Our Sustainability Report is part of our annual reporting and provides details of Together Towards ZERO, including our KPIs and progress towards our 2022 and 2030 targets. The Sustainability Report carries an assurance statement by PwC on selected indicators. It serves as our annual Communication on Progress to the United Nations Global Compact and is, as such, our CSR disclosure in accordance with section 99a of the Danish Financial Statements Act.

## FINANCIAL ACHIEVEMENTS

# CONSISTENT DELIVERY

**As part of our strategy, we have clear KPIs for delivering shareholder value: growing operating profit organically, improving return on invested capital and ensuring optimal capital allocation.**

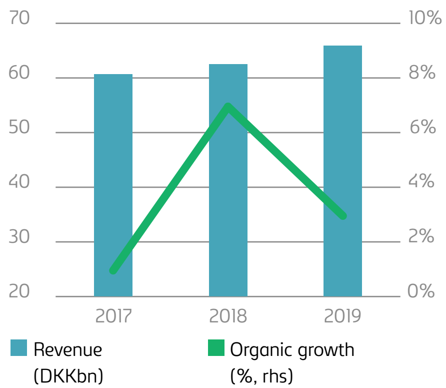
Our Golden Triangle is an important KPI in our performance management, where we continuously seek to optimise the balance between volumes, gross profit after logistics margin, operating profit growth and cash generation.

The successful execution of our SAIL'22 priorities has resulted in consistent progress for operating profit, return on invested capital and capital allocation.

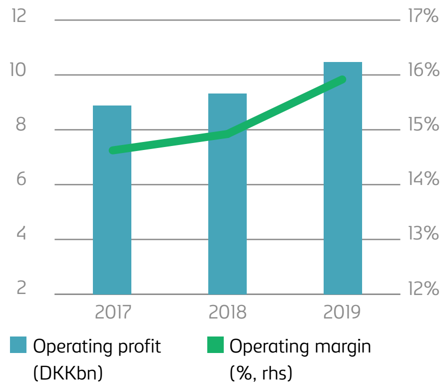
Read more about the Group's results in 2019 on pages 11-12 and in the consolidated financial statements.

## DELIVERING CONSISTENT ORGANIC TOP- AND BOTTOM-LINE GROWTH

### REVENUE AND ORGANIC GROWTH

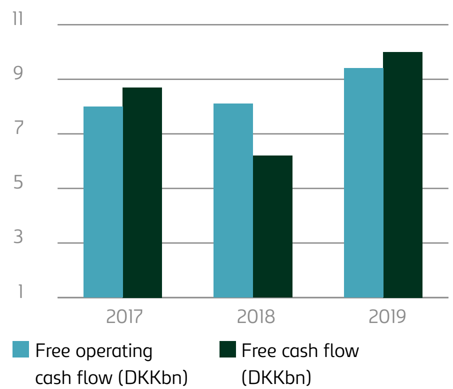



### OPERATING PROFIT AND MARGIN

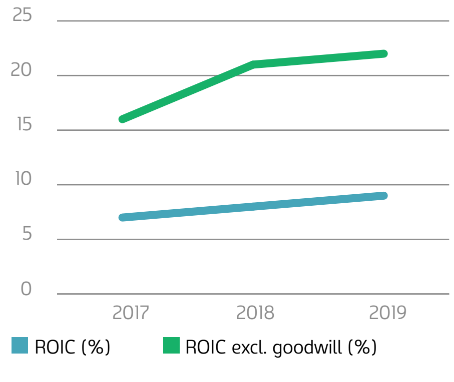



## GENERATING STRONG CASH FLOW AND IMPROVING RETURNS

### CASH FLOW

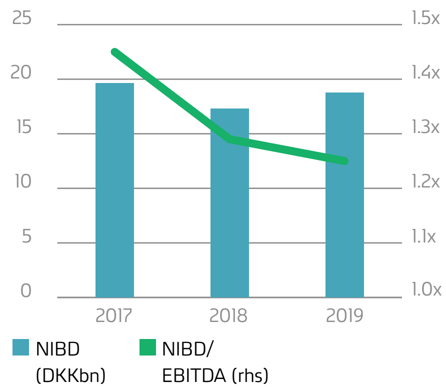



### RETURN ON INVESTED CAPITAL (ROIC)

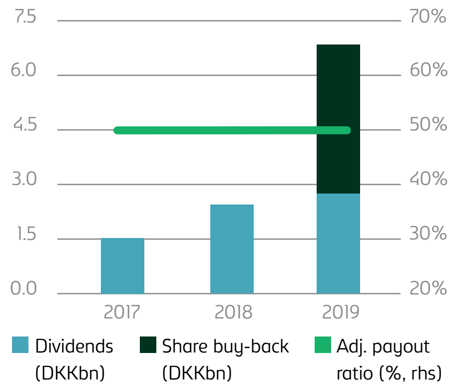



## ENSURING AN OPTIMAL CAPITAL ALLOCATION

### NET INTEREST-BEARING DEBT (NIBD) AND LEVERAGE




### CASH RETURNS TO SHAREHOLDERS



OUR REGIONS

# AN ATTRACTIVE REGIONAL FOOTPRINT

**During the past few years, we have rebalanced our portfolio. Today, we participate in large profit pools and have a geographic exposure encompassing 24 no. 1 or 2 positions across Western Europe, Asia and Eastern Europe. These markets account for 73% of total volumes.**

## WESTERN EUROPE

**55%**

SHARE OF GROUP REVENUE

**51%**

SHARE OF GROUP OPERATING PROFIT

In the mature markets of Western Europe, we will drive revenue growth through premiumisation and pricing. We will improve regional margins through revenue growth and driving efficiencies and reducing costs.

## EASTERN EUROPE

**17%**

SHARE OF GROUP REVENUE

**16%**

SHARE OF GROUP OPERATING PROFIT

Our main markets in Eastern Europe are Russia and Ukraine. In Russia, we aim to turn around our business in response to a difficult competitive environment.

## ASIA

**28%**

SHARE OF GROUP REVENUE

**33%**

SHARE OF GROUP OPERATING PROFIT

Asia comprises very different markets. Our ambition for the region is to grow revenue through volumes as well as continued value growth through expanding and growing our international brand portfolio and premiumisation of local brands.

OUR BRANDS

# AN ATTRACTIVE BRAND PORTFOLIO

Our core beer portfolio spans the international beer brands Tuborg and Carlsberg and local power brands. Alongside our core beer, we have great craft & speciality beers and alcohol-free brews.

## CORE BEER

## GROWING CATEGORIES


INTERNATIONAL BRANDS | LOCAL POWER BRANDS | CRAFT & SPECIALITY | ALCOHOL-FREE BREWS

### GOOD PROGRESS OF CORE BEER

Mainstream lager beer enjoys high penetration and frequency in most markets. Core beer is the backbone of our business, representing our largest volume and profit pool. In addition to Carlsberg and Tuborg, our core beer portfolio consists of strong local power brands such as Feldschlösschen in Switzerland and Lvivske in Ukraine. In 2019, we saw particularly strong results for some of our local Asian power brands, including Beerlao in Laos, which grew volumes by 10%.

**SAIL'22 REVITALISE CORE BEER**

### GROWING CRAFT & SPECIALITY AND ALCOHOL-FREE BREWS

Important priorities of SAIL'22 are to strengthen our position within craft & speciality and alcohol-free brews. The popularity of these categories is on the rise in many markets, driven by consumers' desire for premium brands with varied tastes and styles as well as the interest in healthier lifestyles. Both categories offer superior margin opportunities, and in 2019 their combined share of beer revenue increased from 13% to 14%.

**SAIL'22 WIN IN CRAFT & SPECIALITY AND ALCOHOL-FREE BREWS**

## KEY FIGURES

# FIVE-YEAR SUMMARY

| | 2019 | 2018[1] | 2017[1] | 2016[1] | 2015[1] |
|---|---|---|---|---|---|
| **Volumes (million hl)** | | | | | |
| Beer | 112.5 | 112.3 | 107.1 | 116.9 | 120.3 |
| Non-beer | 22.4 | 20.8 | 19.2 | 21.9 | 21.5 |
| **DKK million** | | | | | |
| **Income statement** | | | | | |
| Revenue | 65,902 | 62,503 | 60,655 | 62,614 | 65,354 |
| Gross profit | 32,638 | 31,220 | 30,208 | 31,419 | 31,925 |
| EBITDA | 15,007 | 13,420 | 13,583 | 13,006 | 13,213 |
| Operating profit before special items | 10,465 | 9,329 | 8,876 | 8,245 | 8,457 |
| Special items, net | 501 | -88 | -4,565 | 251 | -8,659 |
| Financial items, net | -738 | -722 | -788 | -1,247 | -1,531 |
| Profit before tax | 10,228 | 8,519 | 3,523 | 7,249 | -1,733 |
| Income tax | -2,751 | -2,386 | -1,458 | -2,392 | -849 |
| Consolidated profit | 7,477 | 6,133 | 2,065 | 4,857 | -2,582 |
| **Attributable to** | | | | | |
| Non-controlling interests | 908 | 824 | 806 | 371 | 344 |
| Shareholders in Carlsberg A/S (net profit) | 6,569 | 5,309 | 1,259 | 4,486 | -2,926 |
| Shareholders in Carlsberg A/S, adjusted[2] | 6,160 | 5,359 | 4,925 | 3,881 | 4,292 |
| **Statement of financial position** | | | | | |
| Total assets | 123,120 | 117,700 | 114,251 | 126,906 | 124,901 |
| Invested capital | 86,219 | 82,721 | 84,488 | 96,089 | 94,950 |
| Invested capital excl. goodwill | 33,311 | 31,792 | 33,991 | 43,225 | 44,680 |
| Net interest-bearing debt (NIBD) | 18,776 | 17,313 | 19,638 | 25,503 | 30,945 |
| Equity, shareholders in Carlsberg A/S | 43,448 | 45,302 | 46,930 | 50,811 | 43,489 |
| **Statement of cash flows** | | | | | |
| Cash flow from operating activities | 12,239 | 12,047 | 11,834 | 9,329 | 10,140 |
| Cash flow from investing activities | -2,277 | -5,891 | -3,154 | -713 | -2,618 |
| Free cash flow | 9,962 | 6,156 | 8,680 | 8,616 | 7,522 |

Please refer to section 9.2 General Accounting Policies in the consolidated financial statements for a definition and calculation of key figures and financial ratios.

| | | 2019 | 2018[1] | 2017[1] | 2016[1] | 2015[1] |
|---|---|---|---|---|---|---|
| **Investments** | | | | | | |
| Acquisition of property, plant and equipment and intangible assets | | -4,592 | -4,027 | -4,053 | -3,840 | -4,150 |
| Acquisition and disposal of subsidiaries, net | | - | -974 | 268 | 1,969 | -33 |
| **Financial ratios** | | | | | | |
| Gross margin | % | 49.5 | 50.0 | 49.8 | 50.2 | 48.8 |
| EBITDA margin | % | 22.8 | 21.5 | 22.4 | 20.8 | 20.2 |
| Operating margin | % | 15.9 | 14.9 | 14.6 | 13.2 | 12.9 |
| Effective tax rate | % | 26.9 | 28.0 | 41.4 | 33.0 | 49.0 |
| Return on invested capital (ROIC) | % | 8.8 | 8.1 | 6.9 | 5.9 | 5.6 |
| ROIC excl. goodwill | % | 22.2 | 20.9 | 15.7 | 12.7 | 11.0 |
| Equity ratio | % | 35.3 | 38.5 | 41.1 | 40.0 | 34.8 |
| NIBD/equity ratio | x | 0.41 | 0.36 | 0.40 | 0.48 | 0.66 |
| NIBD/EBITDA | x | 1.25 | 1.29 | 1.45 | 1.96 | 2.34 |
| Interest cover | x | 14.17 | 12.92 | 11.26 | 6.61 | 5.53 |
| **Stock market ratios** | | | | | | |
| Earnings per share (EPS) | DKK | 43.7 | 34.8 | 8.3 | 29.4 | -19.2 |
| Earnings per share, adjusted (EPS-A)[2] | DKK | 41.0 | 35.2 | 32.3 | 25.4 | 28.1 |
| Free cash flow per share (FCFPS) | DKK | 65.9 | 40.2 | 56.9 | 56.5 | 49.2 |
| Dividend per share (proposed) | DKK | 21.0 | 18.0 | 16.0 | 10.0 | 9.0 |
| Payout ratio | % | 49 | 52 | 194 | 34 | n.m. |
| Payout ratio, adjusted[3] | % | 50 | 51 | 50 | 39 | 32 |
| Share price (B shares) | DKK | 993.8 | 692.6 | 745.0 | 609.5 | 612.5 |
| Market capitalisation | DKKm | 145,805 | 104,830 | 112,116 | 92,896 | 93,977 |
| Number of issued shares at year-end | 1,000 | 152,557 | 152,557 | 152,557 | 152,557 | 152,557 |
| Number of shares at year-end[4] | 1,000 | 147,996 | 152,457 | 152,390 | 152,552 | 152,552 |
| Average number of shares[4] | 1,000 | 150,411 | 152,428 | 152,496 | 152,552 | 152,542 |

[1] Comparative figures for 2015-2018 and 2015-2016 have not been restated to include IFRS 16 and IFRS 15 respectively.
[2] Adjusted for special items after tax.
[3] Proposed dividend on number of shares at year-end, excluding treasury shares, as a percentage of net profit adjusted for special items after tax.
[4] Excluding treasury shares.

GROUP

# A STRONG SET OF RESULTS

**2019 was a good year for the Carlsberg Group. Continued execution of our strategic priorities supported top- and bottom-line growth and margin expansion.**

For 2019, the Group defined three overall financial priorities: drive organic revenue growth, maintain tight cost control and continue to exercise strict cash discipline. Despite tough comparables in Western and Eastern Europe and an intensified competitive environment in Russia, the Group delivered well against these priorities.

## VOLUMES

Group beer volumes were 112.5m hl, declining organically by 0.6%, with growth in Asia offset by lower volumes in Western and Eastern Europe.

Non-beer volumes were 22.4m hl, growing organically by 3.9%.

Total organic volume growth was 0.1%, while reported growth was 1.4%, positively impacted by the increased ownership in Cambrew from August 2018.

## INCOME STATEMENT

Revenue was DKK 65.9bn. Organic growth was 3.2%, due to the positive 3% price/mix. Price/mix was supported by the growth of premium products and our value management initiatives, including price increases. Reported revenue growth was 5.4%, driven by a positive currency impact and the Cambrew acquisition.

Gross profit was DKK 32.6bn. Organic growth was 3%, with price/mix more than compensating for the 3% organic increase in cost of sales per hl. The reported gross margin declined by 50bp to 49.5% as a result of higher input costs, declining volumes in Russia, due to the challenging competitive environment, and the consolidation of Cambrew.

Operating expenses excluding distribution expenses declined organically by 1%, thanks to our continued focus on driving efficiencies and maintaining tight cost control. Excluding the higher marketing expenses, operating expenses declined organically by 2%. Depreciation and amortisation increased by DKK 0.5bn to DKK 4.5bn, primarily related to the implementation of IFRS 16 “Leases”.

Operating profit before depreciation, amortisation and impairment losses (EBITDA) was DKK 15.0bn, up organically by 10.0% and by 11.8% in reported terms, positively impacted by IFRS 16. Excluding the impact of IFRS 16, organic growth would have been around 7%.

Operating profit increased organically by 10.5%, driven by strong growth in Asia and Western Europe, which more than offset the decline in Eastern Europe. Reported operating profit was DKK 10.5bn, corresponding to 12.2% growth. The reported operating margin improved by 100bp to 15.9%.

Section 1 in the consolidated financial statements contains more details on operating activities and section 9.3 information on the implementation of IFRS 16.

Net special items (pre-tax) amounted to DKK +0.5bn, positively impacted by the gain from the sales of former brewery sites in Norway and Germany.

The brewery site in Hamburg, Germany, was sold in 2016 in connection with the commencement of a new greenfield brewery outside the city. The brewery site was transferred to the buyer in November 2019, when the new brewery began operating, and this was also when the gain on the disposal was recognised in special items. See section 3.1 in the consolidated financial statements for more details on the sale of the Hamburg site.

| | | Change | | | | Change |
|---|---|---|---|---|---|---|
| **Volume (million hl)** | 2018 | Organic | Acq., net | FX | 2019 | Reported |
| Beer | 112.3 | -0.6% | 0.8% | - | 112.5 | 0.2% |
| Non-beer | 20.8 | 3.9% | 4.1% | - | 22.4 | 8.0% |
| **Total volume** | **133.1** | **0.1%** | **1.3%** | **-** | **134.9** | **1.4%** |
| **DKK million** | | | | | | |
| Revenue | 62,503 | 3.2% | 1.0% | 1.2% | 65,902 | 5.4% |
| Operating profit before special items | 9,329 | 10.5% | 0.2% | 1.5% | 10,465 | 12.2% |
| Operating margin (%) | 14.9 | | | | 15.9 | 100bp |

Partially offsetting these gains were one-off restructuring measures in Western and Eastern Europe and provisions related to disposal of a former brewery site in previous years. For more information on special items, see section 3.1 in the consolidated financial statements.

Financial items, net, amounted to DKK -738m. Excluding currency gains and fair value adjustments, financial items, net, amounted to DKK -650m, down DKK 108m from 2018, positively impacted by lower average funding costs. A specification of net financial items is shown in section 4.1 of the consolidated financial statements.

Tax totalled DKK -2.8bn and the effective tax rate was 26.9%. Details on tax are shown in section 6 of the consolidated financial statements.

Adjusted net profit (adjusted for special items after tax) was DKK 6.2bn, and adjusted earnings per share (excluding treasury shares) were DKK 41.0, up 16.5%. This was driven by the strong operating profit growth, a lower tax rate than in 2018, and supported by the share buy-back. Reported net profit was DKK 6.6bn compared to DKK 5.3bn in 2018. In addition to the above, the increase was due to positive special items. Reported earnings per share (excluding treasury shares) were DKK 43.7.

## STATEMENT OF FINANCIAL POSITION

Total assets amounted to DKK 123.1bn at 31 December 2019. This was an increase of DKK 5.4bn compared with 2018 and mainly due to currencies and the implementation of IFRS 16.

Non-current assets amounted to DKK 105.2bn, an increase of DKK 5.6bn compared with 31 December 2018. More information on intangible assets and property, plant and equipment is provided in section 2 of the consolidated financial statements.

Total current assets amounted to DKK 17.9bn. Details on current assets are shown in section 1 of the consolidated financial statements.

Equity amounted to DKK 46.0bn, DKK 43.4bn of which was attributed to shareholders in Carlsberg A/S and DKK 2.6bn to non-controlling interests. Changes in equity are shown on page 57.

Long-term borrowings increased by DKK 4.1bn compared with 31 December 2018 to DKK 20.9bn, mainly due to the issuance of a 10-year EUR 400m bond in July 2019 and the implementation of IFRS 16.

Short-term borrowings declined by DKK 3.1bn to DKK 4.1bn, impacted by the repayment of a EUR 750m bond in July 2019, partly offset by our ECP (European Commercial Paper) programme, which is used for short-term funding. Details on equity and borrowings are shown in section 4 of the consolidated financial statements.

Other non-current liabilities increased by DKK 2.9bn to DKK 9.1bn. Details on this development are shown in section 5.3 of the consolidated financial statements.

Current liabilities excluding short-term borrowings increased by DKK 2.0bn to DKK 29.2bn, mainly impacted by higher trade payables and other liabilities. The former was due to increased sales in Asia and currencies, while the latter was impacted by provisions related to Cambrew, bonus accruals in Asia, fair value adjustments and lower accrued interest payable.

## CASH FLOW

Free cash flow amounted to DKK 10.0bn versus DKK 6.2bn in 2018. The increase of DKK 3.8bn was mainly due to higher EBITDA, proceeds from the sales of brewery sites and a net positive inflow from financial investments versus an outflow of DKK 1.9bn in 2018.

The change in trade working capital was DKK +0.5bn. Average trade working capital to revenue was -16.8%. The change in other working capital was DKK +0.6bn, impacted by provisions, VAT and other accruals. Details on operating cash flow are shown in section 1 of the consolidated financial statements.

Cash flow from investing activities was DKK -2.3bn against DKK -5.9bn in 2018. Operational investments of DKK -2.8bn were positively impacted by the proceeds from the sales of former brewery sites in Norway and Germany. The proceeds from the sale of the site in Hamburg were recognised in November 2019, when the brewery site was transferred to the buyer. Total financial investments amounted to DKK +0.6bn (2018: DKK -1.9bn), the negative amount in 2018 being due to increased shareholdings in Cambrew and Super Bock.

Cash flow from financing was impacted by the share buy-back, the acquisition of the remaining 25% non-controlling interest in Cambrew (see section 5.2 in the consolidated financial statements for details) and completion of the sale of the brewery site in Hamburg.

## RETURN ON INVESTED CAPITAL

Return on invested capital (ROIC) increased by 70bp to 8.8%, driven by improved profitability and a lower effective tax rate. Invested capital increased, mainly due to currencies and the implementation of IFRS 16. ROIC excluding goodwill increased by 130bp to 22.2%.

## FINANCING

Net interest-bearing debt was DKK 18.8bn. This was a net increase of DKK 1.5bn compared with 2018, impacted by the share buy-back programme, the higher dividend payout in 2019 and the implementation of IFRS 16. Net interest-bearing debt/EBITDA was 1.25x. More information is provided in section 4.2 of the consolidated financial statements.

## SHARE BUY-BACKS

During the year, the Company repurchased 4.5m shares at a total purchase price of DKK 4.1bn as part of a 12-month DKK 4.5bn buy-back programme, which commenced on 6 February 2019 and terminated on 30 January 2020.

On 4 February 2020, the Company initiated a new 12-month share buy-back programme. Under the programme, the Company intends to buy back shares amounting to DKK 5.0bn, split into two tranches of six months each. Read more about the share buy-back programmes on page 31.

## WESTERN EUROPE

# GROWING TOP AND BOTTOM LINE

**Western Europe delivered solid results despite tough comparables. Top-line growth was due to positive price/mix, while the improved operating margin was also supported by continued focus on costs and efficiencies.**

Western Europe is our largest region, accounting for approximately half of our operating profit. We are the second largest brewer in the region, with a particularly strong presence in the central and northern parts, where we hold no. 1 and 2 positions in several markets.

In the Nordic markets, we are mainly competing against local or regional players. Elsewhere, we are in competition with large global players.

Our Western Europe region also includes our global export and licence business.

### REGIONAL RESULTS

Our Western Europe business delivered solid results despite tough comparables from the warm summer in 2018.

Revenue grew organically by 0.3% as a result of +1% price/mix and 0.8% organic volume decline. Reported revenue grew by 0.5%, due to a small positive currency impact.

Price/mix was positive in most markets thanks to successful premiumisation efforts and value management initiatives, including price increases.

SHARE OF VOLUME


**46%** SHARE OF GROUP VOLUME

**55%** SHARE OF GROUP REVENUE

**51%** SHARE OF GROUP OPERATING PROFIT

| | | Change | | | | Change |
|---|---|---|---|---|---|---|
| Volume (million hl) | 2018 | Organic | Acq., net | FX | 2019 | Reported |
| Beer | 47.3 | -1.6% | 0.0% | - | 46.6 | -1.6% |
| Non-beer | 15.1 | 1.7% | 0.0% | - | 15.3 | 1.7% |
| **Total volume** | **62.4** | **-0.8%** | **0.0%** | **-** | **61.9** | **-0.8%** |
| DKK million | | | | | | |
| Revenue | 36,151 | 0.3% | 0.0% | 0.2% | 36,317 | 0.5% |
| Operating profit before special items | 5,425 | 12.8% | 1.2% | 0.0% | 6,187 | 14.0% |
| Operating margin (%) | 15.0 | | | | 17.0 | 200bp |

Operating profit grew organically by 12.8%, and the operating margin improved by 200bp to 17.0%. This improvement was driven by premiumisation, value management and lower operating expenses, in particular administrative expenses.

Reported operating profit grew by 14.0%, reflecting the increased ownership of Super Bock.

The total organic volume decline was mainly the result of the tough comparables.

Non-beer volumes grew by 1.7%, due to solid performance of the soft drinks businesses in the Nordic markets.

## THE NORDICS

Despite tough comparables from the warm summer in 2018, the Danish business had a good year, the key drivers being market-share gain in beer and a growing soft drinks category. Our core beer brands and craft & speciality beers, such as Grimbergen and 1664 Blanc, delivered very positive results.

Our Swedish business delivered solid performance, with overall flat market shares. Total volumes declined slightly due to lower beer volumes, while non-beer volumes grew. Price/mix improved, mainly as a result of price increases.

In Norway, volumes declined slightly due to bad weather in Q2 and the loss of certain third-party beer brands. The Tuborg brand and the soft drinks business delivered particularly good growth. The roll-out of DraughtMaster progressed very well, supporting favourable value growth in the on-trade.

In Finland, our business delivered solid volume growth, supported by our listing for a major retailer's summer campaign. This also meant that our beer market share strengthened considerably, while price/mix declined. Our craft & speciality brands and alcohol-free brews delivered strong growth.

## FRANCE

In a slightly growing French market, we saw growth in our premium brands, while total volumes were impacted by lower volumes of the mainstream Kronenbourg brand and a lower level of promos from our side due to bottle shortage issues. Price/mix continued to improve, driven by favourable brand mix.

## SWITZERLAND

Our Swiss business delivered a solid set of results. Our portfolios of craft & speciality and alcohol-free brews all performed well, while total volumes declined slightly due to tough comparables from the warm summer in 2018 and the loss of certain third-party brands.

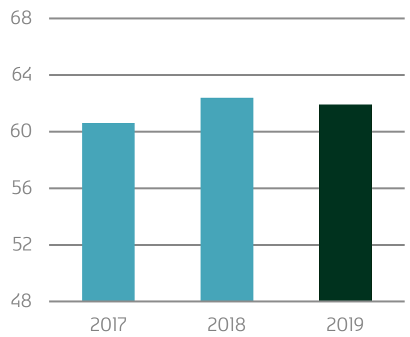
## POLAND

In Poland, we achieved mid-single-digit price/mix, mainly driven by favourable mix due to good results for our upper-mainstream brands, such as Zatecky and Okocim, craft & speciality brands, alcohol-free brews and Somersby. Our volumes declined in line with the market.

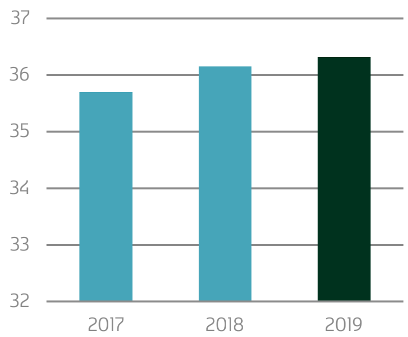
## THE UK

A key focus in 2019 was the relaunch of the Carlsberg brand. During the year, price/mix showed good progress and our market share

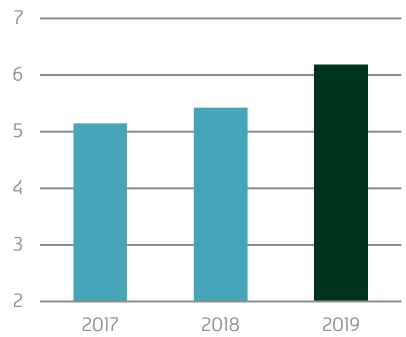
**TOTAL VOLUME** (m hl)



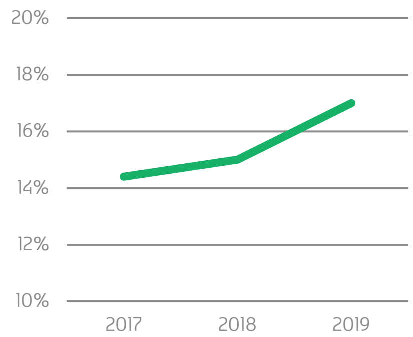

**REVENUE** (DKKbn)




**OPERATING PROFIT** (DKKbn)




**OPERATING MARGIN**



improved compared with the exit level of 2018. Volumes declined by high-single-digit percentages, impacted by tough comparables, lower volumes of Carlsberg Pilsner due to the higher pricing of the brand, and decline of the Carlsberg Export line extension.

**OTHER MARKETS**

In the other Western Europe markets, we achieved particularly strong top-line and operating profit improvement in markets such as Bulgaria, Serbia, Greece, Germany and the Baltics, where good growth of Carlsberg, Tuborg, craft & speciality and alcohol-free brews supported a positive price/mix development.

### Our markets in Western Europe

| | Consumption characteristics | | Our position | | Our operations |
|---|---|---|---|---|---|
| Markets | Per capita beer consumption (litres) | On-trade share of market, approx. (%) | Market position (no.) | Market share (%) | Breweries[1] |
| Denmark | 58 | 21 | 1 | 54 | 1 |
| Sweden | 48 | 21 | 1 | 31 | 1 |
| Norway | 47 | 20 | 1 | 51 | 1 |
| Finland | 74 | 14 | 1 | 45 | 1 |
| Poland | 100 | 11 | 3 | 18 | 3 |
| France | 33 | 28 | 2 | 27 | 1 |
| South East Europe | 37-80 | 26-59 | 1-3 | 15-37 | 6 |
| Switzerland | 56 | 35 | 1 | 40 | 1 |
| UK | 64 | 45 | 4 | 9 | 1 |
| Germany | 99 | 17 | 1[2] | 16[2] | 2 |
| Italy | 25 | 38 | 4 | 6 | 1 |
| The Baltics | 52-76 | 4-8 | 1-2 | 27-39 | 2 |
| Portugal | 52 | 64 | 1 | 46 | 1 |

[1] Breweries with capacity above 100,000 hl. [2] Northern Germany.

Source: GlobalData, Carlsberg estimates.

# LAUNCHING

## BROOKLYN SPECIAL EFFECTS

Brooklyn Special Effects is an alcohol-free hoppy lager with a zesty, dry hop aroma and pleasantly bitter finish. This great beer was developed in Sweden in a collaboration between Carlsberg and Brooklyn. It was first launched in late 2018 in Sweden, where the consumer response was very positive, and during 2019 distribution grew rapidly, with the brand now available in more than 1,000 on-trade outlets. In 2019, we launched Brooklyn Special Effects in Norway, Finland, Italy and the UK, and more markets will launch in 2020. The expansion of DraughtMaster into alcohol-free brews will further support the on-trade growth of this – and other – alcohol-free brews.

**SAIL'22 WIN IN ALCOHOL-FREE BREWS**

ASIA

# A YEAR OF STRONG RESULTS

**Asia had another year of strong top- and bottom-line growth, supported by both volume growth and healthy price/mix and with particularly strong results in China.**

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

Today, we have an attractive overall position, with no. 1 and 2 positions in six markets, and in 2019 China became the Group's largest market in terms of volume, revenue and operating profit.

The competitive landscape varies significantly between markets, with global players and local brewers both present.

SAIL'22 specifically targets Asia as a key contributor to the Group's top- and bottom-line growth, with premiumisation a key element, driven by both our international brands and premiumising of our local power brands.

Consequently, a significant proportion of our SAIL'22 investments has been allocated to the region.

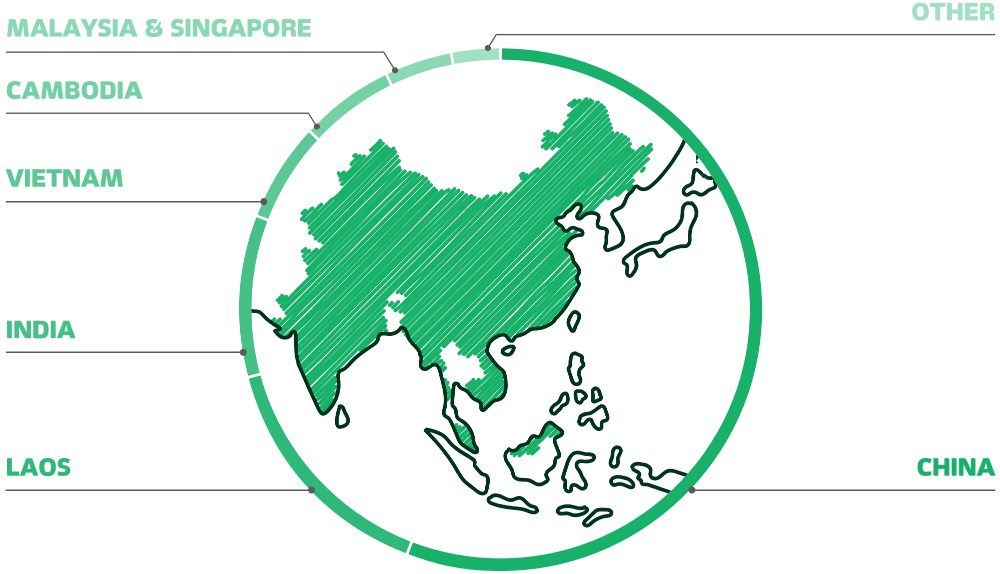
## REGIONAL RESULTS

The Asia region had a good year, delivering very strong results. Revenue grew organically by 12.3%, driven by 6.0% organic volume growth and +6% price/mix. Reported revenue grew by 18.6% due to a positive currency impact from all countries in the region and the acquisition of Cambrew in 2018.

The solid price/mix improvement was a combination of strong growth in our international premium brands, successful premiumisation for some of our local power brands and price increases. Our Chinese business was a key contributor to the strong price/mix.

Organic operating profit grew strongly by 23.4% as a result of the

SHARE OF VOLUME




**31%** SHARE OF GROUP VOLUME

**28%** SHARE OF GROUP REVENUE

**33%** SHARE OF GROUP OPERATING PROFIT

| Volume (million hl) | 2018 | Change Organic | Acq., net | FX | 2019 | Change Reported |
|---|---|---|---|---|---|---|
| Beer | 34.4 | 5.6% | 2.6% | - | 37.2 | 8.2% |
| Non-beer | 3.6 | 10.3% | 23.5% | - | 4.8 | 33.8% |
| **Total volume** | **38.0** | **6.0%** | **4.7%** | **-** | **42.0** | **10.7%** |
| **DKK million** | | | | | | |
| Revenue | 15,530 | 12.3% | 4.0% | 2.3% | 18,416 | 18.6% |
| Operating profit before special items | 3,164 | 23.4% | -1.6% | 2.5% | 3,931 | 24.3% |
| Operating margin (%) | 20.4 | | | | 21.3 | 90bp |

strong revenue growth and tight cost control. Reported operating profit growth was slightly higher, at 24.3%, due to a positive currency impact, which more than offset the impact from the consolidation of the loss-making Cambrew. The operating margin improved by 90bp to 21.3%.

As expected, and despite the positive impact in H2 from the reversal of a pension obligation at Chongqing of DKK 162m, the 20.5% operating margin in H2 was lower than the 22.1% in H1 due to higher marketing investments, particularly in China, market decline in Nepal and the rebuilding of the Cambrew business.

Organic volume growth was mainly driven by strong growth in China, Vietnam, Laos and Malaysia. The non-beer business in Laos and Cambodia did particularly well, resulting in organic volume growth of 10.3%. Reported total volumes grew by 10.7% due to the consolidation of Cambodia.

### CHINA

Our Chinese business continued to deliver strong performance. Despite a slightly declining market, our volumes grew organically by 8% and revenue by 19%. The volume growth was attributable to several factors. Firstly, we saw 7% growth in our premium portfolio, which continues to benefit from the ongoing premiumisation trend in the market. 1664 Blanc in particular performed very well, growing by almost 50%. Secondly, the expansion outside our western regional footprint into big

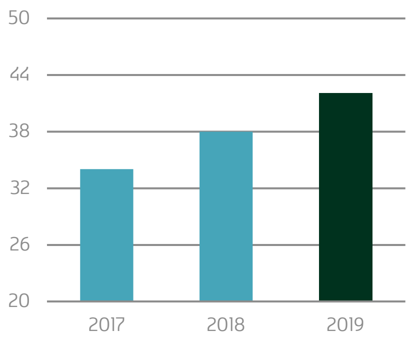

## +45%

## WUSU VOLUME GROWTH

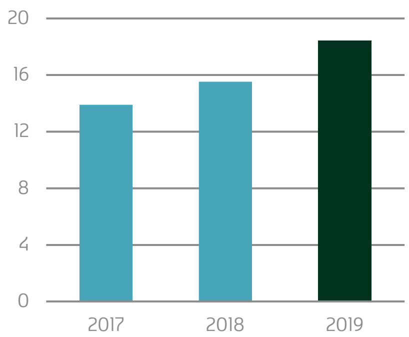
Celebrating Wusu's 30th anniversary in 2016, we relaunched the brand with a new range of beers, new packaging and new communication. In 2017, we took the brand to the next level with a range of premium innovations, such as wheat and pure draft. For many Chinese consumers, Wusu is considered a masculine brand with a rich taste. This image has successfully driven the growth of the brand, supported by our big city expansion in China, e-commerce and, not least, social media and word-of-mouth. Double the price of mainstream beer, sales of the premium Wusu Red supported our strong price/mix in China.

**SAIL'22 GROW IN ASIA**

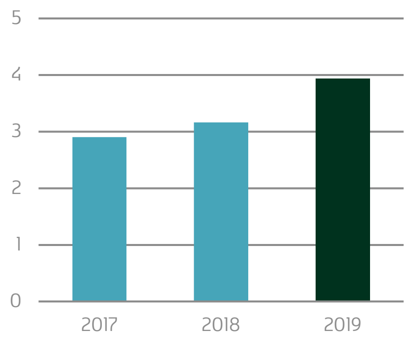
**TOTAL VOLUME** (m hl)



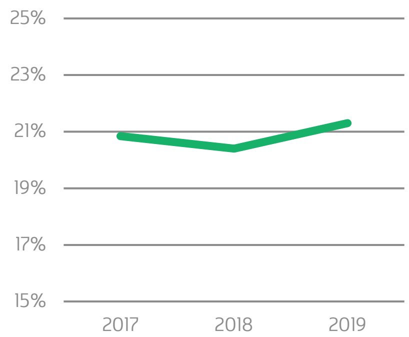

**REVENUE** (DKKbn)




**OPERATING PROFIT** (DKKbn)




**OPERATING MARGIN**



cities further east showed good progress. Thirdly, some of our local power brands achieved strong growth, with Wusu and Dali growing by 45% and 11% respectively. Price/mix of +10% was the result of premiumisation and value management, including price increases, supported by lower VAT.

### INDIA AND NEPAL

Revenue growth in India was high-single-digit, supported by price increases and lower rebates. Our business started 2019 very well but deteriorated during the year, and our volumes grew modestly by 1%. There were several factors in the weakness in H2, and especially in Q4, including changed excise duties and regulation in a few states.

Our business in Nepal had a challenging year, due to weakening consumer sentiment, leading to a high-single-digit beer market decline, and an import ban on energy drinks, which affected our local Red Bull distribution business. As a result, revenue and profit declined.

### LAOS, CAMBODIA AND VIETNAM

In Laos, the positive momentum for our business continued. We achieved solid volume growth for all categories – beer, water and soft drinks. Price/mix strengthened due to positive mix within the beer category, which more than offset the negative category mix from the growth of water and soft drinks.

In a growing Vietnamese market, our business delivered double-digit volume growth. Our local power brand Huda and the line extension Huda Ice Blast were key growth drivers. Price/mix improved, mainly due to price increases and supported by brand mix from growth of the Carlsberg brand.

In Cambodia, we continued the task of rebuilding the business, including the significant task of strengthening processes and compliance, building capabilities, strengthening route-to-market etc. In H2, the key task was the relaunch of the iconic Angkor brand with a new campaign and a changed structure for consumer promotions. The latter proved unsuccessful, and total volumes in Q4 dropped by around 25%. Consequently, it is now being changed.

### MALAYSIA AND SINGAPORE

In Malaysia and Singapore, our businesses delivered solid performance, with good results for our premium offerings, such as 1664 Blanc and Somersby.


## +11%

## HUDA VOLUME GROWTH

Huda, our local power brand from Hue in the central part of Vietnam, has been a symbol of the Vietnamese heartland for more than 25 years. In 2018, we launched Huda Ice – a premium variant of the brand – with the tag line "Extremely Cold – Extremely Refreshing". Huda Ice matures at -1°C and is brewed with three unique varieties of hops to preserve the finest flavour and aroma. First sold only in bottles, in 2019 we introduced Huda Ice Blast in cans. This added further positive momentum to the brand, quadrupling volumes versus 2018. Huda Ice Blast was a significant contributor to the brand volume growth in 2019.

**SAIL'22 GROW IN ASIA**

### Our markets in Asia

| | Consumption characteristics | | Our position | | Our operations |
|---|---|---|---|---|---|
| Markets | Per capita beer consumption (litres) | On-trade share of market, approx. (%) | Market position (no.) | Market share (%) | Breweries[1] |
| China | 26 | 45 | 5/1[2] | 7/63[2] | 25 |
| Laos | 48 | 53 | 1 | 96 | 2 |
| India | 2 | 17 | 3 | 19 | 8 |
| Vietnam | 43 | 40 | 4 | 8 | 1 |
| Cambodia | 63 | 30 | 4 | 11 | 1 |
| Malaysia | 6 | 46 | 2 | 45 | 1 |
| Nepal | 4 | 71 | 1 | 64 | 1 |
| Myanmar | 9 | 47 | 4 | 8 | 1 |
| Singapore | 21 | 61 | 2 | 23 | - |
| Hong Kong | 21 | 40 | 1 | 29 | - |

[1] Breweries with capacity above 100,000 hl. [2] Total China/western China.
Source: GlobalData, Carlsberg estimates.

EASTERN EUROPE

# CHALLENGING YEAR

**Our Eastern Europe region had a challenging year, mainly due to a difficult competitive environment in Russia, which negatively impacted volumes. All markets except Russia delivered strong organic growth in operating profit.**

Eastern Europe is our smallest region, accounting for 16% only of operating profit. Our two main markets in the region are Russia and Ukraine, accounting for approximately 65% and 20% respectively of regional volumes.

We have number 1 or 2 positions in all markets in Eastern Europe. In Russia and Ukraine, the competitive environment is split between a strong presence of global players and a large number of small, local brewers.

## REGIONAL RESULTS

Our Eastern Europe business had a challenging year because of changes in the competitive environment and retail landscape. Revenue declined organically by 0.4%, with price/mix of 5% offset by the total volume decline of 5.2%.

The price/mix improvement was driven by price increases in all markets and mix improvements from growth of premium products, craft & speciality and alcohol-free brews.

Operating profit declined organically by 17.9%. All markets but Russia delivered solid operating profit growth. Profits in our Russian business were impacted by lower volumes (particularly in H2), input cost inflation, a negative transaction impact (mainly on certain packaging materials) and higher marketing costs. Reported operating profit was impacted by a small positive currency impact. The operating margin was 17.0%.

Beer volumes declined organically by 6.2% due to tough comparables, as 2018 was positively impacted by warm weather and the football World Cup in Russia, as well as market share losses, especially in Russia. Non-beer volumes grew

### SHARE OF VOLUME


**23%** SHARE OF GROUP VOLUME

**17%** SHARE OF GROUP REVENUE

**16%** SHARE OF GROUP OPERATING PROFIT

| Volume (million hl) | 2018 | Change Organic | Change Acq., net | Change FX | 2019 | Change Reported |
|---|---|---|---|---|---|---|
| Beer | 30.6 | -6.2% | 0.0% | - | 28.7 | -6.2% |
| Non-beer | 2.1 | 9.6% | 0.0% | - | 2.3 | 9.6% |
| **Total volume** | **32.7** | **-5.2%** | **0.0%** | **-** | **31.0** | **-5.2%** |
| **DKK million** | | | | | | |
| Revenue | 10,780 | -0.4% | 0.0% | 3.3% | 11,097 | 2.9% |
| Operating profit before special items | 2,222 | -17.9% | 0.0% | 2.6% | 1,882 | -15.3% |
| Operating margin (%) | 20.6 | | | | 17.0 | -360bp |

strongly by 9.6%, due to growth of energy drinks in several markets.

**RUSSIA**

The Russian market enjoyed low-single-digit growth. The competitive environment was very challenging throughout the year, and as a result we lost market share.

Price/mix was positive at 3%, while total volumes were down by 8%, resulting in an organic revenue decline of 5%. The positive price/mix was driven by price increases in late 2018 and early 2019, mix improvements from growth of craft & speciality and low presence of low-priced offerings in certain key accounts for most of the year.

**UKRAINE**

Our Ukrainian business delivered high-single-digit percentage organic revenue growth, driven by double-digit price/mix, which compensated for lower volumes. The strong price/mix was the result of price increases and a positive brand mix, supported by strong growth of premium offerings, such as 1664 Blanc and Somersby.

**OTHER MARKETS**

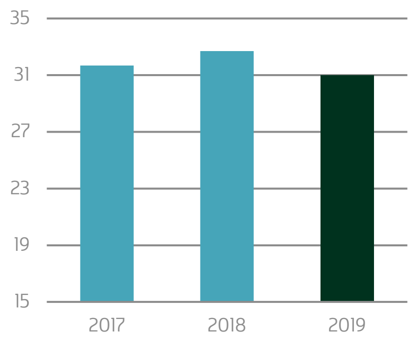
Our businesses in Belarus and Kazakhstan delivered solid performance, improving revenue, earnings and market shares. Our business in Kazakhstan did particularly well. The market was growing, and we grew well ahead of the market, with improvements in all segments, particularly in craft & speciality and alcohol-free brews.

## Our markets in Eastern Europe

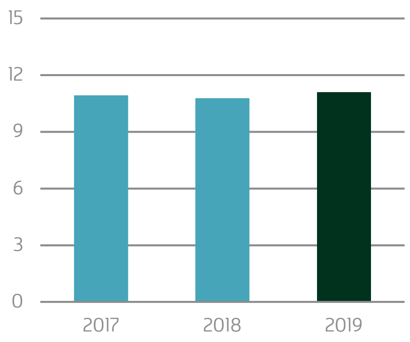
| | Consumption characteristics | | Our position | | Our operations |
|---|---|---|---|---|---|
| Market | Per capita beer consumption (litres) | On-trade share of market, approx. (%) | Market position (no.) | Market share (%) | Breweries[1] |
| Russia | 56 | 19 | 2 | 27 | 8 |
| Ukraine | 42 | 12 | 2 | 31 | 3 |
| Belarus | 52 | 5 | 1 | 29 | 1 |
| Kazakhstan | 32 | 8 | 1 | 37 | 1 |
| Azerbaijan | 6 | 39 | 1 | 61 | 1 |

[1] Breweries with capacity above 100,000 hl.
Source: GlobalData, Carlsberg estimates.

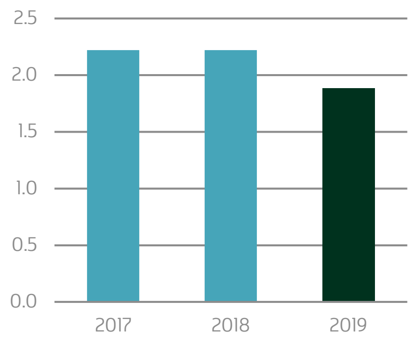
**TOTAL VOLUME** (m hl)



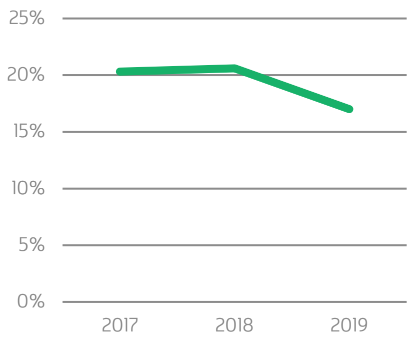

**REVENUE** (DKKbn)




**OPERATING PROFIT** (DKKbn)




**OPERATING MARGIN**



2020 EARNINGS EXPECTATIONS

# EARNINGS EXPECTATIONS

**For 2020, we will continue to drive organic revenue and operating profit growth.**

We will do this by executing our SAIL'22 priorities, including the growth priorities of craft & speciality, alcohol-free brews and Asia, in addition to our Funding the Journey culture with its strict cost control and cash discipline.

Based on this, the Group expects to deliver:

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

As previously communicated, we will no longer sell soft drinks at the German/Danish border and we are experiencing a continued difficult competitive environment in Russia. At the same time, we are facing a more volatile business environment including the current coronavirus outbreak in China, of which the full impact is not yet known.

Based on the spot rates at 3 February, we assume a translation impact of around DKK +50m for 2020.

Other relevant assumptions are:

- Financial expenses, excluding currency losses or gains, are expected to be around DKK 600-650m.
- The reported effective tax rate is expected to be 26-27%.
- Capital expenditure at constant currencies is expected to be around DKK 5bn.

## FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. Any such statements are subject to risks and uncertainties that could cause the Group's actual results to differ materially from the results discussed in such forward-looking statements. Accordingly, forward-looking statements should not be relied on as a prediction of actual results. Please see page 53 for the full forward-looking statements notice.

# ALL RED

## FOR THE MIGHTY REDS

Teams wearing red win more. That was the view of legendary Liverpool FC manager Bill Shankly when he swapped his team's white shorts and socks for red ones – a choice that preceded the club's most successful ever period and has stood ever since. To celebrate this historic move and Carlsberg's relationship with Liverpool FC spanning 26 seasons, our brewmasters brewed an all-red beer especially for Liverpool FC fans. The limited-edition pilsner got its distinctive colour from a barley variety that is naturally red – curated by barley experts at the Carlsberg Research Laboratory. We successfully leveraged the hyped Red Barley campaign in ten markets, including Asian markets such as China, Nepal, Vietnam and Malaysia.


SAIL'22 STRENGTHEN THE CORE

## PURPOSE AND AMBITION

# WE ARE BREWING FOR A BETTER TODAY AND TOMORROW

**We pursue perfection every day. We strive to brew better beers. Beers that stand at the heart of moments that bring people together. We do not settle for immediate gain when we can create a better tomorrow for all of us.**

Our purpose is rooted in our heritage and the mentality of our founders, who left a rich legacy that still greatly influences how we run our business today. Their pioneering spirit, passion for brewing and proactive contribution to society are what make us who we are today.

We live our purpose every day by focusing on our brands and the art of brewing, exciting our consumers with quality brews that strengthen our identity and pride as brewers, and by continuously aiming to do better.

Being a purpose-driven organisation has an impact across the Group, mobilising our people and spurring individual engagement.

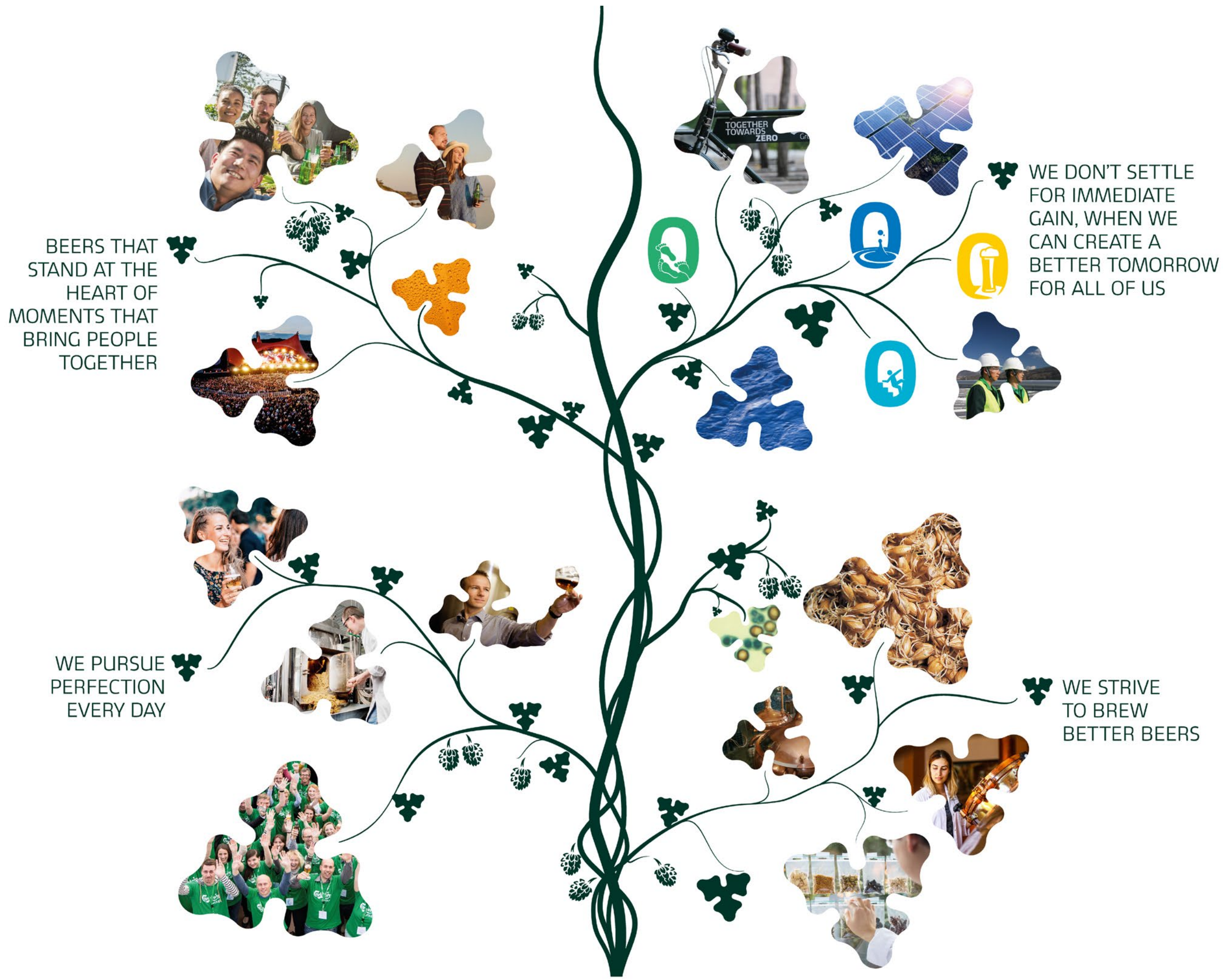
Living our purpose is key for our ability to successfully execute SAIL'22 and for achieving our ambition of being successful, professional and attractive in the markets in which we operate:

***Successful*** by achieving a sustainable balance of the Golden Triangle by improving long-term volumes, margins and earnings.

***Professional*** by being the preferred supplier for our customers.

***Attractive*** by creating value for our shareholders, a great working environment and high-performance culture for our employees and being a responsible and sustainable corporate citizen for society at large.

Our ambition and strategy are decisive for our business model, which has clear priorities on markets, portfolio, customers, supply chain and sustainability.



BUSINESS MODEL

# OUR BUSINESS MODEL ROOTED IN OUR PURPOSE

**Our business model is rooted in our purpose and ambition. It takes its starting point in our focus on our brands and the art of brewing, how we excite our consumers with quality brews and our continuous striving to do better.**


### WE FOCUS ON THE MARKETS WHERE WE HAVE A NO. 1 OR 2 POSITION...

Core beer is a volume business, and strong market positions are key drivers of profitability. We have particular focus on the 24 markets in Western Europe, Asia and Eastern Europe where we are no. 1 or 2.

#### BREWING FOR A BETTER TODAY AND TOMORROW

In all our markets, we aim to lead in sustainability because it is central to our purpose and because we genuinely believe it is the right thing to do – delivering tangible benefits for our business and for society as a whole.

### ... WHERE WE DELIVER AN ATTRACTIVE BEER PORTFOLIO FOR ALL CONSUMER SITUATIONS...

The strength of our beer portfolio lies in the strong local roots of our local power brands, combined with our excellent craft & speciality brands, alcohol-free brews and international beer brands.

#### BREWING FOR A BETTER TODAY AND TOMORROW

Our brands offer us powerful opportunities for communicating with consumers. We use these opportunities to encourage moderate, responsible consumption of our products. We also increase the availability of alcohol-free brews.

### ... AND STRIVE TO EXCEL IN OUR SERVICE TO ON- AND OFF-TRADE CUSTOMERS...

Our customers range from on-trade to off-trade, from big to small. We aim to become their preferred beer supplier, providing products and services that deliver value growth for them and us.

#### BREWING FOR A BETTER TODAY AND TOMORROW

We add value to our on-trade customers through DraughtMaster and by developing digital solutions and services that allow them to improve their business. We also develop sustainable packaging solutions such as Snap Pack.

### ... BY OPTIMISING OUR SUPPLY CHAIN AND IMPROVING PROCESSES AND SYSTEMS.

By living our Funding the Journey culture, we have a continual focus on optimising our integrated, end-to-end supply chain and driving operating cost efficiencies.

#### BREWING FOR A BETTER TODAY AND TOMORROW

Recognising the need for strong actions in the face of complex sustainability challenges, our sustainability programme Together Towards ZERO sets clear and ambitious targets for carbon emissions and water usage.

SAIL'22 IN ACTION

# DELIVERING THROUGH OUR STRATEGY

**SAIL'22 continues to guide our actions, setting clear priorities for how we brew a better today and tomorrow.**

The headline for 2019 was "Accelerating Together", and we saw continued positive momentum for our strategic priorities. This was evidenced by consistent delivery against our SAIL'22 KPIs and financial ambitions, as shown on pages 29-30.

On the following pages, we highlight examples of how SAIL'22 came alive during the year.

A further description of the SAIL'22 priorities can be found in the 2016 Annual Report, available online on www.carlsberggroup.com.

### STRENGTHEN THE CORE

Leverage our strongholds
Excel in execution
Funding the Journey culture

### POSITION FOR GROWTH

Grow craft & speciality
Win in alcohol-free brews
Grow in Asia

### CREATE A WINNING CULTURE

Team-based performance
Together Towards ZERO
Live by our Compass

### DELIVER VALUE FOR SHAREHOLDERS AND SOCIETY

Organic growth in operating profit
ROIC improvement
Optimal capital allocation


SAIL'22
LEVERAGE OUR STRONGHOLDS

## ACCESSIBLE CRAFT DRIVING GROWTH

Dating back to 1859, our local power brand Frydenlund is the oldest registered trademark in Norway and a symbol of quality. Faced with the challenge of craft & speciality market growth at the expense of mainstream lager, in 2010 we relaunched the brand with new, distinctive graphics and visual identity. In recent years, we have developed the brand further with a number of crafty line extensions, such as Pale Ale, IPA and Wit. These initiatives have strengthened the perception of craftsmanship and helped consumers bridge from lager to craft. Offering accessible crafty brews, in the past decade Frydenlund has been the fastest growing beer brand in Norway and has a value share of 7%.

# SAIL'22 IN ACTION

**FUNDING THE JOURNEY** *culture*

SAIL'22
FUNDING THE JOURNEY CULTURE

## A LIFESTYLE, NOT A DIET

When we launched the efficiency and cost programme Funding the Journey (FtJ) in 2015, we had two purposes: to invest in our business in support of the SAIL'22 priorities and to improve operating profit. FtJ as a programme ended in 2018, but the culture and mindset continue. Our FtJ culture is being embedded in our daily work within areas such as value management and supply chain, operating cost and commercial spend efficiency. Important levers include digitalisation, further standardisation and automation of processes, and increased use of shared services. By embedding the FtJ culture, we will continue to support growth investments and margin improvement.

SAIL'22
LEVERAGE OUR STRONGHOLDS

## OPENING FLAGSHIP BARS

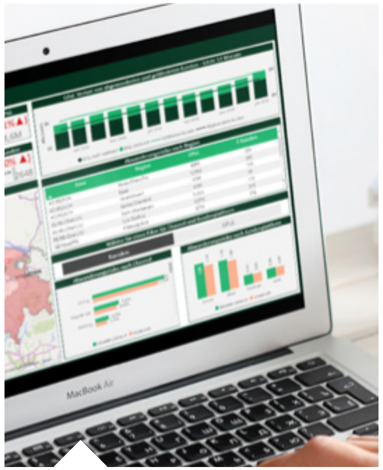
Local flagship bars are a distinctive way to revitalise our core local power brands. A flagship bar is located where the brand originated, reinforcing the brand's provenance. It showcases the brand's history and story, offering unique, memorable and shareable experiences linked to the brand. Many of the flagship bars incorporate microbreweries, enabling us to offer distinctive and limited-edition brews in addition to the regular brews. By the end of 2019, we had flagship bars in seven markets across Western Europe.

SAIL'22
EXCEL IN EXECUTION

## DRAUGHT-MASTER GOES DIGITAL

With the roll-out progressing well in Western Europe and starting in Asia, and with the introduction of alcohol-free brews and cider, we are now taking DraughtMaster to the next level by adding a digital layer. By complementing the system with patented hardware and software, we can create a unique real-time consumption dataset that will both empower our customers to better understand and manage their business and help us improve our customer service and supply chain management. In 2019, we commenced prescaling of the digital DraughtMaster in several markets.

# SAIL'22 IN ACTION



SAIL'22
EXCEL IN EXECUTION

## USING MACHINE LEARNING

Having fully embarked on our digital journey, we piloted a project in France utilising machine learning to improve demand forecasting accuracy. Using machine learning for the rich data input, including sell-in and sell-out data, weather, external events and promotional information, we developed an advanced forecasting tool with enhanced predictive features. Seeing significant improvement in forecasting accuracy, we expect the digital forecasting tool to free up time for our demand planners, enabling them to focus on value-adding business planning activities.

SAIL'22
WIN IN ALCOHOL-FREE BREWS

## SHAPING ALCOHOL-FREE IN FRANCE

Tourtel Twist – a brand of 0.0% brews made of fruit juice and flavoured beer – was first launched in France in 2015. It has been a significant driver of the alcohol-free category in France, which grew by 150% during the period 2014-2018 and today accounts for around 4% of the total beer market. By creating a new segment in the market, the growth of Tourtel has mostly been incremental to the total drinks category, but the brand has also taken volume from soft drinks and wine, despite being priced at a premium. Leveraging the success of Tourtel Twist, in 2019 we launched Tourtel Botanics – a unique, clean-label alcohol-free brew made from barley, plants and fruits and with no added sugar. In 2019, Tourtel grew by 2%, commanding a category market share of 23%.


SAIL'22
GROW IN ASIA

## WIND FLOWER SNOW MOON

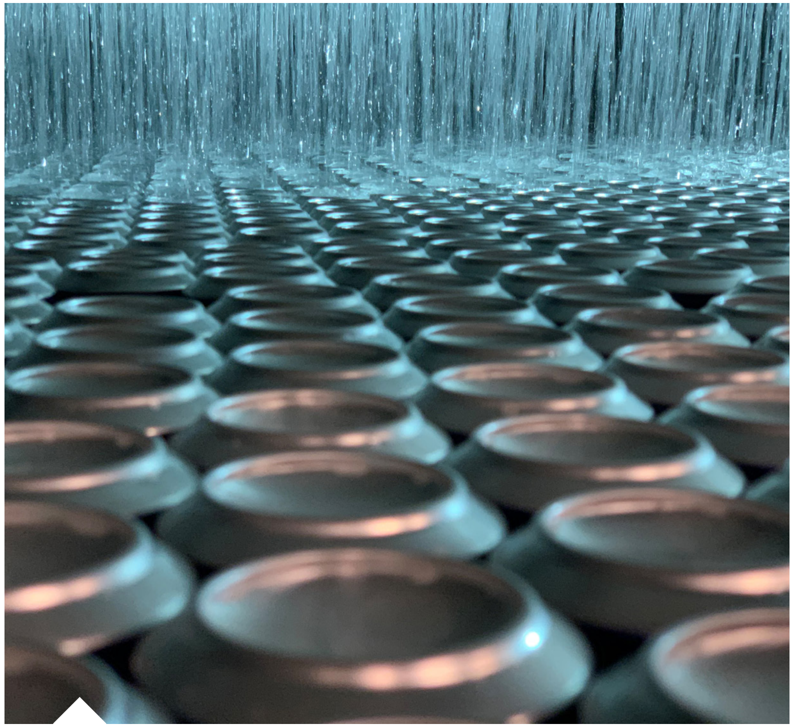
Wind Flower Snow Moon is a Chinese premium beer deeply rooted in its Yunnan heritage. For many years, it was sold locally only, but following a wider trend towards increased consumer interest in premium Chinese brands with interesting stories to tell, in 2019 we launched a super-premium line extension outside Yunnan. Brewed with a local jasmine essence and sold in bottles with labels translating the spirit of the region, the beer elegantly encapsulates Shangri-La and local Yunnan culture. Piloting in eight cities, we saw very encouraging initial results.

# SAIL'22 IN ACTION

SAIL'22
GROW CRAFT & SPECIALITY

## 1664 BLANC CONTINUES TO GROW

1664 Blanc is our fastest growing global brand. Since 2016, this sophisticated French wheat beer with a hint of citrus and coriander in its iconic blue bottle has established a position as a leading global speciality brand. Blanc's popularity with consumers is indisputable, best evidenced by the strong double-digit growth rates achieved across our markets in Western Europe, Asia and Eastern Europe. In China, the brand's largest market, Blanc enjoys a unique position in the super-premium segment, being an important contributor to the very positive price/mix. In Russia, Blanc is among the most premium brands in the market. In 2019, overall 1664 Blanc volumes grew by 29%.

SAIL'22
TOGETHER TOWARDS ZERO

## HALVING WATER USAGE

By installing a state-of-the-art water-recycling plant at the Fredericia brewery in Denmark, we will reduce the brewery's average water consumption from 2.9 hl of water per hl of beer to 1.4 hl/hl, virtually eliminating water waste. In addition, the water-recycling plant is estimated to reduce the brewery's energy consumption by 10%. The significant reduction in water consumption is achieved by recycling 90% of all process water. Serving as a pilot, we will apply the learnings across our brewery network in the pursuit to achieve our Together Towards ZERO water consumption target of just 1.7 hl/hl, equivalent to a 50% reduction versus 2015.

WATCH FILM
carlsberggroup.com/partnerships

SAIL'22
LIVE BY OUR COMPASS

## ENSURING COMPLIANT BEHAVIOUR

Integrity, responsibility, and honest and ethical business conduct are core values of the Carlsberg Group. Our Code of Ethics and Conduct supports our strategy and helps protect our reputation as a responsible global brewer. Supplementing this, our 29 Group policies and around 200 supporting manuals aim to mitigate our main company risks, protect our brands and highlight what is expected of employees. Our policies and manuals are divided into four groups – governance & strategic risks, legal & compliance risks, financial risks and operational risks – and are available online in local languages. We actively encourage employees to report any conduct not in line with the Group's ethics and values, and for this purpose we have established the Speak Up initiative, guiding our colleagues on how and where to raise concerns, anonymously if needed.

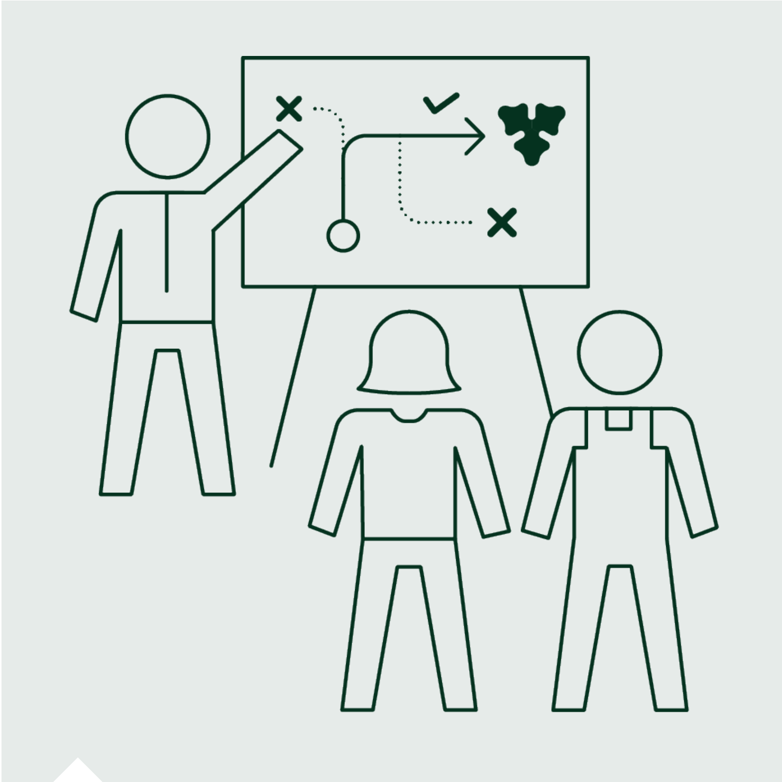
# SAIL'22 IN ACTION

SAIL'22
TOGETHER TOWARDS ZERO

## GREEN FIBRE BOTTLE

In 2015, we kicked off a project to develop the world's first paper bottle for beer – the Green Fibre Bottle – and in 2019 we revealed two research prototypes made from sustainably sourced wood fibres. Both bottles have an inner barrier to allow the bottles to contain beer and are fully recyclable. One prototype uses a thin recycled PET polymer film barrier, and the other a 100% bio-based PEF polymer film barrier. Collaborating with other global FMCG companies through Paboco (the paper bottle company), the prototypes will be used to test the barrier technology as we seek a solution to achieving our ultimate ambition of a 100% bio-based bottle without polymers.

WATCH FILM
carlsberggroup.com/partnerships

SAIL'22
TEAM-BASED PERFORMANCE

## GUIDING OUR BEHAVIOURS

To remain a successful, professional and attractive brewer in our markets, we act as one team with one common goal within our teams, across markets and between functions. Since the launch of SAIL'22 in early 2016, our triple A – alignment, accountability and action – has guided our behaviours, shaping our winning culture. In the employee survey conducted in 2019, 83% of employees confirmed that Carlsberg and its employees live by the 3A principles in their daily operations. This was an improvement of 6pp on 2017. The survey also showed a high engagement score of 84%, an improvement versus 2016 of 6ppt and significantly above the industry average by 12ppt.

SAIL'22 IN ACTION

SAIL'22
TOGETHER TOWARDS ZERO

## DRINK RESPONSIBLY

Ensuring 100% availability of alcohol-free brews is an important target for our ambition of ZERO irresponsible drinking. To achieve this, we are working in partnership with restaurants and bars to make alcohol-free brews available. A significant step forward in 2019 was the inclusion of alcohol-free brews on DraughtMaster, giving people the authentic experience of a freshly poured draught beer, but without the alcohol. A good example is our partnerships with on-trade customers in Sweden, which supported our alcohol-free volume growth in Sweden of more than 20%.

WATCH FILM
carlsberggroup.com/partnerships

# KPIs: TOGETHER TOWARDS ZERO

### ZERO CARBON FOOTPRINT

We want to achieve zero carbon emissions at our breweries by 2030, with a 50% reduction by 2022 versus 2015, our baseline year. Our full value chain target is a 30% reduction in emissions by 2030, with a 15% reduction by 2022. In 2019, we reduced relative carbon emissions by 13% (30% reduction since 2015).

### ZERO WATER WASTE

We aim to halve water usage at our breweries by 2030, with a 25% reduction by 2022. At 3.0 hl/hl in 2019, we have improved water efficiency by 12% compared with our 2015 baseline and by 3% versus 2018. The state-of-the-art water-recycling plant at our brewery in Denmark will virtually eliminate water waste, reducing water usage to just 1.4 hl/hl and helping us to speed up progress across the Group.

### ZERO IRRESPONSIBLE DRINKING

Our targets include 100% distribution of alcohol-free brews to expand consumer choice and 100% of our markets to improve on responsible drinking year on year. In 2019, 99% of packaging carried messages or icons advising consumers not to drink-drive and not to drink when underage or pregnant. Ingredients were listed on 90% of our packaging globally, while 65% contained nutritional information.

### ZERO ACCIDENTS CULTURE

We are determined to provide a safe working environment for our employees, and our aim is to achieve zero lost-time accidents by 2030. In 2019, we saw a reduction in the lost-time accident rate for employees, down to 3.7 from 4.3 in 2018, reflecting improved awareness and stricter controls in the highest-risk areas, partly due to the implementation of our Live Saving Rules programme.

SAIL'22 KPIs

# STRENGTHEN THE CORE AND POSITION FOR GROWTH

**2018: +6%**
**2019: +3%**

### GROSS BRAND CONTRIBUTION FROM CORE BEER

Core beer accounts for 93% of own beer revenue and is key to our 24 no. 1 or 2 market positions. Ensuring continued relevance of our local power brands, including premiumisation, is an important part of the core beer priority of SAIL'22. We measure our success by our ability to grow gross brand contribution from core beer. In 2019, this measure grew by 3%, driven by growth in Asia and Western Europe.

**2018: +26%**
**2019: +16%**

### WIN IN CRAFT & SPECIALITY

Craft & speciality is an attractive category across our regions, driven by global consumer trends of premiumisation, authenticity and heritage. Positively contributing to price/mix and margins, our ambition is to grow the category, and in 2019 our craft & speciality portfolio volumes grew by 16%. Our largest brands in the category, 1664 Blanc and Grimbergen, grew by 29% and 3% respectively.


**2018: +15%**
**2019: +7%**

### WIN IN ALCOHOL-FREE BREWS

Alcohol-free brews are a growing category in Western and Eastern Europe, supported by increased consumer interest in health, wellness and moderation. In Asia, the category is still in its infancy. We have an attractive portfolio of alcohol-free brews, many of which leverage the well-established market position of our local power brands. In 2019, total volume growth of our alcohol-free brews was 7%, with growth of 10% in our Western Europe markets.

**2018: +15.8%**
**2019: +23.4%**

### GROW IN ASIA

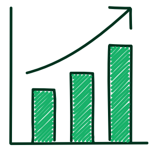
In 2019, Asia accounted for 31% of Group volumes and 33% of operating profit. Growing in Asia is a priority of SAIL'22, and in 2019 volumes in Asia grew organically by 6%, price/mix was 6% and organic operating profit growth was 23.4%. We saw strong growth for 1664 Blanc and Tuborg as well as for our local power brands, particularly in China, Laos and Vietnam. Read more about our results in Asia on pages 16-18.

# DELIVER VALUE FOR SHAREHOLDERS

**2018: 11.0% growth**
**2019: 10.5% growth**

### ORGANIC GROWTH IN OPERATING PROFIT

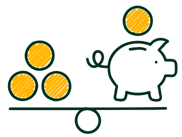
We achieve organic growth in operating profit by delivering top-line growth and margin improvement. In 2019, we delivered strongly against this KPI, achieving 10.5% organic growth in operating profit, supported by 3.2% revenue growth and 100bp operating margin expansion. Top-line growth was the result of volume growth in Asia and positive price/mix in all three regions.



**2018: +120bp**
**2019: +70bp**

### ROIC IMPROVEMENT

We aim to continuously improve return on invested capital (ROIC) by improving earnings and reducing invested capital. In 2019, ROIC improved by 70bp to 8.8%. The main driver of the improvement was growth in operating profit, a lower tax rate and lower invested capital. Excluding goodwill, ROIC increased by 130bp to 22.2%.



**2018: 1.29x**
**2019: 1.25x**

### OPTIMAL CAPITAL ALLOCATION

Our capital allocation targets include NIBD/EBITDA of below 2.0x and an adjusted dividend payout ratio of around 50%. At the end of 2019, NIBD/EBITDA was 1.25x and the proposed dividend equated an adjusted payout ratio of approximately 50%. From February 2019 to January 2020, we executed a share buy-back programme of DKK 4.5bn. In 2019, total cash returns to shareholders amounted to DKK 6.8bn. On 4 February 2020, we launched a new 12-month share buy-back programme of DKK 5.0bn. Read more about our capital allocation principles and share buy-backs on the following page.

CAPITAL ALLOCATION

# DRIVING OPTIMAL CAPITAL ALLOCATION

**SAIL'22 has clear priorities for how we intend to deliver shareholder value: by growing operating profit organically, improving return on invested capital and ensuring optimal capital allocation.**

Our capital allocation principles are well defined:

1. Investing in our business to drive long-term sustainable growth.
2. Targeting NIBD/EBITDA of below 2.0x.
3. Targeting an adjusted payout ratio of around 50% (adjusted for special items after tax).
4. Distributing excess cash to shareholders through share buy-backs and/or extraordinary dividends.
5. Deviating from the above only if value-enhancing acquisition opportunities arise.

In 2019, we again delivered on the above priorities, including the execution of a share buy-back programme, while also acquiring the remaining 25% of the shares in our business in Cambodia, the remaining 1.2% of the shares in Carlsberg Ukraine and a non-controlling stake in the Chinese craft brewery Jing-A Brewing Co.

## SHARE BUY-BACKS

In February 2019, the Supervisory Board decided to use share buy-back programmes as a means to return excess cash to shareholders. This followed the healthy development of the business since the launch of SAIL'22 in early 2016, including strong earnings and cash flow, NIBD/EBITDA well below 2x and a consistent adjusted payout ratio in recent years of around 50%.

The purpose of the share buy-back programmes is to reduce the share capital and meet obligations related to our share-based incentive programmes.

The size of any share buy-back programme will depend on the expected organic and inorganic investment opportunities needed to grow the business and the Group's intention to maintain NIBD/EBITDA below 2.0x.

Launched in February 2019, the Group carried out a 12-month DKK 4.5bn share buy-back programme, which terminated on 30 January 2020. In fiscal 2019, 4,518,999 B shares were repurchased at a purchase price of DKK 4.1bn. For the full programme, 4,912,500 shares were repurchased at a purchase price of DKK 4.5bn.

At the Annual General Meeting on 16 March 2020, the Supervisory Board will recommend that 4,400,000 treasury shares not used for hedging of incentive programmes be cancelled.

On 4 February 2020, the Group launched a new share buy-back programme with the intention to buy back Carlsberg B shares amounting to DKK 5.0bn during the subsequent 12-month period.

The new share buy-back programme will be split into two tranches of approximately six months each, with each tranche amounting to DKK 2.5bn.

### SAFE HARBOUR

The share buy-back programmes are executed in accordance with the EU Market Abuse Regulation (also referred to as the Safe Harbour Regulation). The Group is entitled to suspend or stop the programme at any time. Any such decision will be disclosed to the public through a Company announcement.

### THE CARLSBERG FOUNDATION

The Carlsberg Foundation participated pro rata in the 2019 share buy-back programme and intends to do the same in the 2020 programme.

RISK MANAGEMENT

# MANAGING BUSINESS RISKS

**In conducting our business and executing our strategy, we seek to manage risks in such a way as to minimise their threats while making the best use of their opportunities.**

Our business is subject to a number of risks and uncertainties that could have both short-term and long-term implications for the Group. The purpose of our risk management approach is to address these risks and uncertainties in due time.

## GOVERNANCE STRUCTURE

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

While recurring risks are evaluated on a quarterly basis, monitoring is mainly performed in connection with the half-year reviews. The Audit Committee has adopted guidelines for key areas of risk, monitors developments and ensures that plans are in place for the management of individual risks, including strategic, operational, financial and compliance 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 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 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. 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 assigned 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 the framework and Group Finance for facilitating and following up on risk action plans for the most significant risks in connection with regular business reviews.

## RISKS IDENTIFIED FOR 2020

The identified risks for 2020 are shown in the box to the right. Based on the heat map assessment, the five highest ranked risks are described in the following. Since the assessment, the coronavirus in China has appeared as a business

## IDENTIFIED RISKS FOR 2020

### RISKS WITH HIGHEST POTENTIAL IMPACT AND PROBABILITY

- Partnerships
- Legal and regulatory compliance
- Customer consolidation
- Cyber and IT security
- Tax

### OTHER IDENTIFIED RISKS

- Political and economic instability
- Regulatory changes, incl. duties
- Financial flexibility
- Strategy execution
- Inability to gain volume market share and drive premiumisation
- Western Europe operating model
- Business interruption
- Pensions

disruption. We are monitoring and assessing this risk closely.

### PARTNERSHIPS

**Description**

We cooperate with partners in a number of markets, particularly the global soft drink manufacturers in the Nordic countries and some Asian markets, as well as local joint venture partners in some Asian and European markets.

Disagreements with partners on the operational management and strategic direction of partnerships may limit our ability to manage the growth and risk profile of our business. In certain partnerships, the partners' pursuit of goals and priorities different from those of the Group might result in disagreements, thereby affecting operational and financial performance. See section 5.1 in the consolidated financial statements for further details of our partnerships and the related financial risks.

**Mitigation**

The Group continuously seeks to promote a fair and mutually beneficial development of the partnerships, which is crucial for the partnerships to be successful.

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 effective and fast resolution of potential issues.

### LEGAL AND REGULATORY COMPLIANCE

**Description**

Legal and regulatory compliance risks include competition law and data protection compliance, as well as non-compliance with anti-bribery & corruption regulations and trade sanctions. Failure to comply with regulations and Group policies may lead to fines, claims, and brand and reputation damage.

In recent years, the Group has experienced competition-law dawn raids in a few jurisdictions. Non-compliance with competition law is a real and growing risk, and the Group is party to certain lawsuits and disputes. These and their significance are described in section 3.3 of the consolidated financial statements.

**Mitigation**

We are continuously strengthening the Group-wide control framework covering all legal compliance areas, including, but not limited to, competition law, anti-bribery & corruption and data protection.

We ensure regular updating of relevant Group policies, and conduct regular and compulsory training of all relevant employees. We actively set a strong tone from the top and develop toolkits to help managers at all levels and in all markets understand their role in shaping correct behaviour every day. Employees are also required to pass e-learning modules within relevant legal areas on a continuous basis to drive awareness and knowledge building.

### CUSTOMER CONSOLIDATION

**Description**

Consolidation is increasingly taking place among our customers. This strengthens their negotiating power and leads to increased dependency, potentially resulting in pricing and margin pressure.

**Mitigation**

The priorities and initiatives of SAIL'22 seek to strengthen the market position of 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 strengthening our portfolio of craft & speciality and alcohol-free brews. We aim to be a valued partner of our customers by providing them with the beers that consumers are demanding.

Our actions also include leveraging value management by managing assortment, price, promotions and trade terms, and improving our execution at point of purchase. Actions and activities are tailored to local markets to ensure an appropriate response to individual challenges and situations.

### CYBER AND IT SECURITY

**Description**

Like all other businesses, the Carlsberg Group relies heavily on technology and IT infrastructure for its day-to-day business. A cyber attack or non-availability of IT systems could have severe financial and reputational consequences for our business.

**Mitigation**

We have elevated the role of the IT security organisation, which has regular dialogue with the Supervisory Board and ExCom to agree on risk mitigation plans and activities. As part of this, we have established a Security Advisory Board consisting of senior managers from across the business.

In addition, we are implementing an end-to-end risk management framework and support system. We are running awareness-building activities to ensure that staff at all levels understand their obligations with regard to information security.

We are continuously stress-testing the effectiveness of our controls through test scenarios.

A range of other initiatives has been and is being taken to improve our cyber and IT security, thereby reducing the risk to the greatest possible extent.

### TAX

**Description**

Given the Group's international presence and business set-up, its activities involve a high level of cross-border and inter-company transactions as well as different legal structures within and across markets.

The Group generates substantial revenues for governments through payment of corporate income tax, withholding taxes and indirect taxes, such as excise duties. We pay taxes as required by law, and the foundation for handling our tax affairs is our Tax Policy, which stipulates good corporate citizenship and tax transparency.

**Mitigation**

We are continuously strengthening our tax control framework, including documentation of inter-company transactions, to ensure compliance with tax legislation, and improving data quality for VAT and product classification for excise duties.

CORPORATE GOVERNANCE

# FOCUS ON CORPORATE GOVERNANCE

**Our governance framework aims to ensure active business management across the Group and reduce risk.**

The basis of our corporate governance includes in particular the Danish Companies Act, the Danish Financial Statements Act, IFRS, the EU Market Abuse Regulation, Nasdaq Copenhagen A/S' rules for issuers of shares, local legislation, the Company's Articles of Association and the rules of procedure for the Supervisory Board.

The Group has policies for a number of key areas, including, but not limited to, anti-bribery & corruption, competition law, trade sanctions, data protection, risk management, labour & human rights, diversity & inclusion, finance, marketing and corporate communication, responsible drinking and public & government affairs.

The Supervisory Board is responsible for overseeing that the Executive Committee has an adequate system and resources in place to ensure compliance with these policies.

› Download our policies

www.carlsberggroup.com/sustainability/download/download-our-policies

## 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 to publish quarterly reports, the Group publishes full- and half-year reports. The Supervisory Board finds that half-year financial 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 certain commercial activities, etc.

The Supervisory Board considers the high volatility to be potentially misleading for understanding underlying Group performance. The Company issues Q1 and Q3 trading statements, which include volume and revenue data, along with comments on sales performance in the quarter.

Regarding the recommendation that a majority of the members of a board committee should be independent, in 2019 the Audit Committee and the Remuneration Committee complied with this, while two of the four Nomination Committee members were independent.

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

› Download our statutory report on corporate governance

www.carlsberggroup.com/who-we-are/corporate-governance/#statutoryreports

## THE ANNUAL GENERAL MEETING

The 2019 Annual General Meeting (AGM) took place on 13 March. The minutes of the meeting are available on www.carlsberggroup.com.

Rules and deadlines applying to the AGM and other General Meetings are stipulated in the Company's Articles of Association, which are available on www.carlsberggroup.com along with other AGM-related information.

## GOVERNANCE STRUCTURE

The Supervisory Board has established three board committees: the Audit, Nomination and Remuneration Committees. 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 the CFO, who are not members of the Supervisory Board.

The Group also has an Executive Committee (ExCom), which, in addition to the CEO and the CFO, consists of a wider group of Executive Vice Presidents, portrayed on pages 50-51. While the Executive Board members are formally registered as executive directors of the Company, ExCom collectively prepares and implements the Company's strategic plans.

## COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board currently has ten members elected by the General Meeting and, in accordance with the

Danish Companies Act, five members elected by the employees. None of the members of the Supervisory Board are or have been involved in the executive management of the Group.

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

Five of the ten members elected by the General Meeting are independent and have an international business background in addition to competences related to FMCG, digital, finance, ESG, supply chain, procurement and emerging markets.

The other five members are affiliated to the Carlsberg Foundation, the Company's majority shareholder, and have an academic background. These members are bearers of the Carlsberg Group culture and the heritage and values stemming from founder J.C. Jacobsen, and the Supervisory Board sees these members as patrons of the same.

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 2018 and the next election will take place in 2022.

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 both short- and long-term perspectives are 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.

Information on the Supervisory Board members is available on pages 47-49. Detailed CVs can be found on www.carlsberggroup.com.

## DIVERSITY

The Supervisory Board believes that its members should be chosen for their competences and recognises the benefits of diversity in respect of experience, culture, international experience and gender.

Diversity is therefore of high priority for the Supervisory Board and it 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 proportion of the under-represented gender (currently women) on the Supervisory Board should reach at least 40% of the members elected by the General Meeting no later than 2021. The gender target applies to the boards of all Danish Carlsberg Group companies that are required to set such objectives.

The Supervisory Board fulfils the objective regarding international experience. Furthermore, with a representation of more than 20

### Supervisory Board meetings

| Board member | Chairmanship meetings attended | Board meetings attended |
|---|---|---|
| Flemming Besenbacher (Chairman)[1] | ● ● ● ● ● ● ● ● | ● ● ● ● ● ● ● |
| Lars Fruergaard Jørgensen (Deputy Chairman)[1,2] | – – ● ● ● ● ● ○ | – – ● ● ● ● ● |
| Lars Rebien Sørensen[1,2] | ● ● – – – – – – | ● ● – – – – – |
| Hans Andersen[3] | | ● ● ● ● ● ● ● |
| Carl Bache[1] | | ● ● ● ● ● ● ● |
| Magdi Batato[1,2] | | ● ● ● ● ● ● ● |
| Domitille Doat-Le Bigot[1,2] | | – – ● ● ● ● ● |
| Lilian Fossum Biner[1,2] | | – – ● ● ● ● ● |
| Richard Burrows[1,2] | | ● ● ● ● ● ● ● |
| Donna Cordner[1,2] | | ● ● – – – – – |
| Eva Vilstrup Decker[3] | | ● ● ● ● ● ● ● |
| Finn Lok[3] | | ● ● ● ● ● ● ● |
| Erik Lund[3] | | ● ● ● ● ● ● ● |
| Søren-Peter Fuchs Olesen[1] | | ● ● ● ● ● ● ● |
| Peter Petersen[3] | | ● ● ● ● ● ● ● |
| Majken Schultz[1] | | – – ● ● ● ● ○ |
| 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.

nationalities, the international experience of the Carlsberg Group top-60 leadership team is significant. Regarding the gender target, currently three Supervisory Board members elected by the General Meeting are women, i.e. 33%. Hence, the objective with regard to gender diversity on the Supervisory Board has not yet been met.

At Carlsberg Breweries A/S, the four Supervisory Board members elected by the General Meeting are men, being the members of the Chairmanship and of the Executive Board of Carlsberg A/S. At Carlsberg Danmark A/S and Carlsberg Supply Company Danmark A/S, one of three Supervisory Board members is a woman. At Carlsberg Global Business Services A/S, all three Supervisory Board members are men. For those companies where the requirements were not met, changing the approach was not considered appropriate in 2019.

In 2019, the Group launched an updated Diversity & Inclusion Policy that applies to management and all employees.

The Diversity & Inclusion Policy describes the Carlsberg Group's commitment to diversity and inclusion. It constitutes the basis for effective diversity and inclusion management throughout the Carlsberg Group. We have defined a range of internal diversity and inclusion ambitions to help guide our decisions, increase awareness and ensure focus.

To achieve our diversity and inclusion ambitions, a string of initiatives is being implemented. We are monitoring the outcome and progress of these and benchmarking ourselves externally against other companies in the beverage industry.

In 2019, diversity and inclusion initiatives and achievements included:

- Updating of the Group's Diversity & Inclusion Policy.
- Establishment of the Diversity & Inclusion Council to ensure continuous focus and progress on our diversity and inclusion ambitions.
- Issuing of new requirements to recruitment companies and executive search companies to ensure stronger representation of the underrepresented gender (currently women) on shortlists when recruiting for senior management positions.
- 34% of the participants in the Group's global leadership programmes were women.
- 43% of the Group's developmental/short-term assignments were women.

# SUPERVISORY BOARD 2019

## MAIN TOPICS OF DISCUSSION

### Strategy

- Ongoing review of SAIL'22.
- Review of and debate on R&D, innovation, branding, quality and other strategic initiatives.
- Monitoring of the continued embedding of the Funding the Journey culture in the Group's ways of working.
- Review and approval of the Group's capital structure and funding, including the decision to increase cash returns to shareholders by means of share buy-backs.
- Review and discussion of organic and potential inorganic opportunities.

### Organisation, people, succession planning and talent management

- Recommendation of Lars Fruergaard Jørgensen, Domitille Doat-Le Bigot, Lilian Fossum Biner and Majken Schultz as candidates for the Supervisory Board at the 2019 AGM.
- Succession planning for the executive management.
- Review of the Group's people agenda, including approval of updated diversity policy.
- Organisational restructuring, management and development of the internal talent pool, and general succession planning.
- Discussion and approval of the bonus structures in the Group's incentive programme, ensuring support of and alignment with SAIL'22.

### Compliance and core values

- Review of Carlsberg's compliance risks and set-up, including debate of compliance-enhancing efforts.
- Review of the progress of the Group's sustainability programme, Together Towards ZERO.

### Governance and risk management

- Review of the outcome of the Supervisory Board evaluation process, including follow-up on all suggestions.
- Review and discussion of the Group Internal Audit reports, working processes and continued improvement.
- Discussion of relevant issues and ways of working with the external auditor.
- Approval of the external auditor for election at the 2019 AGM.

## 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 2019, the Chairmanship and the Executive Board held eight meetings. The Supervisory Board of Carlsberg A/S held six meetings as well as a 1.5-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 and attend when it makes sense. This gives the Supervisory Board better insight into the business.

In connection with most Supervisory Board meetings, the Supervisory Board and ExCom have “Board update” sessions at which key people from the Group present a market, a function or another relevant topic. In 2019, these included R&D, shared services, digital, internal audit, quality, HR and our businesses in Ukraine, France, the UK, Denmark and Norway.

## 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, based on input from the Nomination Committee as well as the Board evaluation process, whether its members’ expertise should be updated or strengthened with respect to their duties and whether the Board members – in light of their other management positions – have adequate time to fulfil their duties as Carlsberg Board members.

During the evaluation process in 2019, 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 the time and discussions well prioritised, 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 2019, the Nomination Committee consisted of four members. The Nomination Committee is appointed for one year at a time. Two Committee members qualify as being independent, while the other two members do not.

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 2019, 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 Supervisory Board and management level, including identification of Lars Fruergaard Jørgensen, Lilian Fossum Biner, Domitille Doat-Le Bigot and Majken Schultz as Supervisory Board candidates for election at the 2019 AGM.
- Evaluating the composition of ExCom and 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 41-46.

### THE AUDIT COMMITTEE

In 2019, the Audit Committee consisted of three members, all qualifying as being independent of the Company. The Audit Committee is appointed for one year at a time. The Committee has the relevant financial expertise and necessary experience of the Company’s sector.

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 2020 and the current Terms of Reference at the Supervisory Board

**Nomination Committee meetings**

| Committee member | Committee meetings attended |
|---|---|
| Flemming Besenbacher (Chairman) | ● ● ● ● ● |
| Carl Bache | ○ ○ ● ● ● |
| Richard Burrows | ● ● ● ● ● |
| Lars Fruergaard Jørgensen | ○ ○ ● ● ● |
| Lars Rebien Sørensen | ● ● ○ ○ ○ |

● Attended meeting. ○ Not a Board member at the time.

meeting in December 2019. The Terms of Reference are available on the Company's website.

In 2019, the Audit Committee had particular focus on a number of areas, including:

- Monitoring the effectiveness of the control environment and overseeing progress on developing a new reporting system on the effectiveness of the controls over financial reporting.
- Monitoring the work of the external auditors.
- Reviewing the progress of the work of the Group Internal Audit function.
- Reviewing the work of the Integrity Committee (see page 40).
- Managing financial risk.
- Reviewing the risk management process.

## 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.

## INTERNAL CONTROL AND RISK MANAGEMENT RELATED TO THE FINANCIAL REPORTING PROCESS

### OVERALL CONTROL ENVIRONMENT

The Supervisory Board and ExCom 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.

The Group has a number of policies and procedures in key areas of financial reporting, including the Finance Policy, the Accounting Manual, the Controller Manual, the Use of Auditors Policy, the Chart of Authority, the Risk Management Policy, the Financial Risk Management Policy, the Corporate Governance Policy, the Information Security & Acceptable Use Policy, the Records Management & Personal Data Protection Policy, the Stock Exchange Compliance Policy, the Tax Policy, and the Code of Ethics and Conduct.

**Audit Committee meetings**

| Committee member | Committee meetings attended |
|---|---|
| Richard Burrows (Chairman) | ● ● ● ● ● ● ● ● |
| Magdi Batato | ○ ○ ○ ● ● ● ● ● |
| Lilian Fossum Biner | ○ ○ ○ ● ● ● ● ● |
| Donna Cordner | ● ● ● ○ ○ ○ ○ ○ |
| Nina Smith | ● ● ● ○ ○ ○ ○ ○ |
| 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. ○ Not a Committee member at the time.

## THE CARLSBERG FOUNDATION

The Carlsberg Foundation is the Company's majority shareholder. According to its Charter, the Foundation must own shares equivalent to at least 51% of the votes in Carlsberg A/S. At 31 December, the Carlsberg Foundation held 29% of the capital and 75% of the votes in Carlsberg A/S.

The Foundation is a long-term, value-oriented shareholder, supporting the Group in creating sustainable value growth for shareholders and society through the execution of SAIL'22 and adherence to the company's capital allocation priorities.

The Foundation participates pro rata in the share buy-back programmes (see page 31), and in 2019 total cash returns received by the Foundation amounted to DKK 2.1bn.

The dividends from Carlsberg A/S to the Carlsberg Foundation are given back to society by granting funds to foster and support academic research within natural sciences, humanities and social sciences and funds for cultural and socially beneficial purposes. In addition, the Foundation grants funds to the Carlsberg Research Laboratory.

The policies and procedures apply to all subsidiaries, and similar requirements are set out in collaboration with the partners in joint ventures.

The Group's control framework for financial reporting is designed to reduce and mitigate financial risks identified and ensure reliable internal and external financial reporting.

The framework defines who is responsible and where the controls are performed. In 2018 and 2019, the framework was strengthened by implementing and improving certain controls, providing assurance that key risks are covered by mitigating internal control assertions.

During the work of strengthening the framework across functions and entities, there has been continual focus on standardising processes and controls, and on increasing knowledge through extensive education and training in risk and controls.

As a consequence of the Group's growth due to acquisitions, processes are not standardised across entities. The current state of the control environment is acceptable, but not yet where the Group wants to be.

The Group will continue to strengthen the financial control environment through further standardisation, increased automation, strong analytics and transparent governance.

The framework is monitored through entities' self-assessment of the effectiveness of the implemented controls and continuous testing of performance by an established second-line-of-defence team. The monitoring of the performance of the controls focuses on the quality of the controls, the effectiveness with which they are performed and the efficiency of the overall controlling processes.

### RISK ASSESSMENT

With the implementation of the control framework for financial reporting, the Group has identified the risks that could have a direct or indirect material impact on the financial statements. Group entities are required to document transaction processes and the controls in place to cover the key risks identified. The minimum requirements for documenting the risks must be set out in the framework and visualised in the processes.

Group entities are required to reassess their controls biannually and must update changes to the control framework for financial reporting, including new risks and controls.

### 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 by controllers with regional or functional in-depth knowledge of the individual companies/functions and by technical accounting specialists.

Controllers are continuously updated on best practice relating to internal financial controls, and trained in new accounting and reporting requirements.

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.

During 2019, a programme was initiated for most entities in Western Europe aimed at standardising financial reporting processes and implementing various tools. The programme will continue in 2020.

The Group has established a quality assurance team in order to ensure the quality of the controls that are part of the outsourced processes, including their performance.

### INFORMATION AND COMMUNICATION

The Group has established information and communication systems to ensure accounting and internal control compliance. During the risk assessment process, Group entities are required to report on missing or inadequate controls. Each entity assesses any need for compensating controls, or for design and implementation of new controls.

Furthermore, Group entities have mapped controls on segregation of duties to implement necessary compensating controls, and are now implementing stronger remediated controls for segregation of duties in the ERP systems.

### 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 control framework for financial reporting.

The financial risks are assessed and reviewed at multiple levels in the Group, including monthly performance review meetings at ExCom level, periodic review of control documentation, and audits performed by Group Internal Audit.

## GROUP INTERNAL AUDIT

Group Internal Audit provides 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 is reviewed on an annual basis and approved by the Audit Committee.

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. In 2019, Group Internal Audit conducted audits mainly in the areas of financial reporting controls, compliance (internal and external regulation) and information technology.

## SPEAK UP

The Carlsberg Group has a Speak Up system that enables employees to report misconduct. Reports typically relate to suspected violations of the Carlsberg Code of Ethics and Conduct.

The Speak Up system is operated by an external provider and allows concerns to be brought to the attention of Group Legal and Compliance anonymously, confidentially and via multiple channels.

The Group Compliance team is responsible for reviewing all reported Speak Up matters. Furthermore, an Integrity Committee, chaired by the CFO, oversees the follow-up of major Speak Up investigations and provides a report to ExCom and the Audit Committee at least quarterly.

The Integrity Committee report also contains an overview of other open and closed investigations, the time taken to resolve cases and other general compliance matters.

The Misconduct Investigation Handbook was updated in 2019 to clarify how investigations should be undertaken. During 2019, there was also a campaign to raise awareness of the various Speak Up channels available.

Since the establishment of the Speak Up system, some reports and their subsequent investigation have led to disciplinary sanctions, including dismissal on the basis of violation of the Code of Ethics and/or Group policies and, in some cases, relevant criminal laws. Some of these matters related to isolated incidents of fraud carried out by individual employees in the Group.

In 2019, we saw an increasing number of Speak Up matters related to our Indian business. The Group takes such matters very seriously. We are currently investigating the allegations and will take appropriate measures if they are substantiated.

The incidents have not had any material impact on the financial results of the Group except for those items recognised in the statement of financial position.


# +14%

## SOMERSBY VOLUME GROWTH

We are increasingly looking into how we can leverage our brewing capabilities to further expand and develop our portfolio. Our cider brand Somersby is an excellent example of this. Launched in Denmark in 2008, it has become the leading global cider brand, with a presence in more than 60 countries. In recent years, we have developed a strong portfolio of Somersby brews to provide different sources of growth and become more than just another cider. The success of Somersby in recent years is due in no small measure to the fact that volumes are captured from categories outside beer. Market studies show that these line extensions capture up to 35% of volumes from wine and cocktails. In 2019, Somersby volumes grew by 14%.

SAIL'22 POSITION FOR GROWTH

REMUNERATION REPORT

# EXECUTIVES' REMUNERATION

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

The Remuneration Committee did not propose any changes to the pay structure in 2019. In accordance with the new requirements related to the EU Shareholder Rights Directive, the Remuneration Policy will be presented to the Annual General Meeting (AGM) for voting.

## REMUNERATION OF THE EXECUTIVE BOARD

### REMUNERATION POLICY

The main elements of the executive directors' remuneration arrangements are summarised in the table on page 43 and explained in more detail in the following paragraphs.

#### Fixed salary

The Remuneration Committee reviews fixed salaries for the executive directors annually, taking into account a number of relevant factors, including the individual's performance, role and responsibilities. Executives make their own provision for retirement, meaning that no additional pension contributions are made on their behalf. The Committee also takes into account levels of remuneration for similar roles at comparable companies in both the beverage and FMCG sectors, as well as companies based in the Nordic region across all industry sectors.

The Committee and the Supervisory Board have decided to increase the executive directors' fixed salaries in 2020 by 2.25%.

#### Annual bonus

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

For 2020, the potential maximum bonus will remain at 100% of fixed salary, with 60% of fixed salary payable for on-target performance.

## 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 our shareholders' 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. At the AGM on 16 March 2020, an updated Remuneration Policy will be presented for voting. The updated policy does not change any key elements of the previous policy or Company practice, but makes clarifications to meet new regulatory requirements.

### MAIN ACTIVITIES IN 2019

During 2019, the main activities of the Remuneration Committee were:

- Considering stakeholders' feedback from the 2019 Annual General Meeting and from media.
- Reviewing the Remuneration Policy for the Executive Board and agreeing to make changes to the policy.
- Reviewing some of the Company's key pay practices below Executive Board level, notably in relation to equal pay.
- Considering the achievement of performance criteria for the annual bonus plan and long-term incentives for 2019.
- Reviewing fixed salary levels and targets and levels for the short-term and long-term incentive awards for 2020.

### 2020 OBJECTIVES

- Monitoring the implementation of the EU Shareholder Rights Directive and ensuring that we continue to report transparently and in line with all relevant guidelines and regulations.

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.

Unchanged from 2019, for 2020 the annual bonus will comprise two elements. The first element, accounting for 80% of the bonus, will be based on three measures: organic revenue growth, organic operating profit and addressable cash flow.

The second element, accounting for 20%, will be linked to performance against measures that reflect the Group's strategic priorities. For both the CEO and the CFO, these elements will in 2020 be linked to the Funding the Journey culture (10%) and our sustainability programme, Together Towards ZERO (10%).

**Long-term incentive arrangements**
Since 2017, the long-term incentive arrangements for the executive directors have consisted 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: relative total shareholder return, adjusted earnings per share, organic revenue growth and return on invested capital.

The performance conditions 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.

### Remuneration Committee meetings

| Committee member | Committee meetings attended |
|---|---|
| Richard Burrows (Chairman) | ● ● ● ● ● |
| Magdi Batato | ● ● ● ● ● |
| Domitille Doat-Le Bigot | ○ ○ ● ● ● |
| Søren-Peter Fuchs Olesen | ○ ○ ● ● ● |
| 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. ○ 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 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 | Weighting | 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 comparable international companies as well as executives' skills and experience. | No performance criteria per se, but the performance of the individual is taken into account when fixed salary levels are reviewed. | N/A | Financial year. |
| Benefits | Operate a competitive benefits suite to aid recruitment and retention. | Perquisites and other benefits corresponding to market practices. | N/A | N/A | N/A |
| Pension | Executives make their own provision for retirement. | N/A | 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.<br>Bonus opportunity at target is 60% of fixed salary. | • Organic operating profit.<br>• Addressable cash flow.<br>• Organic revenue growth.<br>• Strategic measures (see page 42). | 35%<br>25%<br>20%<br>20% | Financial 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).<br>• Growth in adjusted EPS at constant currencies.<br>• Organic revenue growth.<br>• ROIC at constant currencies. | 25%<br>25%<br>25%<br>25% | 3 years with 3-year vesting. |

## Performance share awards – performance criteria for 2020

| Measure | Description | Performance condition measured over the three financial years 2020-2022 |
|---|---|---|
| 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].<br>• 100% vests for upper-quartile performance.<br>• Straight-line vesting between median and upper quartile. |
| 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.<br>• 100% vests for 9% p.a. growth.<br>• Straight-line vesting between 4% p.a. and 9% p.a. |
| Organic revenue growth | Organic revenue growth is a measure of the Group's ability to deliver on our SAIL'22 priorities. | • 25% of the organic revenue element vests for 1.5% p.a. growth.<br>• 100% vests for 4.5% p.a. growth.<br>• Straight-line vesting between 1.5% p.a. and 4.5% p.a. |
| 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 9.5% in 2022.<br>• 100% vests for 10.5% in 2022.<br>• Straight-line vesting between 9.5% and 10.5% in 2022. |

[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.

### 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 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 OF THE EXECUTIVE BOARD IN 2019

The remuneration of and the share options and performance shares granted to the executive directors in 2019 are shown on the following page.

### Fixed salary

The annual fixed salary paid to Cees 't Hart in 2019 was DKK 12.6m. The annual fixed salary for Heine Dalsgaard was DKK 7.6m.

### Annual bonus

For the financial year 2019, 90.4% of the maximum bonus was payable for performance in 2019 for the CEO. The bonus payable amounts to DKK 11.4m for Cees 't Hart.

For the CFO, 93.4% of the maximum bonus was payable for performance in 2019. The bonus payable amounts to DKK 7.1m for Heine Dalsgaard.

### Long-term incentive awards

*Granted in 2019*

In the financial year 2019, the CEO and the CFO were granted long-term incentive awards with a face value of 255% and 210% of fixed full-year salary respectively at the time of award. The composition of these awards is shown in the table on the next page.

*Shareholdings*

The number of shares in Carlsberg A/S held by Cees 't Hart and Heine Dalsgaard and the movements during 2019 are shown in the table on the next page. The table includes the holdings of the related parties of the CEO and the CFO.

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

## REMUNERATION OF THE SUPERVISORY BOARD

### REMUNERATION POLICY

The remuneration of the Supervisory Board for 2019 was approved by the Annual General Meeting in March 2019.

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 on page 46.

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 2019.

### REMUNERATION OF THE SUPERVISORY BOARD IN 2019

The fees for members of the Supervisory Board for the financial year 2019 are set out in the table on page 46.

There will be no changes to the Supervisory Board fees in 2020.

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 2019 are also shown on page 46.

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

## Remuneration of executive directors

The table below shows the total remuneration of the executive directors. The amount of remuneration in the form of unvested share awards does not reflect the value of shares transferred to or cash equivalents received by the executive directors during the year. The amount only reflects the technical accounting charge to the income statement required by IFRS.

| | | Cees 't Hart | | Heine Dalsgaard |
|---|---|---|---|---|
| DKK million | 2019 | 2018 | 2019 | 2018 |
| Fixed salary | 12.6 | 12.3 | 7.6 | 7.4 |
| Cash bonus | 11.4 | 12.3 | 7.1 | 7.4 |
| Other benefits | 1.1 | 1.1 | - | - |
| **Remuneration settled in cash** | **25.1** | **25.7** | **14.7** | **14.8** |
| Other non-monetary benefits | 0.1 | 0.1 | 0.3 | 0.3 |
| Unvested share awards | 24.6 | 26.7 | 12.4 | 13.3 |
| **Remuneration, non-monetary and share-based** | **24.7** | **26.8** | **12.7** | **13.6** |
| Total cash and non-cash | 49.8 | 52.5 | 27.4 | 28.4 |

## Share ownership guidelines

| | Share ownership guideline as % of fixed salary | Actual % held at 31 Dec. 2019 | Fair value of unvested options and performance shares as % of fixed salary (prior to deduction for tax and incidental costs) |
|---|---|---|---|
| Cees 't Hart | 150% | 220% | 1,408% |
| Heine Dalsgaard | 120% | 261% | 805% |

## Executive directors' holdings of Carlsberg A/S shares

| | | | | | Number | DKK million |
|---|---|---|---|---|---|---|
| | | 1 Jan. 2019 | Additions | Sold | 31 Dec. 2019 | Market value |
| Cees 't Hart | B shares | 7,200 | 35,623 | -15,000 | 27,823 | 27.65 |
| Heine Dalsgaard | B shares | 7,515 | 22,459 | -10,000 | 19,974 | 19.85 |

## Executive directors' granted share options and performance shares

The table outlines the share options and performance shares granted to the executive directors. The number of shares in the table is the maximum number of shares that can vest, based on an assessment of the extent to which the vesting conditions are expected to be met. The number of shares expected to vest is revised on a regular basis until vesting.

| | | | | | | | Number | DKK million |
|---|---|---|---|---|---|---|---|---|
| Grant year | Exercise year | 1 Jan. 2019 | Granted | Exercised | Adjusted | 31 Dec. 2019 | For exercise 31 Dec. | Fair value 31 Dec. |
| **SHARE OPTIONS** | | | | | | | | |
| Cees 't Hart | | | | | | | | |
| 2015 | 2018-2023 | 97,334 | - | - | - | 97,334 | 97,334 | 48 |
| 2016 | 2019-2024 | 17,650 | - | - | - | 17,650 | 17,650 | 6 |
| **Total** | | **114,984** | **-** | **-** | **-** | **114,984** | **114,984** | **54** |
| **PERFORMANCE SHARES** | | | | | | | | |
| Cees 't Hart | | | | | | | | |
| 2016-2018 | 2019 | 14,709 | - | -12,208 | -2,501 | - | - | - |
| 2017-2019 | 2020 | 50,000 | - | - | - | 50,000 | - | 44 |
| 2018-2020 | 2021 | 44,263 | - | - | - | 44,263 | - | 42 |
| 2019-2021 | 2022 | - | 40,954 | - | - | 40,954 | - | 36 |
| **Total** | | **108,972** | **40,954** | **-12,208** | **-2,501** | **135,217** | **-** | **122** |
| Heine Dalsgaard | | | | | | | | |
| 2016-2018 | 2019 | 10,370 | - | -8,607 | -1,763 | - | - | - |
| 2017-2019 | 2020 | 24,877 | - | - | - | 24,877 | - | 22 |
| 2018-2020 | 2021 | 22,023 | - | - | - | 22,023 | - | 21 |
| 2019-2021 | 2022 | - | 20,377 | - | - | 20,377 | - | 18 |
| **Total** | | **57,270** | **20,377** | **-8,607** | **-1,763** | **67,277** | **-** | **61** |
| **FUNDING THE JOURNEY PERFORMANCE SHARES** | | | | | | | | |
| Cees 't Hart | | | | | | | | |
| 2016-2018 | 2019 | 23,415 | - | -23,415 | - | - | - | - |
| **Total** | | **23,415** | **-** | **-23,415** | **-** | **-** | **-** | **-** |
| Heine Dalsgaard | | | | | | | | |
| 2016-2018 | 2019 | 13,827 | - | -13,827 | - | - | - | - |
| **Total** | | **13,827** | **-** | **-13,827** | **-** | **-** | **-** | **-** |
| **Total** | | **318,468** | **61,331** | **-58,057** | **-4,264** | **317,478** | **114,984** | **237** |

## Supervisory Board remuneration principles in 2019

| | 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 | 2019 | 2018 |
|---|---|---|
| Flemming Besenbacher (Chairman of the Supervisory Board and of the Nomination Committee) | 1.85 | 1.85 |
| Lars Fruergaard Jørgensen (Deputy Chairman) | 0.62 | - |
| Hans Andersen | 0.41 | 0.41 |
| Carl Bache | 0.54 | 0.41 |
| Magdi Batato | 0.69 | 0.46 |
| Domitille Doat-Le Bigot | 0.45 | - |
| Lilian Fossum Biner | 0.45 | - |
| Richard Burrows (Chairman of the Audit and Remuneration Committees) | 1.15 | 0.90 |
| Eva Vilstrup Decker | 0.41 | 0.41 |
| Finn Lok | 0.41 | 0.41 |
| Erik Lund | 0.41 | 0.41 |
| Søren-Peter Fuchs Olesen | 0.54 | 0.41 |
| Peter Petersen | 0.41 | 0.41 |
| Majken Schultz | 0.33 | - |
| Lars Stemmerik | 0.41 | 0.41 |
| Donna Cordner[1] | 0.18 | 0.88 |
| Nancy Cruickshank[2] | - | 0.20 |
| Kees van der Graaf | - | 0.15 |
| Nina Smith[1] | 0.11 | 0.54 |
| Lars Rebien Sørensen[1] | 0.22 | 1.09 |
| **Total** | **9.59** | **9.35** |

[1] Stepped down from the Supervisory Board at the AGM in March 2019.
[2] Stepped down from the Supervisory Board in May 2018 to become head of Digital Business Transformation at Carlsberg.

## Supervisory Board members' holdings of Carlsberg A/S shares

| | | Number | | | | DKK million |
|---|---|---|---|---|---|---|
| | | 1 Jan. 2019 | Additions | Sold | 31 Dec. 2019 | Market value |
| Flemming Besenbacher | B shares | 1,850 | - | - | 1,850 | 1.84 |
| Lars Fruergaard Jørgensen | B shares | - | 152 | - | 152 | 0.15 |
| Hans Andersen | B shares | 1 | - | - | 1 | - |
| Carl Bache | B shares | - | - | - | - | - |
| Magdi Batato | B shares | 101 | - | - | 101 | 0.10 |
| Domitille Doat-Le Bigot | B-shares | - | - | - | - | - |
| Lilian Fossum Biner | B-shares | - | 250 | - | 250 | 0.25 |
| Richard Burrows | B shares | 2,040 | - | - | 2,040 | 2.03 |
| Eva Vilstrup Decker | B shares | 68 | - | - | 68 | 0.07 |
| Finn Lok | B shares | - | - | - | - | - |
| Erik Lund | B shares | 54 | - | - | 54 | 0.05 |
| Søren-Peter Fuchs Olesen | B shares | 652 | - | - | 652 | 0.65 |
| Peter Petersen | B shares | - | - | - | - | - |
| Majken Schultz | B shares | - | - | - | - | - |
| Lars Stemmerik | B shares | - | - | - | - | - |
| **Total** | | **4,766** | **402** | **-** | **5,168** | **5.14** |

SUPERVISORY BOARD

# **SUPERVISORY** BOARD MEMBERS

# OUR SUPERVISORY BOARD MEMBERS

## FLEMMING BESENBACHER

**CHAIRMAN (SINCE 2012)**
Nationality: Danish
Year of birth: 1952
Appointed (until): 2005 (2020)

**BOARD FUNCTION**
Non-executive, non-independent director.

**BOARD COMMITTEES**
Nomination Committee (Chair).

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

**NON-EXECUTIVE FUNCTIONS**
Chairman of the Board of Directors of Aarhus Water and UNLEASH. Vice Chairman of Innovation Fund Denmark. Member of the Board of Directors of Unisense.

## LARS FRUERGAARD JØRGENSEN

**DEPUTY CHAIRMAN (SINCE 2019)**
Nationality: Danish
Year of birth: 1966
Appointed (until): 2019 (2020)

**BOARD FUNCTION**
Non-executive, independent director.

**BOARD COMMITTEES**
Nomination Committee.

**PROFESSION**
President & CEO, Novo Nordisk.

**NON-EXECUTIVE FUNCTIONS**
None other than Carlsberg A/S.

## HANS ANDERSEN

Nationality: Danish
Year of birth: 1955
Appointed (until): 1998 (2022)

**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 (2020)

**BOARD FUNCTION**
Non-executive, non-independent director.

**BOARD COMMITTEES**
Nomination Committee.

**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 Directors of a publishing firm.

## MAGDI BATATO

Nationality: Swiss
Year of birth: 1959
Appointed (until): 2018 (2020)

**BOARD FUNCTION**
Non-executive, independent director.

**BOARD COMMITTEES**
Audit Committee, Remuneration Committee.

**PROFESSION**
Executive Vice President and Head of Operations, Nestlé S.A.

**NON-EXECUTIVE FUNCTIONS**
Member of the Board of the World Business Council for Sustainable Development.

## DOMITILLE DOAT-LE BIGOT

Nationality: French
Year of birth: 1972
Appointed (until): 2019 (2020)

**BOARD FUNCTION**
Non-executive, independent director.

**BOARD COMMITTEES**
Remuneration Committee.

**PROFESSION**
Chief Digital Officer, Danone.

**NON-EXECUTIVE FUNCTIONS**
None other than Carlsberg A/S.

## LILIAN FOSSUM BINER

Nationality: Swedish
Year of birth: 1962
Appointed (until): 2019 (2020)

**BOARD FUNCTION**
Non-executive, independent director.

**BOARD COMMITTEES**
Audit Committee.

**PROFESSION**
Non-executive board director.

**NON-EXECUTIVE FUNCTIONS**
Chairman of the Board of Directors of Cloetta and member of the Board of Directors of Scania. a-connect, Givaudan and L E Lundbergföretagen.

## RICHARD BURROWS

Nationality: Irish
Year of birth: 1946
Appointed (until): 2009 (2020)

**BOARD FUNCTION**
Non-executive, independent director.

**BOARD COMMITTEES**
Audit Committee (Chair), Remuneration Committee (Chair), Nomination Committee.

**PROFESSION**
Non-executive board director.

**NON-EXECUTIVE FUNCTIONS**
Chairman of the Board of Directors of British American Tobacco.

### EVA VILSTRUP DECKER
Nationality: Danish
Year of birth: 1964
Appointed (until): 2014 (2022)

**BOARD FUNCTION**
Employee representative.

**BOARD COMMITTEES**
None.

**PROFESSION**
Director, Carlsberg Breweries A/S.

**NON-EXECUTIVE FUNCTIONS**
None other than Carlsberg A/S.

### FINN LOK
Nationality: Danish
Year of birth: 1958
Appointed (until): 2014 (2022)

**BOARD FUNCTION**
Employee representative.

**BOARD COMMITTEES**
None.

**PROFESSION**
Ph.D. and Brew Master, Principal Scientist, Carlsberg A/S.

**NON-EXECUTIVE FUNCTIONS**
None other than Carlsberg A/S.

### ERIK LUND
Nationality: Danish
Year of birth: 1964
Appointed (until): 2015 (2022)

**BOARD FUNCTION**
Employee representative.

**BOARD COMMITTEES**
None.

**PROFESSION**
Head Brewer, Carlsberg A/S.

**NON-EXECUTIVE FUNCTIONS**
None other than Carlsberg A/S.

### SØREN-PETER FUCHS OLESEN
Nationality: Danish
Year of birth: 1955
Appointed (until): 2012 (2020)

**BOARD FUNCTION**
Non-executive, non-independent director.

**BOARD COMMITTEES**
Remuneration Committee.

**PROFESSION**
Professor, D.M.Sc; CEO 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 (2022)

**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 other than Carlsberg A/S.

### MAJKEN SCHULTZ
Nationality: Danish
Year of birth: 1958
Appointed (until): 2019 (2020)

**BOARD FUNCTION**
Non-executive, non-independent director.

**BOARD COMMITTEES**
None.

**PROFESSION**
Professor, Ph.D., Copenhagen Business School. International Research Fellow, Saïd Business School, Oxford University.

**NON-EXECUTIVE FUNCTIONS**
Member of the Board of Directors of the Carlsberg Foundation, Realdania and Danish Crown.

### LARS STEMMERIK
Nationality: Danish
Year of birth: 1956
Appointed (until): 2010 (2020)

**BOARD FUNCTION**
Non-executive, non-independent director.

**BOARD COMMITTEES**
None.

**PROFESSION**
Professor, D.Sc., University of Copenhagen.

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

**The Supervisory Board members' full CVs, including their skills and competences, are available online**

www.carlsberggroup.com/who-we-are/about-the-carlsberg-group/supervisory-board/

EXECUTIVE COMMITTEE

# EXCOM MEMBERS

# OUR EXCOM MEMBERS

## CEES 'T HART

**CEO**
Nationality: Dutch
Year of birth: 1958
Appointed: 2015

**PRIOR EXPERIENCE**
Prior to joining the Carlsberg Group, 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 and with the last position being member of the Europe Executive Board. Cees is Chairman of the Supervisory Board of KLM and member of the Board of AFKLM.

## HEINE DALSGAARD

**CFO**
Nationality: Danish
Year of birth: 1971
Appointed: 2016

**PRIOR EXPERIENCE**
Heine joined Carlsberg 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. Heine's previous experience includes various senior management and financial positions at Carpetland, Hewlett Packard and Arthur Andersen.

## JOÃO ABECASIS

**CHIEF COMMERCIAL OFFICER**
Nationality: Portuguese
Year of birth: 1972
Appointed: 2019

**PRIOR EXPERIENCE**
João joined the Carlsberg Group in 2011 as CCO and later Managing Director of Super Bock, our associate in Portugal. In 2016, he became Vice President for smaller markets in the Western Europe region. He also served as intermediate Managing Director of Carlsberg Danmark. In 2017, he became Managing Director of our French business, Kronenbourg. Earlier in his career, João held a range of sales and marketing roles at Unilever.

## GRAHAM FEWKES

**EXECUTIVE VICE PRESIDENT ASIA**
Nationality: British
Year of birth: 1968
Appointed: 2014

**PRIOR EXPERIENCE**
Graham joined the Carlsberg Group as Vice President Commercial, 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.

## PHILIP A. HODGES

**EXECUTIVE VICE PRESIDENT GROUP SUPPLY CHAIN**
Nationality: Swiss/British
Year of birth: 1966
Appointed: 2017

**PRIOR EXPERIENCE**
Philip joined the Carlsberg Group in 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.

## LARS LEHMANN

**EXECUTIVE VICE PRESIDENT EASTERN EUROPE**
Nationality: Danish
Year of birth: 1966
Appointed: 2019

**PRIOR EXPERIENCE**
Lars joined Carlsberg in 2003 as Commercial Development Director. Since then, he has held several management positions, including VP Commercial for Eastern Europe & BBH and head of Export, License & Duty Free. In 2016, he became Managing Director of Carlsberg Malaysia. Prior to joining Carlsberg, Lars was with Action Nordic and Unilever Denmark.

## JACEK PASTUSZKA

**EXECUTIVE VICE PRESIDENT WESTERN EUROPE**
Nationality: Polish
Year of birth: 1963
Appointed: 2015

**PRIOR EXPERIENCE**
Jacek was appointed EVP, Western Europe in 2019. Before that, he was EVP, Eastern Europe. Jacek joined Carlsberg in 2009 and has been Managing Director of our businesses in Poland, Norway and Russia. His prior career included various managerial sales positions in P&G in multiple markets, Commercial VP for Danone in Poland and the Baltics, and General Manager for AIG operations in Poland.

## CHRIS WARMOTH

**EXECUTIVE VICE PRESIDENT GROUP STRATEGY**
Nationality: British
Year of birth: 1959
Appointed: 2014

**PRIOR EXPERIENCE**
Chris joined Carlsberg as Senior Vice President, Asia in 2014. During his tenure, he has held several positions in the Executive Committee. Chris previously worked for H.J. Heinz, where he held various senior management positions in Continental and Eastern Europe and the Far East. Before Heinz, Chris worked for The Coca-Cola Company and P&G.

## SHARE INFORMATION

# INFORMATION FOR SHAREHOLDERS

**Carlsberg A/S is listed on Nasdaq Copenhagen. The Company has around 40,500 registered shareholders.**

The Company has two share classes: Carlsberg A and Carlsberg B. An A share carries 20 votes, while a 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.

The Carlsberg B share price was DKK 993.8 at 30 December 2019, an increase of 43.5% during the year compared to +27.4% for the OMXC20 share index.

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 2019, the Company's largest shareholder was the Carlsberg Foundation with 29% of the capital and 75% of the votes. In accordance with section 29 of the Danish Securities Trading Act, Massachusetts Financial Services Company (Boston, USA) has notified Carlsberg that it too owns more than 5% of the share capital.

### SHAREHOLDER RETURN

The Carlsberg Group's dividend policy stipulates an adjusted payout ratio of around 50%. In addition, the Company is conducting a share buy-back programme. For more information, see page 31.

### 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.

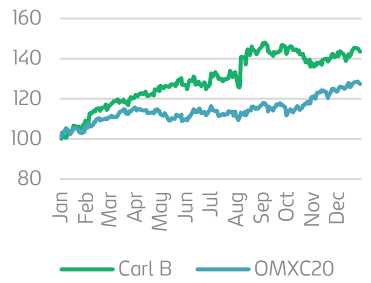
We observe a four-week silent period prior to the publication of the annual and half-year reports, and a two-week silent period prior to the Q1 and Q3 trading statements.

### GROUP 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.

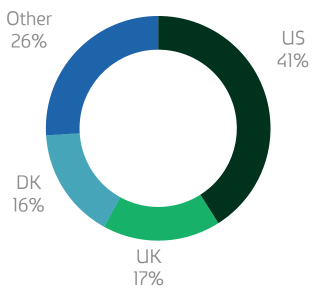
At the end of 2019, a total of 28 brokers had coverage of the Company. The analysts' names and consensus estimates can be found on the website.

### CARLSBERG B SHARE AND OMXC20 SHARE INDEX DEVELOPMENT 2019




### SHAREHOLDER GEOGRAPHIC SPLIT

(excluding the Carlsberg Foundation and treasury shares)




### Share information

| Share class | A | B | Total |
|---|---|---|---|
| Number of issued shares[1] | 33,699,252 | 118,857,554 | 152,556,806 |
| Number of issued shares, excl. treasury shares[1] | 33,699,252 | 114,297,159 | 147,996,411 |
| Carlsberg Foundation | 33,061,264 | 11,832,140 | 44,893,404 |
| Votes per share | 20 | 2 | |
| Par value | DKK 20 | DKK 20 | |
| Share price, year-end | DKK 956.0 | DKK 993.8 | |
| Proposed dividend per share | DKK 21.0 | DKK 21.0 | |

[1] At 31 December 2019.

### Financial calendar 2020

| Event | Date |
|---|---|
| Annual General Meeting | 16 March |
| Q1 trading statement | 30 April |
| H1 interim financial statement | 13 August |
| Q3 trading statement | 28 October |

# FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements, including statements about the Group's sales, revenues, earnings, spending, margins, cash flow, inventory, products, actions, plans, strategies, objectives and guidance with respect to the Group's future operating results.

Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words "believe, anticipate, expect, estimate, intend, plan, project, will be, will continue, will result, could, may, might", or any variations of such words or other words with similar meanings.

Any such statements are subject to risks and uncertainties that could cause the Group's actual results to differ materially from the results discussed in such forward-looking statements.

Prospective information is based on management's then current expectations or forecasts. Such information is subject to the risk that such expectations or forecasts, or the assumptions underlying such expectations or forecasts, may change.

The Group assumes no obligation to update any such forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Some important risk factors that could cause the Group's actual results to differ materially from those expressed in its forward-looking statements include, but are not limited to: economic and political uncertainty (including interest rates and exchange rates), financial and regulatory developments, demand for the Group's products, increasing industry consolidation, competition from other breweries, the availability and pricing of raw materials and packaging materials, cost of energy, production- and distribution-related issues, information technology failures, breach or unexpected termination of contracts, market-driven price reductions, market acceptance of new products, changes in consumer preferences, launches of rival products, stipulation of fair value in the opening balance sheet of acquired entities, litigation, environmental issues and other unforeseen factors.

New risk factors can arise, and it may not be possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on the Group's business or the extent to which any individual risk factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

Accordingly, forward-looking statements should not be relied on as a prediction of actual results.

# CONSOLIDATED FINANCIAL STATEMENTS

# INCOME STATEMENT

| DKK million | Section | 2019 | 2018 |
|---|---|---|---|
| Revenue | 1.1 | 65,902 | 62,503 |
| Cost of sales | 1.2.1 | -33,264 | -31,283 |
| **Gross profit** | | **32,638** | **31,220** |
| Sales and distribution expenses | 1.2.3 | -17,826 | -17,474 |
| Administrative expenses | | -4,733 | -4,615 |
| Other operating activities, net | 1.2.4 | 108 | 68 |
| Share of profit after tax of associates and joint ventures | 5.4 | 278 | 130 |
| **Operating profit before special items** | | **10,465** | **9,329** |
| Special items, net | 3.1 | 501 | -88 |
| Financial income | 4.1 | 360 | 358 |
| Financial expenses | 4.1 | -1,098 | -1,080 |
| **Profit before tax** | | **10,228** | **8,519** |
| Income tax | 6.1 | -2,751 | -2,386 |
| **Consolidated profit** | | **7,477** | **6,133** |
| | | | |
| **Attributable to** | | | |
| Non-controlling interests | 1.1 | 908 | 824 |
| Shareholders in Carlsberg A/S (net profit) | | 6,569 | 5,309 |

| DKK | | | |
|---|---|---|---|
| **Earnings per share** | 8.1 | | |
| Earnings per share of DKK 20 | | 43.7 | 34.8 |
| Diluted earnings per share of DKK 20 | | 43.4 | 34.7 |

# STATEMENT OF COMPREHENSIVE INCOME

| DKK million | Section | 2019 | 2018 |
|---|---|---|---|
| **Consolidated profit** | | **7,477** | **6,133** |
| | | | |
| **Other comprehensive income** | | | |
| Retirement benefit obligations | 7.4 | -571 | 392 |
| Share of other comprehensive income in associates and joint ventures | 5.4 | 4 | 4 |
| Income tax | 6.1 | 38 | -33 |
| **Items that will not be reclassified to the income statement** | | **-529** | **363** |
| Foreign exchange adjustments of foreign entities | 4.1 | 3,485 | -2,754 |
| Fair value adjustments of hedging instruments | 4.1 | -323 | -640 |
| Other | | 14 | - |
| Income tax | 6.1 | 17 | 85 |
| **Items that may be reclassified to the income statement** | | **3,193** | **-3,309** |
| **Other comprehensive income** | | **2,664** | **-2,946** |
| **Total comprehensive income** | | **10,141** | **3,187** |
| | | | |
| **Attributable to** | | | |
| Non-controlling interests | | 905 | 855 |
| Shareholders in Carlsberg A/S | | 9,236 | 2,332 |

# STATEMENT OF FINANCIAL POSITION

| DKK million | Section | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 2.2, 2.3 | 69,805 | 66,868 |
| Property, plant and equipment | 2.2, 2.3 | 27,886 | 25,394 |
| Investments in associates and joint ventures | 5.4 | 4,364 | 4,562 |
| Receivables | 1.5 | 1,179 | 1,097 |
| Tax assets | 6.2 | 1,938 | 1,693 |
| **Total non-current assets** | | **105,172** | **99,614** |
| **Current assets** | | | |
| Inventories | 1.2.1 | 4,751 | 4,435 |
| Trade receivables | 1.5 | 5,339 | 5,084 |
| Tax receivables | | 199 | 213 |
| Other receivables | 1.5 | 1,661 | 1,925 |
| Prepayments | | 776 | 840 |
| Cash and cash equivalents | 4.4.2 | 5,222 | 5,589 |
| **Total current assets** | | **17,948** | **18,086** |
| **Total assets** | | **123,120** | **117,700** |

| DKK million | Section | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 4.3.2 | 3,051 | 3,051 |
| Reserves | | -33,652 | -36,837 |
| Retained earnings | | 74,049 | 79,088 |
| **Equity, shareholders in Carlsberg A/S** | | **43,448** | **45,302** |
| Non-controlling interests | | 2,587 | 2,587 |
| **Total equity** | | **46,035** | **47,889** |
| **Non-current liabilities** | | | |
| Borrowings | 4.2, 4.4.1 | 20,879 | 16,750 |
| Retirement benefit obligations and similar obligations | 7.4 | 3,299 | 2,908 |
| Tax liabilities | 6.2 | 6,503 | 5,659 |
| Provisions | 3.2 | 4,037 | 3,827 |
| Other liabilities | 5.3 | 9,056 | 6,186 |
| **Total non-current liabilities** | | **43,774** | **35,330** |
| **Current liabilities** | | | |
| Borrowings | 4.2, 4.4.1 | 4,112 | 7,233 |
| Trade payables | | 17,149 | 16,199 |
| Deposits on returnable packaging materials | 1.2.2 | 1,545 | 1,583 |
| Provisions | 3.2 | 1,663 | 1,100 |
| Tax payables | | 999 | 878 |
| Other liabilities | | 7,843 | 7,488 |
| **Total current liabilities** | | **33,311** | **34,481** |
| **Total liabilities** | | **77,085** | **69,811** |
| **Total equity and liabilities** | | **123,120** | **117,700** |

# STATEMENT OF CHANGES IN EQUITY

| DKK million | Section | Shareholders in Carlsberg A/S | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **2019** | | Share capital | Currency translation | Hedging reserves | Total reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| **Equity at 1 January** | | **3,051** | **-36,116** | **-721** | **-36,837** | **79,088** | **45,302** | **2,587** | **47,889** |
| **Consolidated profit** | | **-** | **-** | **-** | **-** | **6,569** | **6,569** | **908** | **7,477** |
| **Other comprehensive income** | 4.3.3 | **-** | **3,185** | **-** | **3,185** | **-518** | **2,667** | **-3** | **2,664** |
| **Total comprehensive income for the year** | | **-** | **3,185** | **-** | **3,185** | **6,051** | **9,236** | **905** | **10,141** |
| Share-based payments | 7.3 | - | - | - | - | 214 | 214 | 3 | 217 |
| Dividends paid to shareholders | 4.3.2 | - | - | - | - | -2,738 | -2,738 | -853 | -3,591 |
| Share buy-back | 4.3.2 | - | - | - | - | -4,100 | -4,100 | - | -4,100 |
| Non-controlling interests | | - | - | - | - | -4,466 | -4,466 | -55 | -4,521 |
| **Total changes in equity** | | **-** | **3,185** | **-** | **3,185** | **-5,039** | **-1,854** | **-** | **-1,854** |
| **Equity at 31 December** | | **3,051** | **-32,931** | **-721** | **-33,652** | **74,049** | **43,448** | **2,587** | **46,035** |
| **2018** | | | | | | | | | |
| **Equity at 1 January** | | **3,051** | **-32,902** | **-581** | **-33,483** | **77,362** | **46,930** | **2,595** | **49,525** |
| **Consolidated profit** | | **-** | **-** | **-** | **-** | **5,309** | **5,309** | **824** | **6,133** |
| **Other comprehensive income** | 4.3.3 | **-** | **-3,214** | **-140** | **-3,354** | **377** | **-2,977** | **31** | **-2,946** |
| **Total comprehensive income for the year** | | **-** | **-3,214** | **-140** | **-3,354** | **5,686** | **2,332** | **855** | **3,187** |
| Acquisition/disposal of treasury shares | 4.3.2 | - | - | - | - | 44 | 44 | - | 44 |
| Settlement of share-based payments | 4.3.2 | - | - | - | - | -94 | -94 | - | -94 |
| Share-based payments | 7.3 | - | - | - | - | 171 | 171 | 3 | 174 |
| Dividends paid to shareholders | 4.3.2 | - | - | - | - | -2,439 | -2,439 | -869 | -3,308 |
| Non-controlling interests | | - | - | - | - | -1,642 | -1,642 | - | -1,642 |
| Disposal of entities | 5.2 | - | - | - | - | - | - | 3 | 3 |
| **Total changes in equity** | | **-** | **-3,214** | **-140** | **-3,354** | **1,726** | **-1,628** | **-8** | **-1,636** |
| **Equity at 31 December** | | **3,051** | **-36,116** | **-721** | **-36,837** | **79,088** | **45,302** | **2,587** | **47,889** |

# STATEMENT OF CASH FLOWS

| DKK million | Section | 2019 | 2018 |
|---|---|---|---|
| Operating profit before special items | | 10,465 | 9,329 |
| Depreciation, amortisation and impairment losses[1] | 2.3 | 4,542 | 4,091 |
| **Operating profit before depreciation, amortisation and impairment losses[1]** | | **15,007** | **13,420** |
| Other non-cash items | | -320 | 143 |
| Change in trade working capital | | 491 | 1,908 |
| Change in other working capital | | 634 | 52 |
| Restructuring costs paid | | -445 | -238 |
| Interest etc. received | | 139 | 153 |
| Interest etc. paid | | -1,033 | -1,016 |
| Income tax paid | | -2,234 | -2,375 |
| **Cash flow from operating activities** | 1.4 | **12,239** | **12,047** |
| Acquisition of property, plant and equipment and intangible assets | | -4,588 | -4,017 |
| Disposal of property, plant and equipment and intangible assets | | 1,714 | 254 |
| Change in on-trade loans | 1.4 | 50 | -192 |
| **Total operational investments** | | **-2,824** | **-3,955** |
| **Free operating cash flow** | | **9,415** | **8,092** |
| Acquisition and disposal of subsidiaries, net | 5.2 | - | -974 |
| Acquisition and disposal of associates and joint ventures, net | 5.2 | -41 | -1,491 |
| Acquisition and disposal of financial investments, net | | 25 | 3 |
| Change in financial receivables | | -59 | -36 |
| Dividends received | | 626 | 572 |
| **Total financial investments** | | **551** | **-1,926** |
| Other investments in real estate | | -4 | -10 |
| **Total other activities[2]** | | **-4** | **-10** |
| **Cash flow from investing activities** | | **-2,277** | **-5,891** |
| **Free cash flow** | | **9,962** | **6,156** |
| Shareholders in Carlsberg A/S | 4.3.2 | -2,738 | -2,489 |
| Share buy-back | 4.3.2 | -4,100 | - |
| Non-controlling interests | 4.3.2 | -2,520 | -1,186 |
| External financing | 4.4.1 | -935 | -123 |
| **Cash flow from financing activities** | | **-10,293** | **-3,798** |
| **Net cash flow** | | **-331** | **2,358** |
| Cash and cash equivalents at 1 January[3] | | 5,434 | 3,120 |
| Foreign exchange adjustment of cash and cash equivalents | | 46 | -44 |
| **Cash and cash equivalents at 31 December[3]** | 4.4.2 | **5,149** | **5,434** |

[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

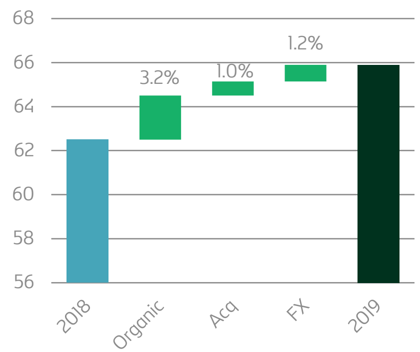
# OPERATING ACTIVITIES

## 65.9bn

### REVENUE (DKK)

Revenue grew by 5.4%, amounting to DKK 65,902m (2018: DKK 62,503m). The revenue growth was positively affected by the organic growth, the full-year effect of Cambrew, which was acquired in August 2018, and a positive currency impact.

**Revenue growth** (%)




## 49.5%

### GROSS MARGIN

Cost of sales per hl increased by approximately 5%, negatively impacted by higher input costs and mix as well as by currencies.

The gross margin declined by 50bp to 49.5% due to the higher input costs, declining volumes in Russia due to the challenging competitive environment and the consolidation of Cambrew, which contributes lower margins than the Group average.

## 10.5bn

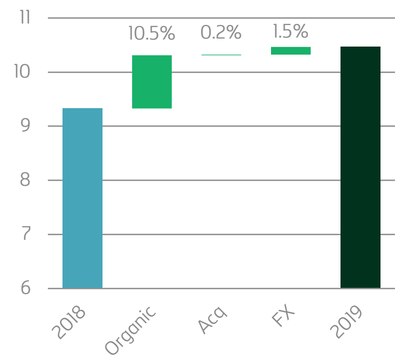
### OPERATING PROFIT (DKK)

Operating expenses excluding distribution expenses increased by 2%, impacted by investments in the SAIL'22 priorities. As a percentage of revenue, operating expenses declined by 90bp.

Operating profit before depreciation, amortisation and impairment losses (EBITDA) grew organically by 10.0%. Reported EBITDA grew by 11.8% and was impacted by positive currency movements and a positive net acquisition effect.

Operating profit before special items was DKK 10,465m (2018: DKK 9,329m). The 12.2% increase was driven by organic growth of 10.5%, supported by a positive currency and net acquisition impact of 1.5% and 0.2% respectively. Western Europe and Asia delivered positive operating profit growth, while the operating profit in Eastern Europe declined.

**Operating profit growth** (%)




## 6.6bn

### NET PROFIT (DKK)

Special items, net, amounted to DKK 501m (2018: DKK -88m). Special items were particularly impacted by the disposal of two brewery sites and restructuring in Western Europe.

Financial items, net, amounted to DKK -738m against DKK -722m in 2018. Excluding currency gains and fair value adjustments, financial items, net, amounted to DKK -650m (2018: DKK -758m).

Tax amounted to DKK -2,751m (2018: DKK -2,386m). The effective tax rate was 26.9% (2018: 28.0%).

Consolidated profit was DKK 7,477m compared to DKK 6,133m in 2018. Consolidated profit was driven by operating profit growth, positive special items and a lower effective tax rate compared with 2018.

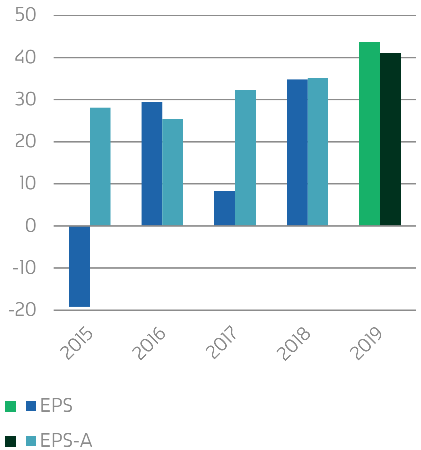
Non-controlling interests' share of consolidated profit totalled DKK 908m (2018: DKK 824m). The Carlsberg Group's share of consolidated profit was DKK 6,569m (2018: DKK 5,309m).

# 41.0

## EARNINGS PER SHARE (DKK)

Earnings per share were DKK 43.7 (2018: DKK 34.8). Adjusted for special items after tax, earnings per share were DKK 41.0 (2018: DKK 35.2), corresponding to a 16.5% improvement. Earnings per share, adjusted, increased by DKK 5.3 due to an increase in earnings and by DKK 0.5 due to the share buy-back programme initiated in 2019. Excluding share buy-back, earnings per share, adjusted, increased by 15%.

**Earnings per share** (DKK)




# 12.2bn

## OPERATING CASH FLOW (DKK)

Cash flow from operating activities increased by 1.0% compared with 2018 and amounted to DKK 12,239m (2018: DKK 12,047m).

The strong operating cash flow was positively impacted by the change in trade working capital of DKK +491m (2018: DKK +1,908m). Average trade working capital to revenue improved from -16.0% in 2018 to -16.8%. The change in other working capital was DKK +634m (2018: DKK +52m), impacted by provisions, VAT and other accruals.

Restructuring costs paid amounted to DKK -445m (2018: DKK -238m). Net interest etc. paid amounted to DKK -894m (2018: DKK -863m). The increase in interest paid was due to settlement of financial instruments as well as lower interest income.

Income tax paid was DKK -2,234m (2018: DKK -2,375m). The decrease from 2018 was due to a lower effective tax rate.

# 10.0bn

## FREE CASH FLOW (DKK)

Free cash flow amounted to DKK 9,962m (2018: DKK 6,156m), while the free operating cash flow amounted to DKK 9,415m (2018: DKK 8,092m).

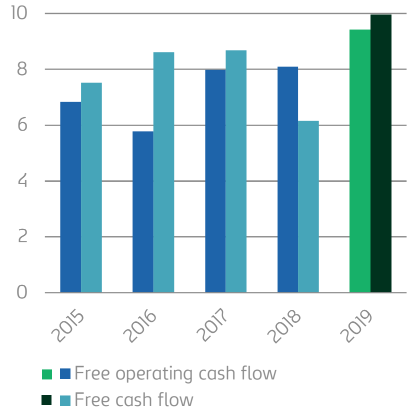
The free cash flow was sustained at a high level and was positively affected by a higher EBITDA than in 2018 as well as a positive impact from working capital.

Cash flow from investing activities was DKK -2,277m against DKK -5,891m in 2018, an improvement of DKK 3,614m, due to the disposal of two brewery sites in Western Europe and lower cost of acquisition of entities. Operational investments totalled DKK -2,824m (2018: DKK -3,955m). Total financial investments amounted to DKK +551m (2018: DKK -1,926m), the negative amount in 2018 reflecting the acquisitions of Cambrew and Super Bock.

Cash flow from real estate activities amounted to DKK -4m (2018: DKK -10m).

Total cash flow to investments in entities, including acquisition of non-controlling interests, i.e. acquiring additional shareholding in a subsidiary, amounted to DKK 1.7bn (2018: DKK 2.8bn). For 2019, this primarily included the acquisition of the remaining 25% of the Cambrew Group, which was included in financing activities. Cash flow to acquisition of non-controlling interests is presented as part of cash flow from financing activities, which is not part of free cash flow.

**Free cash flow** (DKKbn)



SECTION 1.1

# SEGMENTATION OF OPERATIONS

### REVENUE

The Group's revenue arises primarily from the sale of beverages to our customers. Revenue from brand licensing, sale of by-products and other revenue in aggregate accounts for around 3% of the Group's revenue and is not considered material. Revenue grew by DKK 3,399m in 2019 and was positively impacted by the increase in volumes, an improved price/mix across the regions, a positive currency impact and the full-year effect of Cambrew, which was acquired in August 2018.

Not allocated revenue, DKK 72m (2018: DKK 42m), consisted of DKK 1,355m (2018: DKK 1,362m) in revenue and DKK -1,283m (2018: DKK -1,320m) from eliminations of sales between the geographical segments.

The DKK value of revenue in Russia for 2019 was impacted by the increase in the average RUB/DKK rate of 2.6%.

## Segmentation of income statement

DKK million

| 2019 | Western Europe | Asia | Eastern Europe | Not allocated | Beverages, total | Non-beverage | Carlsberg Group, total |
|---|---|---|---|---|---|---|---|
| **Revenue** | **36,317** | **18,416** | **11,097** | **72** | **65,902** | **-** | **65,902** |
| Total cost | -30,320 | -14,536 | -9,215 | -1,543 | -55,614 | -101 | -55,715 |
| Share of profit after tax of associates and joint ventures | 190 | 51 | - | -5 | 236 | 42 | 278 |
| **Operating profit before special items** | **6,187** | **3,931** | **1,882** | **-1,476** | **10,524** | **-59** | **10,465** |
| Special items, net | | | | | 568 | -67 | 501 |
| Financial items, net | | | | | -728 | -10 | -738 |
| **Profit before tax** | | | | | **10,364** | **-136** | **10,228** |
| Income tax | | | | | -2,766 | 15 | -2,751 |
| **Consolidated profit** | | | | | **7,598** | **-121** | **7,477** |
| Operating margin | 17.0% | 21.3% | 17.0% | | 16.0% | | 15.9% |

| 2018 | Western Europe | Asia | Eastern Europe | Not allocated | Beverages, total | Non-beverage | Carlsberg Group, total |
|---|---|---|---|---|---|---|---|
| **Revenue** | **36,151** | **15,530** | **10,780** | **42** | **62,503** | **-** | **62,503** |
| Total cost | -30,847 | -12,293 | -8,558 | -1,489 | -53,187 | -117 | -53,304 |
| Share of profit after tax of associates and joint ventures | 121 | -73 | - | 4 | 52 | 78 | 130 |
| **Operating profit before special items** | **5,425** | **3,164** | **2,222** | **-1,443** | **9,368** | **-39** | **9,329** |
| Special items, net | | | | | -88 | - | -88 |
| Financial items, net | | | | | -718 | -4 | -722 |
| **Profit before tax** | | | | | **8,562** | **-43** | **8,519** |
| Income tax | | | | | -2,395 | 9 | -2,386 |
| **Consolidated profit** | | | | | **6,167** | **-34** | **6,133** |
| Operating margin | 15.0% | 20.4% | 20.6% | | 15.0% | | 14.9% |

## Revenue and excise duties

| DKK million | 2019 | 2018 |
|---|---|---|
| Revenue including excise duties | 93,483 | 88,970 |
| Excise duties | -27,581 | -26,467 |
| **Revenue** | **65,902** | **62,503** |

## Geographical allocation of revenue

| DKK million | 2019 | 2018 |
|---|---|---|
| Denmark (Carlsberg A/S' domicile) | 4,736 | 4,614 |
| China | 8,999 | 7,509 |
| Russia | 7,307 | 7,507 |
| Other countries | 44,860 | 42,873 |
| **Total** | **65,902** | **62,503** |

SECTION 1.1 (CONTINUED)

# SEGMENTATION OF OPERATIONS

### OPERATING PROFIT BEFORE SPECIAL ITEMS

Not allocated operating profit before special items, DKK -1,476m (2018: DKK -1,443m), related to central costs not managed by the regions, including costs of developing branding activities to support the SAIL'22 initiatives and general costs of centralised functions as well as various eliminations of DKK 71m (2018: DKK 73m).

### VOLUMES

Organic growth in total volumes was impacted by 6.0% growth in Asia, which was partly offset by declining volumes in Western Europe and Eastern Europe. Reported volume growth was also driven by Asia, where the acquisition of Cambrew had a positive impact.

### NON-CONTROLLING INTERESTS

The Group's non-controlling interests consist of Lao Brewery, Chongqing Brewery Group, Carlsberg Malaysia Group and other minor interests, primarily in the Asia region. The non-controlling interest are not individually material to the Group's total profit.

### Group financial performance

| | | | | Change | | Change |
|---|---|---|---|---|---|---|
| **Volumes (million hl)** | **2018** | **Organic** | **Acq., net** | **FX** | **2019** | **Reported** |
| Beer | 112.3 | -0.6% | 0.8% | - | 112.5 | 0.2% |
| Non-beer | 20.8 | 3.9% | 4.1% | - | 22.4 | 8.0% |
| **Total volume** | **133.1** | **0.1%** | **1.3%** | **-** | **134.9** | **1.4%** |
| **DKK million** | | | | | | |
| Revenue | 62,503 | 3.2% | 1.0% | 1.2% | 65,902 | 5.4% |
| Operating profit before special items | 9,329 | 10.5% | 0.2% | 1.5% | 10,465 | 12.2% |
| Operating margin (%) | 14.9 | | | | 15.9 | 100bp |

### ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group considers all terms and activities in contracts with customers in order to determine the performance obligation, the transaction price and the allocation of the transaction price.

If the consideration in a contract includes a variable amount, the Group estimates the consideration to which it will be entitled in exchange for transferring goods to the customer. The variable consideration is estimated at contract inception based on expected sales volumes using historical and year-to-date sales data and other information about trading with the individual customer or with a group of customers.

The Group estimates discounts using either the expected value method or the most likely amount method, depending on which method better predicts the amount of consideration to which it will be entitled.

The most likely amount method is used for contracts with a single contract sum, while the expected value method is used for contracts with more than one threshold due to the complexity and the activities agreed with the individual customer.

Certain contracts related to specific major events that are held within such a short time period that it is not possible to sell all the goods during the event (e.g. football matches) give the customer the right to return the goods within a specified period.

The Group uses the expected value method to estimate the goods that will not be returned, as this method best predicts the amount of variable consideration to which the Group will be entitled. For goods that are expected to be returned, the Group recognises a refund liability instead of revenue.

Management makes judgements when deciding whether supporting activities with a customer should be classified as a discount or a marketing expense. Generally, activities with the individual customer are accounted for as a discount, whereas costs related to broader marketing activities are classified as marketing expenses.

Whether the Group is acting as a principal or an agent is evaluated by management on a country-by-country basis. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods before transferring them to the customer.

#### Excise duties, taxes and fees

The classification of duties, taxes and fees paid to local authorities or brewery organisations etc. requires accounting estimates and judgements 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. These are classified as either sales- or production-related.

Excise duties are generally imposed by the tax authorities as taxes on consumption and are collected by the Group on behalf of the authorities when the goods are transferred to the customers and thereby ready for consumption.

Taxes and fees related to the input/use of goods in production, distribution etc. are recognised as part of the cost of the goods or services purchased. The type of authority or organisation imposing the duty, tax or fee and the objective of these are key factors when determining the classification.

SECTION 1.1 (CONTINUED)

# SEGMENTATION OF OPERATIONS

## ACCOUNTING POLICIES

### Revenue

Presentation

Compared with the Annual Report for 2018, the Group has, for clarity, changed the name of the line item "Net revenue" to "Revenue". Likewise, "Gross revenue" has been changed to "Revenue including excise duties", and the specification has been moved from the income statement to the notes. The changed presentation had no impact on the recognition and measurement of revenue in 2019 and 2018.

Recognition and measurement

Revenue from contracts with customers comprises sales of goods, royalty 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 at the point in time when the control of goods and products is transferred to the customer, which is generally upon delivery. For contracts providing the customer with a right of return within a specified period, the Group considers the timing of recognition.

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

Revenue from contracts with customers is measured at an amount that reflects the expected consideration for those goods. Amounts disclosed as revenue exclude discounts, VAT and excise duties collected on behalf of authorities.

The Group considers whether contracts include separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price, the Group considers the effects of variable consideration. No element of financing is deemed present, as payment is generally made on the basis of cash on delivery or up to 30 days of credit.

Variable consideration

The Group offers various discounts 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, cf. section 1.5.

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 may be related to a current campaign or a sales target measured in volumes or total value. Examples include discounts paid as a lump sum, discounts for meeting certain sales targets or progressive discounts offered in step with increasing sales to a customer.

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

### Segment information

The Group's beverage activities are segmented according to the three geographical regions where sales take place. These regions make up the Group's reportable segments.

The segmentation reflects the geographical and strategic management, decision and reporting structure applied by the Executive Committee for monitoring 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 and strategic development. The expenses include costs of running central functions and marketing, including global sponsorships.

The non-beverage segment, comprising research and real estate activities, is managed separately and therefore shown separately instead of geographically segmented.

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

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

### Reported figures

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 an increase/decrease in ownership of associates and joint ventures, for a 12-month period from the acquisition/divestment date.

The foreign exchange effect is calculated as the difference between the figures for the current reporting period translated at the current exchange rates and at the exchange rates applied in the previous reporting period.

Organic growth is the remaining growth that is not related to acquisitions, divestments or foreign exchange effects.

SECTION 1.2

# OPERATING EXPENSES, INVENTORIES AND DEPOSIT LIABILITIES

## 1.2.1 COST OF SALES AND INVENTORIES

**Cost of sales** increased by 6% and was affected by the organic increase in volume in Asia (6%), higher input prices, in particular in Eastern Europe, and the full-year impact from Cambrew, which was acquired in August 2018. Cost of sales per hl increased by approximately 5% compared with 2018.

### Cost of sales

| DKK million | 2019 | 2018 |
|---|---|---|
| Cost of materials | 19,222 | 17,252 |
| Direct staff costs | 1,441 | 1,365 |
| Amortisation and depreciation | 2,637 | 2,849 |
| Indirect production overheads | 4,433 | 4,191 |
| Purchased finished goods and other costs | 5,531 | 5,626 |
| **Total** | **33,264** | **31,283** |

**Inventories** increased by 7% compared with 2018, mainly impacted by higher inventories in Eastern Europe due to bottle stocking and lower sales.

### Inventories

| DKK million | 2019 | 2018 |
|---|---|---|
| Raw materials | 2,116 | 1,891 |
| Work in progress | 333 | 308 |
| Finished goods | 2,302 | 2,236 |
| **Total** | **4,751** | **4,435** |

**Commodity risks** are associated in particular with purchasing of cans (aluminium), malt (barley), glass, paper, sugar and energy. The management of commodity risks is coordinated centrally and aimed at achieving stable and predictable prices in the medium term and avoiding capital and liquidity being tied up unnecessarily.

As the underlying markets for the specified categories 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 70% of malt (barley) purchases for a given year no later than at the end of the third quarter of the previous year and to hedge up to around 90% at the beginning of the year. A significant part of the exposure for the Group for 2019 was therefore hedged through fixed-price purchase agreements entered into during 2018. Likewise, the majority of the exposure for 2020 was hedged during 2019. The percentage that is hedged or at fixed prices is higher for Western Europe and Eastern Europe than for Asia, which is partly due to the timing of the harvest season in this region.

In the majority of purchase agreements for cans, the Group's purchase price 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 by applying a hedge ratio of 1:1.

In 2019, the majority of the aluminium price risk was hedged with financial instruments or with fixed prices via the suppliers to the Group. The same has been done for 2020. The fair values of the financial instruments are specified in section 4.8.

### Hedging of raw material price risk

DKK million

| | Sensitivity assuming 100% efficiency | | | | Time of maturity | |
|---|---|---|---|---|---|---|
| 2019 | Change | Effect on OCI | Tonnes purchased | Average price (DKK) | 2020 | 2021 |
| Aluminium | +10% | 77 | 63,861 | 12,512 | 63,861 | - |
| 2018 | | | | | 2019 | 2020 |
| Aluminium | +10% | 112 | 93,296 | 13,095 | 71,531 | 21,765 |

### ACCOUNTING ESTIMATES AND JUDGEMENTS

At least once a year, management assesses whether the standard cost of inventories approximates the actual cost. During the year, the standard cost is revised if it deviates by more than 5% from the actual cost. Indirect production overheads are calculated on the basis of relevant assumptions as to capacity utilisation, production time and other factors.

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.

The calculation of the net realisable value of inventories is 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, which means that slow-moving goods must be scrapped instead.

### ACCOUNTING POLICIES

**Cost of sales** comprises cost of materials used in own-produced finished goods, including malt (barley), hops, glass, cans, other packaging materials, direct labour, indirect production overheads and standard cost variations. Further, it comprises purchased finished goods that include cost of point-of-sale materials and third-party products sold to customers.

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.

SECTION 1.2 (CONTINUED)

# OPERATING EXPENSES, INVENTORIES AND DEPOSIT LIABILITIES

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

**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 is the estimated selling price less costs of completion and costs necessary to make the sale, also taking into account marketability, obsolescence and developments in expected selling price.

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

## 1.2.2 DEPOSITS ON RETURNABLE PACKAGING MATERIALS

Deposits on returnable packaging materials amounted to DKK 1,545m (2018: DKK 1,583m). The capitalised value of returnable packaging materials was DKK 2,102m (2018: DKK 1,898m).

The capitalised value of returnable packaging materials exceeds the deposits because each of the returnable packaging items circulates a number of times in the market and some markets have regulations that require the deposit value to be set lower than the cost of the returnable packaging materials.

### ACCOUNTING ESTIMATES AND JUDGEMENTS

Management assesses the local business model to determine whether the Group has a legal or constructive obligation to accept returns of packaging materials from the market and the level of control. This entails the Group considering, among other things, the return rate and the annual circulation in the individual markets. These factors are assessed annually. Returnable packaging materials controlled by the Group are capitalised as property, plant and equipment and are depreciated over the expected useful life.

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

### ACCOUNTING POLICIES

Returnable packaging materials that the Group controls through a legal or constructive obligation are capitalised as property, plant and equipment.

Returnable packaging materials are depreciated over 3-10 years. The accounting policies for property, plant and equipment are further described in section 2.3.

The obligation to refund deposits on returnable packaging materials 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.

## 1.2.3 SALES AND DISTRIBUTION EXPENSES

Total expenses increased by 2% in reported terms and were flat organically. The reported figure was impacted by higher marketing expenses related to investments in the SAIL'22 priorities, while sales and distribution expenses, net, were flat compared with 2018.

### Sales and distribution expenses

| DKK million | 2019 | 2018 |
|---|---|---|
| Marketing expenses | 5,581 | 5,345 |
| Sales expenses | 5,768 | 5,849 |
| Distribution expenses | 6,477 | 6,280 |
| **Total** | **17,826** | **17,474** |

### 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, the use of these to drive the sale of branded products, sales campaigns and sponsorships.

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

Sales expenses comprise costs relating to general sales activities, write-downs for bad debt losses, wages and salaries as well as depreciation and impairment of sales equipment. Distribution expenses comprise costs incurred in distributing goods, wages and salaries, and depreciation and impairment of distribution equipment.

## 1.2.4 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 disposal of intangible assets and property, plant and equipment.

### Other operating activities, net

| DKK million | 2019 | 2018 |
|---|---|---|
| Gains and losses on disposal of property, plant and equipment and intangible assets, net | 56 | 13 |
| On-trade loans, net | 44 | 21 |
| Real estate, net | 11 | -15 |
| Research centres, net | -133 | -127 |
| Other, net | 130 | 176 |
| **Total** | **108** | **68** |

### 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 measured at amortised cost less impairment.

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. Product development costs are included in cost of sales.

SECTION 1.3

# FOREIGN EXCHANGE RISK RELATED TO EARNINGS

The majority of the Group's activities take place outside Denmark and in currencies other than DKK. Foreign exchange risk is therefore a principal financial risk for the Group, and 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 local functional currencies. It is the Group's intention to hedge 70-90% of future cash flows in currencies other than the local functional currency on a four-quarter rolling basis.

### Western Europe

For the entities in Western Europe, a major part of the purchases in foreign currencies is in EUR. Hedging of EUR against the local currencies will effectively eliminate a significant part of the currency risk in the entities' operating profit in local currency. At Group level, these hedges are effectively an economic hedge of (parts of) the revenue in the relevant currency, and they are accounted for as cash flow hedges, cf. section 4.8. The EUR/DKK exposure is considered to be limited and is not hedged.

### Asia

The transaction risk is considered to be less significant due to the lower sales and purchases in currencies other than the local functional currencies as well as the high correlation between USD and most of the Asian currencies. As a consequence, the risk is not hedged.

### Eastern Europe

Baltika Breweries and the other entities 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 due to the significant cost of hedging these currencies over a longer period of time. For 2019 and 2020, 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 currencies.

## TRANSLATION RISK

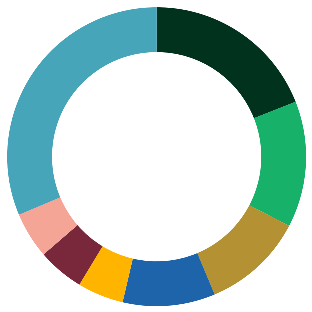
The Group is exposed to risk from translation of foreign entities into the Group's presentation currency, DKK.

The single largest exposure in respect of operating profit is the exposure to RUB caused by the high volatility in the currency. The exposure to fluctuations in EUR/DKK is considered to be limited due to Denmark's fixed exchange rate policy towards EUR and is consequently not hedged.

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.

### Revenue by functional currency (%)

2019 (2018)




### Impact on operating profit

Developments in exchange rates between DKK and the functional currencies had a positive impact of 1.5% on operating profit measured in DKK.

| Entities in | Functional currency | Change in average FX rate 2018 to 2019 |
|---|---|---|
| The eurozone | EUR | 0.17% |
| Russia | RUB | 2.60% |
| China | CNY | 1.00% |
| United Kingdom | GBP | 1.20% |
| Switzerland | CHF | 4.00% |
| Norway | NOK | -2.50% |
| Sweden | SEK | -2.90% |
| Laos | LAK | 2.30% |

SECTION 1.4

# CASH FLOW FROM OPERATING ACTIVITIES

Change in trade working capital amounted to DKK 491m (2018: DKK 1,908m) and was affected by higher trade payables in Asia, driven by higher volumes in 2019. This was partly offset by increases in inventories, both in Asia and Eastern Europe.

The increase in other working capital amounted to DKK 634m (2018: DKK 52m), affected by an increase in other payables, mainly in Asia, as well as a decrease in other receivables in Western Europe, partly due to VAT receivables.

The change in on-trade loans amounted to DKK 50m (2018: DKK -192m). On-trade loans in 2018 were affected by a DKK 238m reclassification of some prepaid costs to on-trade loans.

Restructuring costs paid amounted to DKK -445m (2018: DKK -238m), a large part of which relates to termination benefits to employees made redundant due to optimisation in a number of markets in Western Europe and Russia, as well as costs related to the closure of the former brewery site in Hamburg, Germany.

Net interest etc. paid amounted to DKK -894m (2018: DKK -863m). The increase in net interest was affected by settlements of derivative financial instruments as well as lower interest income.

Income tax paid amounted to DKK -2,234m (2018: DKK -2,375m). The decrease in tax paid was partly due to higher taxes paid in 2018 on the disposal of the former brewery site in Hamburg, Germany, partly offsetting a 2019 increase in taxes paid on higher earnings in China.

Cash flow from disposal of property, plant and equipment and intangible assets, DKK 1,714m, includes the proceeds from disposal of the former brewery sites in Trondheim, Norway, and the release of the prepaid proceeds on the disposal of the former brewery site in Hamburg, in total DKK 1,503m.

Average trade working capital improved from -16.0% to -16.8% of revenue, primarily due to the increase in trade payables.

### Other specifications of cash flow from operating activities

| DKK million | Section | 2019 | 2018 |
|---|---|---|---|
| **Other non-cash items** | | | |
| Share of profit after tax of associates and joint ventures | 5.4 | -278 | -130 |
| Gain on disposal of property, plant and equipment and intangible assets, net | 2.3 | -56 | -13 |
| Share-based payments | | 217 | 174 |
| Transfer of long-term medical insurance obligation | 7.4 | -162 | - |
| Other items | | -41 | 112 |
| **Total** | | **-320** | **143** |
| **Trade working capital** | | | |
| Inventories | | -188 | -586 |
| Trade receivables | | 82 | -423 |
| Trade payables, duties payable and deposits on returnable packaging materials | | 597 | 2,917 |
| **Total** | | **491** | **1,908** |
| **Other working capital** | | | |
| Other receivables | | 254 | 125 |
| Other payables | | 268 | -364 |
| Retirement benefit obligations and other liabilities related to operating profit before special items | | 154 | 338 |
| Unrealised foreign exchange gains/losses | | -42 | -47 |
| **Total** | | **634** | **52** |
| **On-trade loans** | | | |
| Loans provided | | -685 | -960 |
| Repayments | | 426 | 449 |
| Amortisation of on-trade loans | | 309 | 319 |
| **Total** | | **50** | **-192** |

SECTION 1.5

# TRADE RECEIVABLES AND ON-TRADE LOANS

The Group's non-current receivables consist mainly of on-trade loans that fall due more than one year from the reporting date. Of the total non-current receivables, DKK 207m (2018: DKK 171m) falls due more than five years from the reporting date.

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, Switzerland, Germany 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 guarantees for loans provided by third parties, cf. section 3.3. The operating entities monitor and control these loans in accordance with Group guidelines.

The average effective interest rate on loans to the on-trade was 4.5% (2018: 3.6%).

### On-trade loans recognised in other operating activities, net

| DKK million | 2019 | 2018 |
|---|---|---|
| Interest and amortisation of on-trade loans | 75 | 61 |
| Losses and write-downs on on-trade loans | -31 | -40 |
| **On-trade loans, net** | **44** | **21** |

### Credit risk on receivables

DKK million

| 2019 | Gross receivables | Loss allowance | Receivables, net | Weighted average loss rate |
|---|---|---|---|---|
| Receivables from sales of goods and services | | | | |
| Not past due | 4,199 | -101 | 4,098 | 2% |
| Overdue 1-30 days | 571 | -26 | 545 | 5% |
| Overdue 31-90 days | 271 | -47 | 224 | 17% |
| Overdue > 90 days | 325 | -303 | 22 | 93% |
| **Receivables from sales of goods and services** | **5,366** | **-477** | **4,889** | |
| On-trade loans | | | | |
| Not past due | 1,165 | -52 | 1,113 | 4% |
| Overdue 1-30 days | 54 | -5 | 49 | 9% |
| Overdue 31-90 days | 65 | -13 | 52 | 20% |
| Overdue > 90 days | 355 | -144 | 211 | 41% |
| **On-trade loans** | **1,639** | **-214** | **1,425** | |
| Other receivables | | | | |
| Not past due | 1,638 | -2 | 1,636 | - |
| Overdue 1-30 days | 12 | - | 12 | - |
| Overdue 31-90 days | 143 | -1 | 142 | 1% |
| Overdue > 90 days | 93 | -18 | 75 | 19% |
| **Other receivables** | **1,886** | **-21** | **1,865** | |
| **Total** | **8,891** | **-712** | **8,179** | |
| **Total 2018** | **8,760** | **-654** | **8,106** | |

### Receivables included in the statement of financial position

| 2019 | Current | Non-current | Total |
|---|---|---|---|
| Receivables from sales of goods and services | 4,889 | - | 4,889 |
| On-trade loans | 450 | 975 | 1,425 |
| Other receivables | 1,661 | 204 | 1,865 |
| **Total** | **7,000** | **1,179** | **8,179** |

| 2018 | Current | Non-current | Total |
|---|---|---|---|
| Receivables from sales of goods and services | 4,605 | - | 4,605 |
| On-trade loans | 479 | 972 | 1,451 |
| Other receivables | 1,925 | 125 | 2,050 |
| **Total** | **7,009** | **1,097** | **8,106** |

SECTION 1.5 (CONTINUED)

# TRADE RECEIVABLES AND ON-TRADE LOANS

## 1.5.1 CREDIT RISK

In 2019, receivables not past due amounts to 84% (2018: 87%) of total receivables, net.

The impairment losses generally relate to minor customers that are not expected to be able to pay their outstanding balances, mainly due to adverse economic developments.

The distribution of receivables broken down by country is affected by market-specific changes in payment patterns and in the amounts of receivables sold. The overall level of receivables sold is similar to last year. Furthermore, translated into DKK, the proportionate shares of the receivables have changed due to differences in the currencies' development against DKK.

**Receivables from sales of goods and services and on-trade loans** (Broken down by country)


**Development in impairment losses on receivables**

| DKK million | | | | | 2018 |
|---|---|---|---|---|---|
| 2019 | Receivables from sales of goods and services[1] | On-trade loans[2] | Other receivables[2] | Total | Total |
| Impairment at 1 January | -426 | -221 | -7 | -654 | -794 |
| Impairment losses recognised | -129 | -41 | -17 | -187 | -190 |
| Realised impairment losses | 58 | 39 | - | 97 | 140 |
| Reversed impairment losses | 47 | 10 | - | 57 | 161 |
| Foreign exchange adjustments | -27 | -1 | 3 | -25 | 29 |
| **Impairment at 31 December** | **-477** | **-214** | **-21** | **-712** | **-654** |

[1] Lifetime expected credit loss.
[2] 12-month expected credit loss, except for an insignificant share that is a lifetime expected credit loss.

### ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Management also assesses both individually and on a portfolio basis whether developments in local conditions for on-trade customers could impact the expected credit losses.

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.

The local entities assess the credit risk and adhere to Group guidelines, which include setting credit limits, encouraging cash payment, purchasing credit insurance and taking collateral.

In assessing credit risk, management analyses the need for impairment of trade receivables and on-trade loans due to customers' inability to pay.

Management assesses the expected credit losses (ECL) for portfolios 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.

On-trade loans carry a higher risk than trade receivables and are concentrated in a few markets. The local entities manage and control these loans in accordance with Group guidelines.

The credit risk on on-trade loans can be 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.

### ACCOUNTING POLICIES

Receivables are recognised initially at fair value and subsequently measured at amortised cost less loss allowance or impairment losses. Trade receivables comprise sale of 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 inception is treated as a prepaid discount to the customer, and 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.

The Group applies the simplified approach to measure expected credit losses. This entails recognising a lifetime expected loss allowance for all trade receivables. Loss rates are determined based on grouping of trade receivables sharing the same credit risk characteristics and past due days.

Regarding on-trade loans and loans to associates, a loss allowance is recognised based on 12-month or lifetime expected credit losses, depending on whether a significant increase in credit risk has arisen since initial recognition.

SECTION 2

# ASSET BASE AND RETURNS

## 123.1bn

### TOTAL ASSETS (DKK)

Total assets increased by DKK 5.4bn, mainly due to an increase in intangible assets and property, plant and equipment. Intangible assets amounted to DKK 69.8bn at 31 December 2019 (2018: DKK 66.9bn), impacted among other things by the appreciation of the Russian rouble.

Property, plant and equipment increased by DKK 2.5bn to DKK 27.9bn (2018: DKK 25.4bn), mainly impacted by the capitalisation of right-of-use assets on implementation of IFRS 16 and currencies.

Current assets decreased by DKK 0.1bn to DKK 17.9bn. The slight decline was due to lower receivables and cash, while inventories increased by DKK 0.3bn, mainly impacted by bottle stocking and lower sales in Eastern Europe.

## 4.6bn

### CAPEX (DKK)

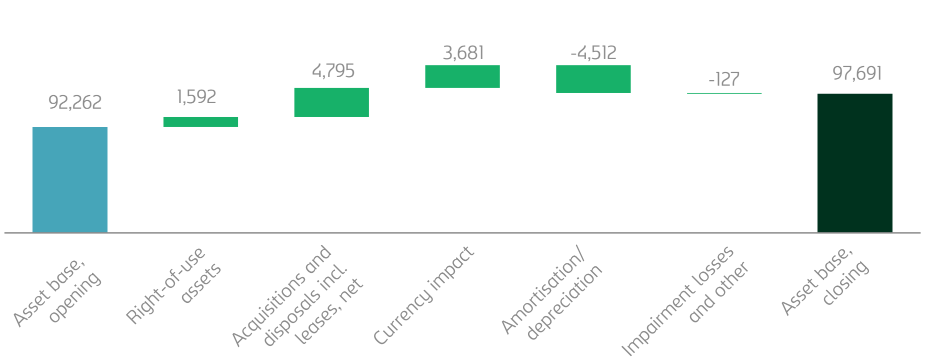
CapEx included finalisation of the new greenfield brewery in Germany, the new central office in Copenhagen, enhancement of craft production sites in China and Denmark, and sustainability investments such as Snap Pack and total water management. The increase in CapEx led to an increase in the ratio of CapEx to amortisation and depreciation excluding right-of-use assets to 111% (2018: 98%). CapEx increased across all regions, with Asia as main contributor. Besides the craft production site in China, the increase in Asia was mainly due to an increase in returnables to support growth initiatives across the region as well as capacity expansions including DraughtMaster lines in China and sales equipment in Cambodia.

## 8.8%

### ROIC

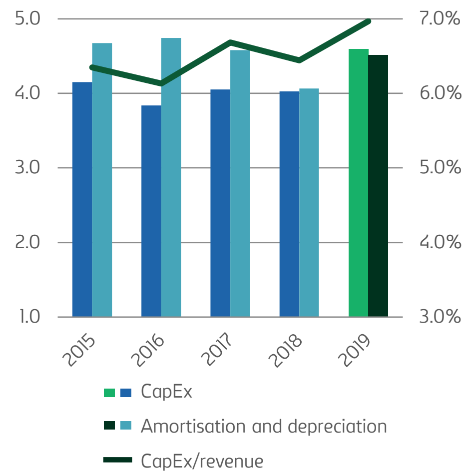
Return on invested capital (ROIC) increased by 70bp to 8.8%, impacted by a higher operating profit and a lower effective tax rate. ROIC excluding goodwill increased by 130bp to 22.2%, with improvements mainly achieved in Asia.

**Asset base**[1] (DKKm)

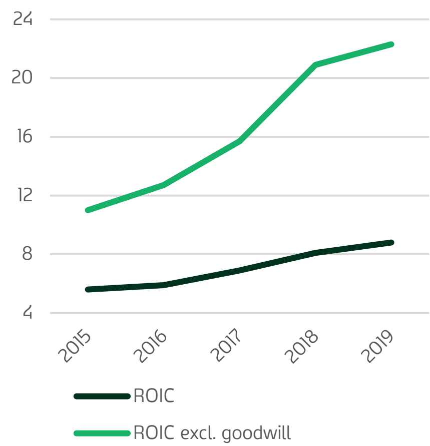



[1] The asset base represents the total investment in intangible assets and property, plant and equipment.

**CapEx and amortisation/ depreciation** (DKKbn)




**Return on invested capital (ROIC)** (%)



SECTION 2.1

# SEGMENTATION OF ASSETS AND RETURNS

At year-end, invested capital was up by DKK 3.5bn, affected by an increase in assets included of DKK 5.8bn, which was primarily driven by the appreciation of the Russian rouble as well as additions of right-of-use assets. The increase was partially offset by higher trade payables.

The impact on total assets from fluctuations in the Russian rouble was an increase of DKK 4.0bn (2018: decrease of DKK 4.2bn).

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

### Geographical allocation of non-current assets

| DKK million | 2019 | 2018 |
|---|---|---|
| Denmark (Carlsberg A/S' domicile) | 3,472 | 3,924 |
| Russia | 24,518 | 21,578 |
| China | 14,569 | 14,152 |
| Other countries | 59,496 | 57,170 |
| **Total** | **102,055** | **96,824** |

Not allocated comprises supporting companies without brewing activities and eliminations of investments in subsidiaries, receivables and loans.

### ACCOUNTING ESTIMATES AND JUDGEMENTS

The calculation of return on invested capital (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 income tax.

### ACCOUNTING POLICIES

The Group's assets and returns are segmented on the basis of geographical regions in accordance with the management reporting for the current year, cf. section 1.1.

### Invested capital

| DKK million | 2019 | 2018 |
|---|---|---|
| Total assets | 123,120 | 117,700 |
| **Less** | | |
| Tax assets | -1,938 | -1,693 |
| Financial receivables, hedging instruments and receivables sold | 1,899 | 1,660 |
| Cash and cash equivalents | -5,222 | -5,589 |
| **Assets included** | **117,859** | **112,078** |
| Trade payables | -17,149 | -16,199 |
| Deposits on returnable packaging materials | -1,545 | -1,583 |
| Provisions, excl. restructurings | -5,389 | -4,546 |
| Other liabilities, excl. hedging instruments | -7,557 | -7,029 |
| **Liabilities offset** | **-31,640** | **-29,357** |
| **Invested capital** | **86,219** | **82,721** |
| Goodwill | -52,908 | -50,929 |
| **Invested capital excl. goodwill** | **33,311** | **31,792** |
| **Invested capital, average** | **87,009** | **82,590** |

DKK million

| 2019 | Western Europe | Asia | Eastern Europe | Not allocated | Beverages, total | Non-beverage | Carlsberg Group, total |
|---|---|---|---|---|---|---|---|
| Invested capital | 39,299 | 20,521 | 27,193 | -2,347 | 84,666 | 1,553 | 86,219 |
| Invested capital excl. goodwill | 18,372 | 4,389 | 11,344 | -2,347 | 31,758 | 1,553 | 33,311 |
| Acquisition of property, plant and equipment and intangible assets | 2,100 | 1,539 | 602 | 330 | 4,571 | 21 | 4,592 |
| Amortisation and depreciation | 2,025 | 1,450 | 710 | 319 | 4,504 | 8 | 4,512 |
| Impairment losses | 42 | 29 | 50 | - | 121 | - | 121 |
| Return on invested capital (ROIC) | 11.5% | 14.2% | 5.8% | - | 8.9% | - | 8.8% |
| ROIC excl. goodwill | 23.7% | 63.5% | 13.9% | - | 22.9% | - | 22.2% |
| **2018** | | | | | | | |
| Invested capital | 38,254 | 21,090 | 23,976 | -1,696 | 81,624 | 1,097 | 82,721 |
| Invested capital excl. goodwill | 17,440 | 5,040 | 9,911 | -1,696 | 30,695 | 1,097 | 31,792 |
| Acquisition of property, plant and equipment and intangible assets | 1,948 | 1,164 | 547 | 347 | 4,006 | 21 | 4,027 |
| Amortisation and depreciation | 1,725 | 1,227 | 667 | 435 | 4,054 | 10 | 4,064 |
| Impairment losses | 56 | 56 | -45 | - | 67 | - | 67 |
| Return on invested capital (ROIC) | 10.8% | 11.8% | 7.0% | - | 8.2% | - | 8.1% |
| ROIC excl. goodwill | 24.4% | 44.0% | 17.1% | - | 21.4% | - | 20.9% |

SECTION 2.2
# IMPAIRMENT

## 2.2.1 RECOGNISED IMPAIRMENTS

In 2019 and 2018, the impairment tests of goodwill and brands with indefinite useful life were prepared at the reporting date without this leading to recognition of impairment losses.

During the year, impairment losses of DKK 124m (2018: DKK 116m) were recognised relating to two minor brands and to property, plant and equipment. In 2018, impairment losses primarily related to steel keg installations and filling lines in the Nordic countries, which were impacted by the roll-out of the DraughtMaster system.

In 2019, the Group recognised reversal of impairment losses in Eastern Europe of DKK 3m (2018: DKK 49m) relating to assets that have been brought back into production.

**Significant amounts of goodwill and brands**

Goodwill and brands with indefinite useful life relating 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.

**Impairment of brands and other non-current assets**

| DKK million | 2019 | 2018 |
|---|---|---|
| **Brands and other intangible assets** | | |
| Brands | 6 | - |
| Land use rights | 7 | - |
| **Total** | **13** | **-** |
| **Property, plant and equipment** | | |
| Plant, machinery and equipment | 111 | 116 |
| Plant, machinery and equipment (reversal of impairment losses) | -3 | -49 |
| **Total** | **108** | **67** |
| **Total impairment losses, net** | **121** | **67** |
| Of which recognised in special items, cf. section 3.1 | 91 | 40 |

### ACCOUNTING ESTIMATES AND JUDGEMENTS

**Identification of cash-generating units**

The Group's management structure reflects the geographical segments, cf. section 1.1, and decisions are made by the regional managements responsible for performance, operating investments and growth initiatives in their respective regions.

There is significant vertical integration of the production, logistics and sales functions, supporting and promoting optimisations across the Group or within regions.

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 operates with local sales and production organisations, the cash inflows are generated mostly locally, and the CGUs are therefore usually identified at country level.

Within 12 months from the date of acquisition, the determination of CGU allocation is made, and cash inflows are assessed in connection with the purchase price allocation.

**Goodwill**

Goodwill does not generate largely independent cash inflows on its own and is therefore allocated to the Group's geographical segments, which is the level at which it is monitored for internal management purposes.

In previous years, goodwill in Asia was allocated to several CGUs and groups of CGUs that were considered to be less integrated in the region and therefore tested separately. In 2019, the composition of CGUs was changed to follow the Group's segments. The change reflects the conclusion of the integration of significant entities acquired in recent years, the operating model and the now higher degree of integration between the markets of the region than before.

At the time of acquisition of entities, goodwill is allocated to a CGU, cf. section 5.2. The structure and groups of CGUs are reassessed every year. In 2019, the Group gained control of the Acrospires activities, and the goodwill recognised on the acquisition was allocated to the Western Europe CGU. In 2018, the Group gained control of the Cambrew Group, Cambodia, and the goodwill recognised on the acquisition was allocated to the Asia CGU.

**Brands**

Cash flows for brands are separately identifiable and are therefore 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 the identified assets are therefore tested for impairment at the CGU level to which goodwill is allocated.

SECTION 2.2 (CONTINUED)

# IMPAIRMENT

### Other non-current assets

Other non-current assets are tested for impairment when indications of impairment exist.

For property, plant and equipment, management performs an annual assessment of the assets' future application, for example in relation to changes in production structure, restructurings or closing of breweries.

For investments in associates and joint ventures, examples of indications of impairment are loss-making activities or major changes in the business environment.

### ACCOUNTING POLICIES

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

The test is performed at the level where cash flows are considered to be generated; either at CGU level or at the level of a group of CGUs. All assets are tested 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. The recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use.

For all assets, the value in use is assessed based on budget and target plan with reference to the expected future net cash flows. The assessment is based on the lowest CGU affected by the changes that indicate impairment. The cash flow is discounted by a discount rate adjusted for any risk specific to the asset, if relevant to the applied calculation method.

Impairment losses on goodwill and brands, significant losses on property, plant and equipment, associates and joint ventures, and losses arising on significant restructurings of processes and structural adjustments are recognised as special items. Minor 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.

## 2.2.2 IMPAIRMENT TEST OF GOODWILL

### The carrying amount of goodwill allocated to groups of CGUs

| DKK million | 2019 | 2018 |
|---|---|---|
| Western Europe | 20,927 | 20,814 |
| Asia | 16,132 | 16,050 |
| Eastern Europe | 15,849 | 14,065 |
| **Total** | **52,908** | **50,929** |

The estimation of the expected cash flow involves developing multiple probability-weighted scenarios to reflect different outcomes in terms of timing and amount. The measurement of the forecast period growth rates reflects risk adjustments made to calculate the expected cash flows.

### Key assumptions

| 2019 | Forecast cash flow growth | Terminal period growth | Pre-tax discount rate |
|---|---|---|---|
| Western Europe | -29% | 0.0% | 1.6% |
| Asia | -2% | 1.0% | 4.1% |
| Eastern Europe | -5% | 4.0% | 6.5% |

The average cash flow growth in the forecast period reflects the significant risk adjustments included in the forecast specifically for the impairment test. The risk adjustment considers only negative alternative scenarios to account for the uncertainty related to the benefits expected from the strategic initiatives in SAIL'22 in Western Europe, the development in beer consumption in Asia, particularly in China, and the volatile macroeconomic and competitive situation in Eastern Europe.

Potential upsides are not identified and adjusted in the cash flows used for impairment testing. 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.

### WESTERN EUROPE

The region primarily comprises mature beer markets, and market volumes tend to be flat. In recent years, the region has seen improving beer category dynamics through innovations, increased interest in craft & speciality beers and alcohol-free brews, and an overall improved category perception.

The region is generally characterised by well-established retail structures and a strong tradition of beer consumption. The consumption is generally resilient but the on-trade tends to suffer in a weak macroeconomic environment.

The focus is on improving margins by driving a positive price/mix development and reducing the cost base across the value chain. This process is part of the initiatives in SAIL'22.

### ASIA

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

The Asian markets are very diverse but offer prospects for volume and 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 focus in the region is on revenue growth. Activities include the continued expansion of our international premium brands, in particular Tuborg, 1664 Blanc and Carlsberg, and the strengthening and premiumisation of our local power brands in combination with a continued focus on costs and efficiencies.

### EASTERN EUROPE

The two main markets in the region are Russia and Ukraine, which account for around 65% and 20% respectively of regional beer volumes.

SECTION 2.2 (CONTINUED)

# IMPAIRMENT

In recent years, the modern off-trade, consisting of hypermarkets and supermarkets, has grown significantly and now accounts for approximately 50% of the market in Russia. Another growing channel is the so-called DIOT – draught in off-trade – which is estimated to account for around 10-15% of the market.

In recent years, the competitive environment has been challenging, particularly in Russia, which has seen an increased focus on volume. To offset the volume decline caused by our previous focus on value in this market, we made a decision to become more volume-focused, which had a negative impact on regional margins. We expect the focus on volume and the related margin pressure to continue in the coming year.

Management expects the current macroeconomic situation and developments to continue in the short term, with inflation stabilising at the current level. In the medium to long term, interest rates are expected to decline and 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.

## ACCOUNTING ESTIMATES AND JUDGEMENTS

### Goodwill

The value in use is the discounted value of the expected future risk-adjusted cash flows. This involves developing multiple probability-weighted scenarios to reflect different outcomes in terms of timing and amount.

### Key assumptions

The 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 plans.

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 interest rates used in the impairment tests are based on observable market data. Please refer to the description of discount rates in section 2.2.3.

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 and are based on past experience, external sources of information and industry-relevant observations for each CGU. Local conditions, such as expected developments in macroeconomic and market conditions specific to the individual CGUs, are considered. The assumptions are challenged and verified by management at CGU and Group level.

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, changes in excise duties etc., which may have a short-term impact but are non-recurring. Given their short-term nature, they are not taken into consideration when estimating the terminal period growth rate.

#### Volumes

Projections are based on past experience, external market data, planned commercial initiatives, such as marketing campaigns and sponsorships, and the expected impact on consumer demand and the level of premiumisation. 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.

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 considered for medium- and long-term projections.

Events and circumstances can impact the timing of volumes entering the market. This can be affected by excessive stocking related to an increase in excise duties, campaign activities and the timing of national holidays and festivals. Such short-term effects are not material to volume projections and 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 immediately or with a delay of no more than 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 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.

SECTION 2.2 (CONTINUED)

# IMPAIRMENT

## 2.2.3 IMPAIRMENT TEST OF BRANDS

### Brands with indefinite useful life

| DKK million | 2019 | 2018 |
|---|---|---|
| Baltika brand | 6,402 | 5,585 |
| International brands | 3,000 | 3,000 |
| **Significant brands** | **9,402** | **8,585** |

In 2019, significant brands represented 60% (2018: 60%) of the total carrying amount of brands with indefinite useful life.

Other brands comprise a total of 18 brands (2018: 17 brands) that individually are not material compared with the total carrying amount.

**BALTIKA BREWERIES**

2019 was the second consecutive year with low-single-digit growth in the Russian beer market after a continuous decline in recent years due to very challenging macroeconomic conditions.

The Baltika brand performed in line with the growth projections made when the expected future growth for the brand was reassessed when the brand was impaired in 2017.

### 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 expected useful life, revenue growth, a theoretical tax amortisation benefit, the royalty rate and the discount rate.

*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 because of their individual market positions and because current and planned marketing initiatives are expected to sustain their useful life.

*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.

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, changes in excise duties etc., which may have a short-term impact but are non-recurring and quickly absorbed by the business. Since the impact 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 the description of sales prices in section 2.2.2.

*Tax benefit*

The theoretical tax benefit applied in the test makes use of tax rates and amortisation periods based on current legislation. The impairment test applies 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.

### Key assumptions

| 2019 | Average revenue growth | Terminal period growth | Pre-tax discount rate | Post-tax discount rate |
|---|---|---|---|---|
| Baltika brand | 3% | 4% | 10.8% | 9.5% |
| International brands | 1% | 1% | 4.4% | 3.5% |

### 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% |

SECTION 2.2 (CONTINUED)

# IMPAIRMENT

*Discount rates*
The discount rate is a weighted average cost of capital (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 are 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 is fixed at market price or slightly higher, reflecting the expected long-term market price. The aggregate interest rate, including spread, thereby reflects 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 recent years, the Bank of Russia has expressed its expectations of a positive future real interest rate at around 2.5-3.0% in the short term.

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 expected long-term real interest rate of 2.5%. Therefore, a real interest rate of 2.5% is maintained as the long-term growth expectation in the impairment test.

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.

*Interest rates applied in Western Europe*
Western Europe is experiencing very low interest rates, which in several countries are even lower than inflation, resulting in negative real interest rates. The Group generally applies a growth rate in the terminal period that is equal to or slightly lower than expected inflation. Management does not expect assets and CGUs subject to impairment testing to have a negative real interest rate in perpetuity.

To avoid applying negative real interest rates in perpetuity, the discount rate applied for the calculation of net present value of the cash flows in the terminal period has been adjusted to include an interest rate that is at least equal to the expected rate of inflation.

## 2.2.4 SENSITIVITY TESTS

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 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 low at the end of 2019. 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 was not overlooked. These additional sensitivity tests did not identify any potential impairment.

### GOODWILL

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 2017 and 2016 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 below.

**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.

SECTION 2.2 (CONTINUED)

# IMPAIRMENT

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.

Western European interest rates have been low for several years and are currently lower than inflation. An increase in the interest rates without a corresponding change in inflation will result in a lower recoverable amount for brands and could potentially lead to impairment. The risk of a significant write-down is considered by management to be very low.

**Baltika brand**

The Baltika brand was written down to its recoverable amount at the end of 2017. As a result, even a small negative change in the key assumptions could lead to further impairment.

At 31 December 2019, the carrying amount of the Baltika brand amounted to DKK 6,402m (2018: DKK 5,585m).

Changes in the market dynamics in Russia and the increasingly challenging competitive environment could 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.

An increase in the real interest rate from the current 2.5%, either because of a higher interest rate or lower inflation, could significantly reduce the recoverable amount.

A 1 percentage point increase in the risk-free interest rate would result in a reduction in the recoverable amount of DKK 1.0bn, and a 1 percentage point decrease in the terminal growth rate would result in a reduction in the recoverable amount of DKK 0.4bn. 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 1.7bn.

**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 2019 remained close to the carrying amount of DKK 902m (2018: DKK 895m). As a result, a reasonably possible negative change in the key assumptions could lead to further impairment.

The brands are sensitive to developments in the mainstream segment in China, where pressure from premium and upper-mainstream segments – 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 risk-free 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 | -0.4 | -1.0 |
| Chongqing Brewery Group brands | -0.1 | -0.1 | -0.1 |

SECTION 2.3

# INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

| DKK million | Intangible assets | | | | Property, plant and equipment | | | | Asset base |
|---|---|---|---|---|---|---|---|---|---|
| 2019 | Goodwill | Brands | Other intangible assets | Total | Land and buildings | Plant and machinery | Other equipment, fixtures and fittings | Total | Total |
| **Cost** | | | | | | | | | |
| Cost at 1 January | 52,535 | 25,028 | 5,683 | 83,246 | 17,594 | 28,960 | 14,197 | 60,751 | 143,997 |
| Recognition of right-of-use assets | - | - | - | - | 1,005 | 23 | 564 | 1,592 | 1,592 |
| **Restated cost at 1 January** | **52,535** | **25,028** | **5,683** | **83,246** | **18,599** | **28,983** | **14,761** | **62,343** | **145,589** |
| Acquisition of entities | 22 | 301 | 4 | 327 | - | 115 | 4 | 119 | 446 |
| Additions, including right-of-use assets | - | - | 118 | 118 | 424 | 2,139 | 2,448 | 5,011 | 5,129 |
| Disposals | - | - | -925 | -925 | -873 | -1,028 | -2,011 | -3,912 | -4,837 |
| Transfers | - | - | 3 | 3 | 515 | -680 | 156 | -9 | -6 |
| Foreign exchange adjustments etc. | 1,969 | 2,219 | 84 | 4,272 | 592 | 1,066 | 402 | 2,060 | 6,332 |
| **Cost at 31 December** | **54,526** | **27,548** | **4,967** | **87,041** | **19,257** | **30,595** | **15,760** | **65,612** | **152,653** |
| **Amortisation, depreciation and impairment losses** | | | | | | | | | |
| Amortisation, depreciation and impairment losses at 1 January | 1,606 | 10,305 | 4,467 | 16,378 | 7,779 | 17,447 | 10,131 | 35,357 | 51,735 |
| Disposals | - | - | -914 | -914 | -434 | -884 | -1,825 | -3,143 | -4,057 |
| Amortisation and depreciation | - | 21 | 405 | 426 | 624 | 1,420 | 2,042 | 4,086 | 4,512 |
| Impairment losses | - | 6 | 7 | 13 | 35 | 64 | 9 | 108 | 121 |
| Transfers | - | - | -3 | -3 | 10 | -16 | 9 | 3 | - |
| Foreign exchange adjustments etc. | 12 | 1,261 | 63 | 1,336 | 244 | 796 | 275 | 1,315 | 2,651 |
| **Amortisation, depreciation and impairment losses at 31 December** | **1,618** | **11,593** | **4,025** | **17,236** | **8,258** | **18,827** | **10,641** | **37,726** | **54,962** |
| **Carrying amount at 31 December** | **52,908** | **15,955** | **942** | **69,805** | **10,999** | **11,768** | **5,119** | **27,886** | **97,691** |
| **Right-of-use assets included at 31 December** | | | | | | | | | |
| Amortisation and depreciation | - | - | - | - | 167 | 8 | 227 | 402 | 402 |
| Carrying amount at 31 December | - | - | - | - | 1,013 | 26 | 469 | 1,508 | 1,508 |

SECTION 2.3 (CONTINUED)

# INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

| DKK million | Intangible assets | | | | Property, plant and equipment | | | | Asset base |
|---|---|---|---|---|---|---|---|---|---|
| 2018 | Goodwill | Brands | Other intangible assets | Total | Land and buildings | Plant and machinery | Other equipment, fixtures and fittings | Total | Total |
| **Cost** | | | | | | | | | |
| Cost at 1 January | 52,113 | 27,243 | 5,715 | 85,071 | 16,746 | 28,109 | 13,632 | 58,487 | 143,558 |
| Acquisition of entities | 2,047 | - | - | 2,047 | 1,003 | 438 | 41 | 1,482 | 3,529 |
| Additions | - | - | 127 | 127 | 159 | 2,490 | 1,251 | 3,900 | 4,027 |
| Disposal of entities | - | - | -21 | -21 | -21 | -5 | - | -26 | -47 |
| Disposals | - | - | -108 | -108 | -179 | -850 | -978 | -2,007 | -2,115 |
| Transfers | - | - | 8 | 8 | 115 | -582 | 458 | -9 | -1 |
| Foreign exchange adjustments etc. | -1,625 | -2,215 | -38 | -3,878 | -229 | -640 | -207 | -1,076 | -4,954 |
| **Cost at 31 December** | **52,535** | **25,028** | **5,683** | **83,246** | **17,594** | **28,960** | **14,197** | **60,751** | **143,997** |
| **Amortisation, depreciation and impairment losses** | | | | | | | | | |
| Amortisation, depreciation and impairment losses at 1 January | 1,616 | 11,553 | 4,109 | 17,278 | 7,472 | 17,181 | 9,509 | 34,162 | 51,440 |
| Disposal of entities | - | - | -21 | -21 | -21 | -3 | - | -24 | -45 |
| Disposals | - | - | -100 | -100 | -129 | -631 | -930 | -1,690 | -1,790 |
| Amortisation and depreciation | - | 21 | 516 | 537 | 469 | 1,374 | 1,684 | 3,527 | 4,064 |
| Impairment losses | - | - | - | - | 15 | -3 | 55 | 67 | 67 |
| Transfers | - | - | - | - | -13 | -21 | -43 | -77 | -77 |
| Foreign exchange adjustments etc. | -10 | -1,269 | -37 | -1,316 | -14 | -450 | -144 | -608 | -1,924 |
| **Amortisation, depreciation and impairment losses at 31 December** | **1,606** | **10,305** | **4,467** | **16,378** | **7,779** | **17,447** | **10,131** | **35,357** | **51,735** |
| **Carrying amount at 31 December** | **50,929** | **14,723** | **1,216** | **66,868** | **9,815** | **11,513** | **4,066** | **25,394** | **92,262** |

SECTION 2.3 (CONTINUED)

# INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment under construction amounted to DKK 1,514m (2018: DKK 2,126m) and mainly related to the new central office in Copenhagen. For 2018, it also included the greenfield brewery in Germany, which started production in November 2019. Property, plant and equipment under construction are recognised in plant and machinery until completion.

Other equipment, fixtures and fittings include transport, office and draught beer equipment, coolers and returnable packaging materials.

Other intangible assets include software, land use rights and beer delivery rights.

## RIGHT-OF-USE ASSETS

The Group leases various properties and warehouses, production equipment, cars and trucks. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

As of 1 January 2019, the Group implemented IFRS 16 and recognised right-of-use assets at a total value of DKK 1,592m. During the year, additions amounted to DKK 537m and depreciation to DKK 402m.

Lease expenses recognised in the income statement related to short-term leases and leases of low-value assets and amounted to DKK 96m. Such contracts comprise the lease of copy and printing machines, coffee machines, small IT devices and similar equipment.

For disclosures of the lease liabilities, please refer to sections 4.4.1 and 4.7.

## 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 56m (2018: DKK 229m).

## ! 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.

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, such as changes in production structure, restructuring and brewery closures, the asset is tested for impairment. If necessary, the asset is written down or the amortisation/depreciation period is reassessed and, if necessary, adjusted in line with the asset's changed useful life. 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 contracts

At inception of a contract, management assesses whether the contract is or contains a lease. Management considers the substance of any service being rendered to classify the arrangement as either a lease or a service contract. Particular importance is attached to whether fulfilment of the contract depends on the use of specific assets. The assessment involves judgement of whether the Group obtains substantially all the economic benefits from the use of the specified asset and whether it has the right to direct how and for what purpose the asset is used. If these criteria are satisfied at the commencement date, a right-of-use asset and a lease liability are recognised in the statement of financial position.

In determining the lease term, management considers all the facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. Extension or termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. The term is reassessed if a significant change in circumstances occurs. The assessment of purchase options follows the same principles as those applied for extension options.

The lease payment for cars and trucks often includes cost of service and insurance. When these costs are not objectively accessible, the Group estimates the cost when separating the service component from the lease.

### Amortisation, depreciation and impairment losses

| | Intangible assets | | Property, plant and equipment | |
|---|---|---|---|---|
| DKK million | 2019 | 2018 | 2019 | 2018 |
| Cost of sales | 46 | 216 | 2,591 | 2,633 |
| Sales and distribution expenses | 209 | 197 | 1,267 | 748 |
| Administrative expenses | 171 | 124 | 258 | 173 |
| Special items | 13 | - | 78 | 40 |
| **Total** | **439** | **537** | **4,194** | **3,594** |

### Gain/loss on disposal of assets

| DKK million | 2019 | 2018 |
|---|---|---|
| Gain on disposal of property, plant and equipment and intangible assets | 90 | 36 |
| Loss on disposal of property, plant and equipment and intangible assets | -34 | -23 |
| **Total** | **56** | **13** |

# 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 borrowings attributable to the construction of the asset, and is included in plant and machinery.

Research and development costs are recognised in the income statement as incurred. Development costs of intangible assets, for example software, are recognised as 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 but is subject to an annual impairment test, cf. section 2.2.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

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 as cost of sales, sales and distribution expenses, and administrative expenses depending on the use of the asset.

### 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 | 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 |

| | |
|---|---|
| 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 materials | 3-10 years |
| Hardware | 3-5 years |
| Land | Not depreciated |

### Leases

At the commencement date, the Group recognises a lease liability and a corresponding right-of-use asset at the same amount, except for short-term leases of 12 months or less and leases of low-value assets.

A right-of-use asset is initially measured at cost, which equals the initial lease liability and initial direct costs less any lease incentives received. The Group has applied the practical expedient option allowed under IFRS by using a portfolio approach for the recognition of lease contracts related to assets of the same nature and with similar lease terms, i.e. cars and trucks.

Subsequently, the right-of-use asset is measured at cost less depreciation and impairment losses, and adjusted for remeasurement of the lease liability. The right-of-use asset is depreciated over the earlier of the lease term or the useful life of the asset. The impairment testing of right-of-use assets follows the same principles as those applied for property, plant and equipment, cf. section 2.2.

Right-of-use assets are recognised as property, plant and equipment.

The Group has elected not to recognise right-of-use assets and liabilities for leases with a term of 12 months or less and leases of low-value assets. Lease payments related to such leases are recognised in the income statement as an expense 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

**1,064m**

SPECIAL ITEMS, INCOME (DKK)

Impacted by gains on disposal of two brewery sites in Western Europe.

**-563m**

SPECIAL ITEMS, EXPENSES (DKK)

Impacted by restructurings in Western and Eastern Europe and an increase in provisions related to the disposal of a brewery site made in previous years.

SECTION 3.1

## SPECIAL ITEMS

### SPECIAL ITEMS, INCOME

In 2019, the Group recognised gains on the disposal of a brewery site in Trondheim, Norway, and the former brewery site in Hamburg, Germany.

In November 2019, Carlsberg Deutschland moved its operations to a new brewery outside Hamburg. Construction of the new brewery commenced in 2016, and the old brewery was sold the same year. However, the sale was contingent on the move to the new brewery. The sales price was received in 2016 and recognised as a prepayment within borrowings. At the completion date in November 2019, the gain on disposal was recognised as special item income and the proceeds were recognised as cash flow from disposal of property, plant and equipment, reversing the borrowings thereby decreasing the external financing cash flow.

In 2018, special items were impacted by the disposal of land and buildings in Russia and the UK, which had been impaired in previous years, reversed provisions made for projects in prior years and the disposal of two minor entities in China.

### SPECIAL ITEMS, EXPENSES

In 2019, the Group carried out various restructuring projects across Western and Eastern Europe. The restructuring projects were the result of the continued focus on cost and efficiency initiatives, and included changes in sales and distribution operations and related organisational changes, including termination of employees. These projects typically run over several years.

Furthermore, special items included an increase in provisions retained by the Group on disposal of a former brewery site in previous years.

In addition to restructuring projects, special items in 2018 were impacted by impairment losses on returnable steel kegs and filling lines due to the roll-out of the DraughtMaster system in Western Europe.

**Special items**

| DKK million | 2019 | 2018 |
|---|---|---|
| **Special items, income** | | |
| Gain on disposal of entities and assets | 1,061 | 42 |
| Disposal of property, plant and equipment previously impaired, including adjustments to gains and reversal of provisions made in prior years | - | 199 |
| Reversal of impairment losses, cf. section 2.2 | 3 | 49 |
| Revaluation gain on step acquisition of entities, cf. section 5.2 | - | 13 |
| **Total** | **1,064** | **303** |
| **Special items, expenses** | | |
| Restructurings and impairment of property, plant and equipment in Western Europe, net | -337 | -323 |
| Restructurings and impairment of property, plant and equipment in Asia, net | -8 | -54 |
| Restructurings and impairment of property, plant and equipment in Eastern Europe, net | -96 | - |
| Provisions related to disposal of a former brewery site in previous years | -110 | - |
| Impairment of brands, cf. section 2.2 | -6 | - |
| Other | -6 | -14 |
| **Total** | **-563** | **-391** |
| **Special items, net** | **501** | **-88** |

SECTION 3.1 (CONTINUED)

# SPECIAL ITEMS

### ACCOUNTING ESTIMATES AND JUDGEMENTS

The use of special items entails management judgement in the separation from ordinary items. Management carefully considers individual items and projects (including restructurings) in order to ensure the correct distinction and split between operating activities and significant income and expenses of a special nature.

Management initially assesses the entire restructuring project and recognises all present costs of the project. The projects are assessed on an ongoing basis, with additional costs possibly being incurred during the lifetime of the project.

The estimate includes expenses related to termination of employees, onerous contracts, break fees and other obligations arising in connection with restructurings. Management reassesses the useful life and residual value of non-current assets used in an entity undergoing restructuring.

### ACCOUNTING POLICIES

Special items include significant income and expenses of a special nature in terms of the Group's revenue-generating activities that cannot be attributed directly to the Group's ordinary operating activities.

Special items also include significant non-recurring items, including termination benefits related to retirement of members of the Executive Committee, impairment of goodwill 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.

Significant restructuring of processes and structural adjustments are included in special items.

Special items are shown separately from the Group's ordinary operations to facilitate a better understanding of the Group's financial performance.

### Impact of special items on operating profit

| DKK million | 2019 | 2018 |
|---|---|---|
| **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 | -296 | -112 |
| Sales and distribution expenses | -77 | -151 |
| Administrative expenses | 55 | 14 |
| Other operating income | 1,061 | 179 |
| Other operating expenses | -242 | -18 |
| **Special items, net** | **501** | **-88** |

SECTION 3.2

# PROVISIONS

Restructuring provisions relate to termination benefits to employees made redundant, primarily as a result of a restructuring project accounted for as special items.

In 2019, restructuring provisions of DKK 311m related primarily to Kronenbourg, Ringnes, Carlsberg Sverige and certain local supply companies.

Other provisions of DKK 4,989m related to ongoing disputes and lawsuits, profit sharing in France and employee obligations other than retirement benefits.

### ACCOUNTING ESTIMATES AND JUDGEMENTS

In connection with restructurings, management assesses the timing of the costs to be incurred, which influences the classification as current or non-current liabilities. Provision for onerous contracts is based on agreed terms with the other party and expected fulfilment of the contract based on the current estimate of volumes, use of raw materials etc.

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 advice and established precedents.

### Provisions

| DKK million | Restructurings | Onerous contracts | Other | Total |
|---|---|---|---|---|
| Provisions at 1 January 2019 | 381 | 408 | 4,138 | 4,927 |
| Acquisition of entities | - | 2 | 154 | 156 |
| Additional provisions recognised | 102 | 5 | 702 | 809 |
| Used during the year | -170 | -41 | -206 | -417 |
| Reversal of unused provisions | -13 | - | -122 | -135 |
| Transfers | 4 | 18 | 291 | 313 |
| Discounting | 4 | 3 | 30 | 37 |
| Foreign exchange adjustments etc. | 3 | 5 | 2 | 10 |
| **Provisions at 31 December 2019** | **311** | **400** | **4,989** | **5,700** |
| **Recognised in the statement of financial position** | | | | |
| Non-current provisions | 88 | 356 | 3,593 | 4,037 |
| Current provisions | 223 | 44 | 1,396 | 1,663 |
| **Total** | **311** | **400** | **4,989** | **5,700** |

SECTION 3.2 (CONTINUED)

# PROVISIONS

### ACCOUNTING POLICIES

Provisions, including profit-sharing 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 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.

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 the ordinary course of business, the Group is party to certain lawsuits, disputes etc. of various scopes, some of which are referred to below. 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.

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. Carlsberg Deutschland appealed the decision to the relevant German court and in 2019 received a ruling in its favour. The ruling was subsequently appealed by the prosecutor to the German Supreme Court.

In 2018, the Group's associate in Portugal received a statement of objections from the local authority, which was the next step following a previously conducted dawn raid. In 2019, a fine of EUR 24m was imposed. The Group's associate received two additional statements of objections from the local authority in 2019 concerning two other cases.

Furthermore, a dawn raid was conducted in the Group's subsidiary in India in 2018 with investigations still ongoing.

At 31 December 2019, no final rulings had been made concerning the ongoing cases in any of the entities that have experienced dawn raids in recent years. However, there is still a significant risk related to these cases due to the inherent uncertainty.

Management and the general counsel continuously assess these risks and their likely outcome. It is the opinion of management and the general counsel 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. The Group does not expect the ongoing lawsuits and disputes to have a material impact on the Group's financial position, net profit or cash flow, except for items recognised in the statement of financial position.

### GUARANTEES AND COMMITMENTS

The Group has issued guarantees for loans etc. raised by third parties (non-consolidated entities) of DKK 395m (2018: DKK 511m). In 2019 and 2018, no guarantees were issued for loans raised by associates and joint ventures.

Certain guarantees etc. are issued in connection with disposal of entities and activities. 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.

Capital commitments, lease liabilities and service agreements are described in section 2.3.

SECTION 4

# FINANCING COSTS, CAPITAL STRUCTURE AND EQUITY

## 18.8bn

### NET INTEREST-BEARING DEBT (DKK)

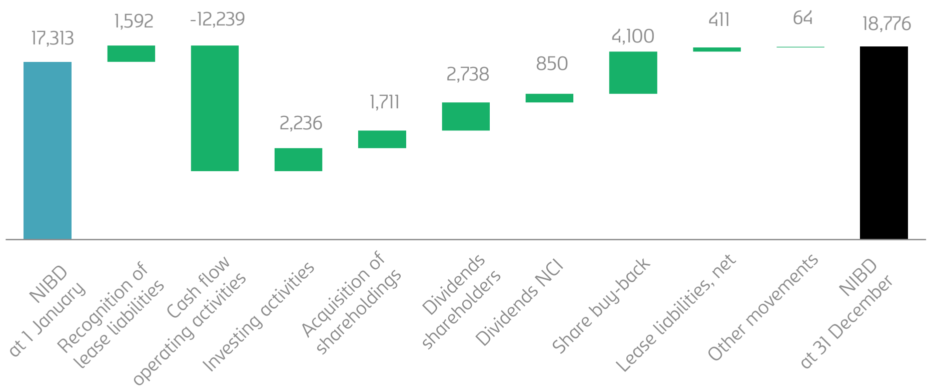
At 31 December 2019, gross financial debt amounted to DKK 25.0bn (2018: DKK 24.0bn). Net interest-bearing debt was DKK 18.8bn, an increase of DKK 1.5bn versus year-end 2018.

The financial position is impacted by the strong free cash flow, which funded a large part of the share buy-back initiated in February 2019.

Furthermore, it was impacted by the recognition of lease liabilities of DKK 1.6bn and by the release of the prepaid proceeds (borrowings) on the disposal of the former brewery site in Hamburg, Germany of DKK 1.0bn.

The leverage ratio, measured as net interest-bearing debt to operating profit before depreciation, amortisation and impairment losses, was 1.25x at year-end (2018: 1.29x).

**Changes in net interest-bearing debt** (DKKm)




## 4.1bn

### SHARE BUY-BACK (DKK)

At 31 December 2019, the Company had repurchased shares worth DKK 4.1bn under the 12-month share buy-back programme initiated on 6 February 2019.

## 46.0bn

### EQUITY (DKK)

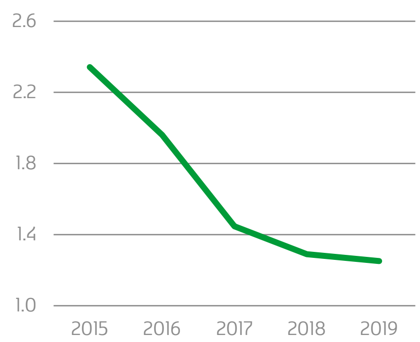
Equity amounted to DKK 46.0bn at 31 December 2019 (2018: DKK 47.9bn), DKK 43.4bn of which was attributable to shareholders in Carlsberg A/S and DKK 2.6bn to non-controlling interests. The change in equity of DKK 1.9bn was mainly the result of the consolidated profit of DKK 7.5bn being offset by the dividend payout of DKK 3.6bn, the share buy-back of DKK 4.1bn and non-controlling interests of DKK 4.5bn, including the acquisition of the remaining 25% in Cambrew.

## -738m

### NET FINANCIAL ITEMS (DKK)

Financial items, net, amounted to DKK -738m against DKK -722m in 2018. Excluding currency gains and fair value adjustments, financial items, net, amounted to DKK -650m (2018: DKK -758m), positively impacted by lower average funding costs.

**Leverage ratio** (NIBD/EBITDA)



SECTION 4.1

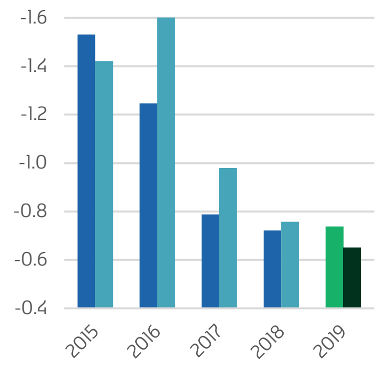
# FINANCIAL INCOME AND EXPENSES

Interest income primarily relates to interest on cash and cash equivalents measured at amortised cost.

Foreign exchange losses, net, include fair value adjustments of hedges and foreign exchange losses. The fair value adjustment of hedges not designated as hedging instruments amounted to DKK 88m (2018: DKK -54m), cf. section 4.8. Foreign exchange losses amounted to DKK -176m (2018: DKK 90m).

Of the net change in fair value of cash flow hedges transferred to the income statement, DKK -102m (2018: DKK -87m) is included in revenue and cost of sales and DKK 7m (2018: DKK 10m) is included in financial items.

**Financial items, net** (DKKbn)




### Financial items recognised in the income statement

| DKK million | 2019 | 2018 |
|---|---|---|
| **Financial income** | | |
| Interest income | 135 | 153 |
| Foreign exchange gains, net | - | 36 |
| Interest on plan assets, defined benefit plans | 189 | 155 |
| Other | 36 | 14 |
| **Total** | **360** | **358** |
| **Financial expenses** | | |
| Interest expenses | -519 | -579 |
| Capitalised financial expenses | 18 | 10 |
| Foreign exchange losses, net | -88 | - |
| Interest cost on obligations, defined benefit plans | -256 | -232 |
| Interest expenses, lease liabilities | -12 | - |
| Other | -241 | -279 |
| **Total** | **-1,098** | **-1,080** |
| **Financial items, net, recognised in the income statement** | **-738** | **-722** |
| Financial items excluding foreign exchange, net | -650 | -758 |

### Financial items recognised in other comprehensive income

| DKK million | 2019 | 2018 |
|---|---|---|
| **Foreign exchange adjustments of foreign entities** | | |
| Foreign currency translation of foreign entities | 3,479 | -2,685 |
| Recycling of cumulative translation differences of entities acquired in step acquisitions or disposed of | 6 | -69 |
| **Total** | **3,485** | **-2,754** |
| **Fair value adjustments of hedging instruments** | | |
| Change in fair value of effective portion of cash flow hedges | -93 | -94 |
| Change in fair value of cash flow hedges transferred to the income statement | 95 | -77 |
| Change in fair value of net investment hedges | -325 | -469 |
| **Total** | **-323** | **-640** |
| **Financial items, net, recognised in other comprehensive income** | **3,162** | **-3,394** |

SECTION 4.2

# NET INTEREST-BEARING DEBT

Of the gross financial debt at year-end, 84% (2018: 70%) was long term, i.e. with maturity of more than one year.

Long-term and short-term borrowings amounted to DKK 25.0bn at 31 December 2019 (2018: DKK 24.0bn). Long-term borrowings totalled DKK 20.9bn (2018: DKK 16.8bn) and short-term borrowings totalled DKK 4.1bn (2018: DKK 7.2bn). The shift between long-term and short-term borrowings was mainly due to a EUR 400m bond maturing in July 2029, which replaced a EUR 750m bond that matured on 3 July 2019.

The difference of DKK 6.2bn between gross financial debt and net interest-bearing debt mainly comprised cash and cash equivalents and on-trade loans.

### Net interest-bearing debt

| DKK million | 2019 | 2018 |
|---|---|---|
| Non-current borrowings | 20,879 | 16,750 |
| Current borrowings | 4,112 | 7,233 |
| **Gross financial debt** | **24,991** | **23,983** |
| Cash and cash equivalents | -5,222 | -5,589 |
| **Net financial debt** | **19,769** | **18,394** |
| Loans to associates, interest-bearing portion | -226 | -325 |
| On-trade loans, net | -668 | -717 |
| Other receivables, net | -99 | -39 |
| **Net interest-bearing debt** | **18,776** | **17,313** |

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 structure will remain advantageous for all of the shareholders, enabling and supporting the long-term development of the Group.

The Group targets a leverage ratio below 2.0x. At the end of 2019, the leverage ratio was 1.25x (2018: 1.29x). The Group currently uses share buy-back programmes to return excess cash to shareholders.

The size of the share buy-back programmes depends on the expected organic and inorganic investments needed to grow the business and the Group's intention to maintain a leverage ratio below 2.0x.

The Group generally intends to cancel treasury shares which are not used for hedging of incentive programmes.

The Group is rated by Moody's Investors Service and Fitch Ratings. Management assesses the risk of changes in the Group's investment-grade rating as an element in strategic decisions on capital structure. Identification and monitoring of risks that could change the rating were carried out on an ongoing basis throughout the year.

### 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 2018 | 33,699,252 | 673,985 | 118,857,554 | 2,377,151 | 152,556,806 | 3,051,136 |
| No change in 2018 | - | - | - | - | - | - |
| **31 December 2018** | **33,699,252** | **673,985** | **118,857,554** | **2,377,151** | **152,556,806** | **3,051,136** |
| No change in 2019 | - | - | - | - | - | - |
| **31 December 2019** | **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 4.3 (CONTINUED)

# CAPITAL STRUCTURE

## 4.3.2 EQUITY

### DIVIDENDS

The Group proposes a dividend of DKK 21.00 per share (2018: DKK 18.00 per share), amounting to DKK 3,204m (2018: DKK 2,746m). The proposed dividend has been included in retained earnings at 31 December 2019.

Dividends to be paid out in 2020 for 2019, net of dividends on treasury shares held at 31 December 2019, will amount to DKK 3,108m. Dividends paid out in 2019 for 2018, net of dividends on treasury shares, amounted to DKK 2,738m (paid out in 2018 for 2017: DKK 2,439m). Dividends paid out to shareholders in Carlsberg A/S do not impact taxable income in Carlsberg A/S.

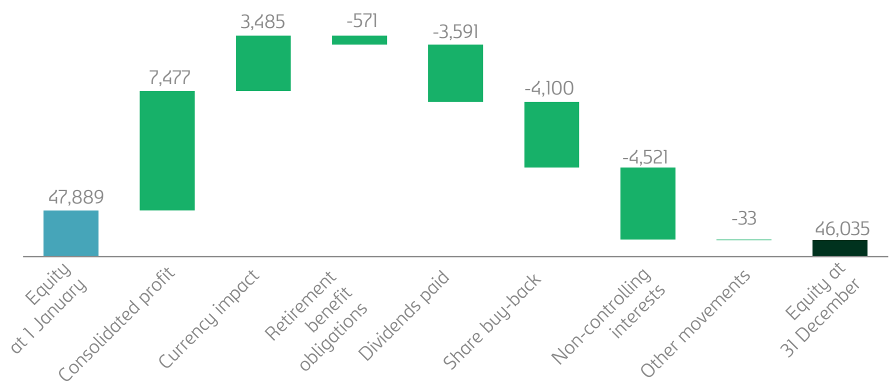
At 31 December 2019, dividends to non-controlling interests of DKK 41m (2018: DKK 38m) were payable.

### SHARE BUY-BACK AND TREASURY SHARES

On 6 February 2019, the Company initiated a 12-month DKK 4.5bn share buy-back programme. At 31 December 2019, 4,518,999 B shares had been repurchased at a total purchase price of DKK 4.1bn as part of this programme.

According to the authorisation of the Annual General Meeting, the Supervisory Board may, in the period until 13 March 2023, 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 permitted holding of treasury shares covers those acquired in share buy-back programmes. The Company holds no class A shares.

**Equity** (DKKm)




### Transactions with shareholders in Carlsberg A/S

| DKK million | 2019 | 2018 |
|---|---|---|
| Dividends paid to shareholders | -2,738 | -2,439 |
| Acquisition of treasury shares | -4,100 | -128 |
| Disposal of treasury shares | - | 78 |
| **Total** | **-6,838** | **-2,489** |

### Transactions with non-controlling interests

| DKK million | 2019 | 2018 |
|---|---|---|
| Dividends paid to NCI | -850 | -831 |
| Consideration paid for acquisition of NCI | -1,670 | -355 |
| **Total** | **-2,520** | **-1,186** |

The acquisition of non-controlling interests relates to shares in Cambrew and in Carlsberg Ukraine, cf. section 5.2.

### Treasury shares

| | Fair value, DKKm | Shares of DKK 20 | Nominal value, DKKm | Percentage of share capital |
|---|---|---|---|---|
| 1 January 2018 | 124 | 166,342 | 3.3 | 0.1% |
| Acquisition of treasury shares | | 173,464 | 3.5 | 0.1% |
| Used to settle share-based payments | | -240,353 | -4.8 | -0.2% |
| **31 December 2018** | **69** | **99,453** | **2.0** | **0.1%** |
| Acquisition of treasury shares | | 4,518,999 | 90.4 | 3.0% |
| Used to settle share-based payments | | -58,057 | -1.2 | -0.1% |
| **31 December 2019** | **4,532** | **4,560,395** | **91.2** | **3.0%** |

### ACCOUNTING POLICIES

**Proposed dividends**

The proposed dividend is recognised as a liability at the date when it is 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 treasury share dividends received 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 and added to retained earnings.

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 OTHER COMPREHENSIVE INCOME

Other comprehensive income has mainly been impacted by a positive foreign exchange adjustment from the appreciation of RUB.

## 4.3.4 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 commodity risk), credit risk and liquidity risk. These risks are described in the following sections:

- Foreign exchange risk: sections 1.3 and 4.6
- Interest rate risk: section 4.5
- Commodity risk: section 1.2.1
- Credit risk: sections 1.5.1 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 as an integrated part of the overall risk management process. The risk management governance structure is described in the Management review.

To reduce 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.

**Other comprehensive income as recognised in the statement of changes in equity**

DKK million

| 2019 | Currency translation | Hedging reserves | Retained earnings | Total | Non-controlling interests | Other comprehensive income |
|---|---|---|---|---|---|---|
| Foreign exchange adjustments of foreign entities | 3,490 | - | - | 3,490 | -5 | 3,485 |
| Value adjustments of hedging instruments | -325 | - | - | -325 | 2 | -323 |
| Retirement benefit obligations | - | - | -570 | -570 | -1 | -571 |
| Other | - | - | 16 | 16 | 2 | 18 |
| Income tax | 20 | - | 36 | 56 | -1 | 55 |
| **Total** | **3,185** | **-** | **-518** | **2,667** | **-3** | **2,664** |
| **2018** | | | | | | |
| Foreign exchange adjustments of foreign entities | -2,803 | - | - | -2,803 | 49 | -2,754 |
| Value adjustments of hedging instruments | -469 | -167 | - | -636 | -4 | -640 |
| Retirement benefit obligations | - | - | 406 | 406 | -14 | 392 |
| Other | - | - | 4 | 4 | - | 4 |
| Income tax | 58 | 27 | -33 | 52 | - | 52 |
| **Total** | **-3,214** | **-140** | **377** | **-2,977** | **31** | **-2,946** |

SECTION 4.4

# BORROWINGS AND CASH

## 4.4.1 BORROWINGS

As of 1 January 2019, the Group recognised lease liabilities of DKK 1.7bn. During the year, the split between current and non-current debt changed, as a EUR 400m bond maturing in July 2029 was issued to replace a EUR 750m bond that was repaid at maturity in July 2019.

Furthermore, the Group started utilising the European Commercial Paper (ECP) programme in 2019, DKK 3.3bn, which is recognised in other current borrowings.

### Gross financial debt

| DKK million | 2019 | 2018 |
|---|---|---|
| **Non-current** | | |
| Issued bonds | 19,673 | 16,697 |
| Bank borrowings | 27 | 35 |
| Lease liabilities | 1,165 | - |
| Other borrowings | 14 | 18 |
| **Total** | **20,879** | **16,750** |
| **Current** | | |
| Issued bonds | - | 5,602 |
| Bank borrowings | 347 | 526 |
| Lease liabilities | 424 | - |
| Other borrowings | 3,341 | 1,105 |
| **Total** | **4,112** | **7,233** |
| **Total borrowings** | **24,991** | **23,983** |
| Fair value | 26,414 | 25,248 |

An overview of issued bonds is provided in section 4.5.

### Changes in gross financial debt

| DKK million | 2019 | 2018 |
|---|---|---|
| Gross financial debt at 1 January | 23,983 | 24,189 |
| Recognition of lease liabilities | 1,592 | - |
| **Restated gross financial debt at 1 January** | **25,575** | **24,189** |
| Proceeds from issue of bonds | 2,946 | - |
| Repayment of bonds | -5,598 | - |
| Instalments on and proceeds from borrowings, long-term | -236 | -38 |
| Instalments on and proceeds from European Commercial Papers | 3,264 | - |
| Release of prepayment received for disposal of the former brewery site in Hamburg, Germany | -1,026 | - |
| Instalments on lease liabilities | -414 | - |
| Other | 129 | -85 |
| **External financing** | **-935** | **-123** |
| Change in bank overdrafts | -82 | -187 |
| Increase in lease liabilities, net | 411 | - |
| Other, including foreign exchange adjustments and amortisation | 22 | 104 |
| **Gross financial debt at 31 December** | **24,991** | **23,983** |

ACCOUNTING POLICIES

**Borrowings**

Borrowings are initially recognised at fair value less transaction costs and subsequently 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.

**Lease liability**

The lease liability is measured at the present value of the remaining lease payments at the reporting date, discounted using the incremental borrowing rate for similar assets, taking into account the terms of the leases. A remeasurement of the lease liability, for example a change in the assessment of an option to purchase, results in a corresponding adjustment of the related right-of-use assets, cf. section 2.3.

Extension or termination options are included in the lease term if the lease is reasonably certain to be extended or not terminated. Consequently, all cash outflows that are reasonably certain to impact the future cash balances are recognised as lease liabilities at initial recognition of lease contracts. The Group reassesses the circumstances leading to it not recognising extension or termination options on an ongoing basis.

## 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 188m at 31 December 2019 (2018: DKK 252m). The average interest rate on these deposits was 4.3% (2018: 6%).

### Cash and cash equivalents

| DKK million | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | 5,222 | 5,589 |
| Bank overdrafts | -73 | -155 |
| **Cash and cash equivalents, net** | **5,149** | **5,434** |

### 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. 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 5,222m (2018: DKK 5,589m) represents the maximum credit exposure related to cash and cash equivalents.

The credit risk on receivables is described in section 1.5.1.

SECTION 4.5

# INTEREST RATE RISK

The Group's exposure to interest rate risk is considered limited. At the reporting date, 100% of the net financial debt consisted of fixed-rate borrowings with interest rates fixed for more than one year (2018: 91%). As 87% of the Group's net debt is in EUR, the interest rate exposure primarily 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 seven years. At 31 December 2019, the duration was 4.4 years (2018: 4.2 years). Interest rate risks are mainly managed using fixed-rate bonds.

### SENSITIVITY ANALYSIS

It is estimated that a 1 percentage point interest rate increase would lead to an increase in interest expenses of DKK 0m (2018: increase of DKK 16m). The analysis assumes a parallel shift in the relevant yield curves.

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 865m (2018: DKK 766m), and a similar loss had the interest 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 2018. The Group did not enter into any new interest rate swaps in 2019 or 2018.

### Net financial debt by currency

| DKK million | | | | Interest rate | |
|---|---|---|---|---|---|
| 2019 | Net financial debt | Floating[1] | Fixed[1] | Floating[2] % | Fixed[2] % |
| EUR | 17,170 | -2,580 | 19,750 | 13% | 87% |
| DKK | -56 | -56 | - | 100% | - |
| PLN | -472 | -472 | - | 100% | - |
| USD | 1,846 | 1,846 | - | 100% | - |
| CHF | 1,561 | 1,561 | - | 100% | - |
| RUB | 436 | 436 | - | 100% | - |
| Other | -716 | -716 | - | 100% | - |
| **Total** | **19,769** | **19** | **19,750** | **0%** | **100%** |
| **2018** | | | | | |
| EUR | 16,436 | -339 | 16,775 | 24% | 76% |
| DKK | 1,279 | 1,279 | - | 100% | - |
| PLN | -372 | -372 | - | 100% | - |
| USD | 986 | 986 | - | 100% | - |
| CHF | 977 | 977 | - | 100% | - |
| RUB | -58 | -58 | - | 100% | - |
| Other | -854 | -854 | - | 100% | - |
| **Total** | **18,394** | **1,619** | **16,775** | **9%** | **91%** |

[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.

### Interest rate risk

| DKK million<br>2019 | Interest rate | Average effective interest rate | Fixed for | Carrying amount | Interest rate risk |
|---|---|---|---|---|---|
| **Issued bonds** | | | | | |
| EUR 750m maturing 15 November 2022 | Fixed | 2.7% | 2-3 years | 5,587 | Fair value |
| EUR 500m maturing 6 September 2023 | Fixed | 0.7% | 3-4 years | 3,712 | Fair value |
| EUR 1,000m maturing 28 May 2024 | Fixed | 2.6% | 4-5 years | 7,424 | Fair value |
| EUR 400m maturing 1 July 2029 | Fixed | 1.0% | > 5 years | 2,950 | Fair value |
| **Total issued bonds** | | **2.0%** | | **19,673** | |
| **Total issued bonds 2018** | | **2.3%** | | **22,299** | |
| **Bank borrowings and other borrowings** | | | | | |
| Floating-rate | Floating | 0.2% | < 1 year | 5,242 | Cash flow |
| Fixed-rate | Fixed | 0.9% | > 1 year | 76 | Fair value |
| **Total bank borrowings and other borrowings** | | | | **5,318** | |
| **Total bank borrowings and other borrowings 2018** | | | | **1,684** | |

SECTION 4.6

# FOREIGN EXCHANGE RISK RELATED TO NET INVESTMENTS AND FINANCING ACTIVITIES

### 4.6.1 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 local 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.

### 4.6.2 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 mainly applies to net investments in CHF, CNY, MYR, NOK and PLN. 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. This is because of the size of the net investments in RUB combined with the currency's high volatility.

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. At 31 December 2019, all adjustments of financial instruments were 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 2019 amounted to DKK -91m (2018: DKK -75m). The closing balance in the equity reserve for currency translation of hedges of net investments amounted to DKK -1,628m (2018: DKK -1,382m). Positive fair values of derivatives are recognised as other receivables and negative values as other liabilities.

**Currency profile of borrowings**

Before and after derivative financial instruments

| DKK million<br>2019 | Original principal | Effect of swap | After swap |
|---|---|---|---|
| CHF | 142 | 1,439 | 1,581 |
| DKK | 124 | -120 | 4 |
| EUR | 23,805 | -5,580 | 18,225 |
| RUB | 122 | 386 | 508 |
| USD | 130 | 1,947 | 2,077 |
| Other | 668 | 1,928 | 2,596 |
| **Total** | **24,991** | **-** | **24,991** |
| **Total 2018** | **23,983** | **-** | **23,983** |

**Net investment hedges**

| | Hedging of investment, amount in local currency | | Intra-group loans, amount in local currency | | Other comprehensive income (DKK) | | Average hedged rate | | 2019 Fair value of derivatives | | 2018 Fair value of derivatives | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| DKK million | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | Asset | Liability | Asset | Liability |
| RUB | - | - | - | - | -77 | - | - | - | - | - | - | - |
| CNY | -1,500 | -1,250 | - | - | -63 | -57 | 0.9257 | 0.9134 | - | -20 | - | -25 |
| MYR | -318 | -337 | - | - | -35 | -30 | 1.5656 | 1.5411 | - | -11 | 2 | -4 |
| HKD | - | - | -27 | 721 | 22 | 44 | - | - | - | - | - | - |
| CHF | -273 | -273 | - | - | -50 | -74 | 6.7148 | 6.3827 | - | -45 | - | -76 |
| GBP | - | - | 59 | 67 | 30 | -8 | - | - | - | - | - | - |
| NOK | -1,300 | -1,300 | 3,000 | 3,000 | - | -25 | 0.7398 | 0.7686 | - | -14 | 31 | - |
| SEK | - | - | 3,335 | 5,495 | -114 | -301 | - | - | - | - | - | - |
| PLN | -135 | -135 | - | - | -8 | 2 | 1.7346 | 1.7010 | - | -1 | - | -3 |
| SGD | - | - | -154 | -153 | -33 | -18 | - | - | - | - | - | - |
| USD | - | - | -28 | - | 3 | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | -2 | - | - | - | - | - | - |
| **Total** | | | | | **-325** | **-469** | | | **-** | **-91** | **33** | **-108** |

SECTION 4.6 (CONTINUED)

# FOREIGN EXCHANGE RISK RELATED TO NET INVESTMENTS AND FINANCING ACTIVITIES

## 4.6.3 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, net debt is denominated in a currency other than the functional currency of the local entity 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.

Group entities, net debt is denominated in a currency other than the functional currency of the local entity 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.

## 4.6.4 IMPACT ON FINANCIAL STATEMENTS AND SENSITIVITY ANALYSIS

### IMPACT ON INCOME STATEMENT

For the impact of currency on operating profit and financial items, please refer to sections 1.3 and 4.1 respectively.

### 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 2019, net interest-bearing debt decreased by DKK 14m (2018: increased by DKK 142m) due to changes in foreign exchange rates.

### SENSITIVITY ANALYSIS

An adverse development in the exchange rates would, all other things being unchanged, have had the hypothetical impact on the income statement and other comprehensive income (OCI) for 2019 illustrated in the tables. The calculations are made on the basis of items in the statement of financial position at 31 December 2019.

**Exchange rate sensitivity - other comprehensive income**

| 2019 | | | | | 2018 | |
|---|---|---|---|---|---|---|
| DKK million | Average hedged rate | Notional amount | Change | Effect on OCI | Average hedged rate | Effect on OCI |
| NOK/DKK | 0.7383 | -680 | 5% | -34 | 0.7707 | -35 |
| SEK/DKK | 0.7009 | -632 | 5% | -32 | 0.7227 | -26 |
| PLN/DKK | 1.7015 | -525 | 5% | -26 | 1.6865 | -23 |
| CHF/DKK | 6.7438 | -481 | 5% | -24 | 6.5356 | -16 |
| RUB/DKK | 0.0991 | -287 | 10% | -29 | 0.0894 | -24 |
| GBP/DKK | 8.3781 | -127 | 5% | -6 | 8.3284 | -8 |
| Other | N/A | -19 | 5% | -1 | N/A | 3 |
| **Total** | | | | **-152** | | **-129** |

**Exchange rate sensitivity - income statement**

| 2019 | | | | | | | | 2018 |
|---|---|---|---|---|---|---|---|---|
| DKK million | EUR receivable | EUR payable | EUR cash | Gross exposure | Exposure, net of hedging | % change | Effect on P/L | Effect on P/L |
| EUR/GBP | 858 | -655 | -332 | -129 | -129 | 5% | -6 | 7 |
| EUR/NOK | 140 | -637 | 311 | -186 | -186 | 5% | -9 | -11 |
| EUR/PLN | 249 | -277 | 32 | 4 | 4 | 5% | - | 5 |
| EUR/KZT | - | -8 | 291 | 283 | 283 | 10% | 28 | 21 |
| EUR/RUB | 7 | -64 | 211 | 154 | 154 | 10% | 15 | 14 |
| EUR/SEK | 186 | -311 | 96 | -29 | -29 | 5% | -1 | 5 |
| EUR/CHF | -4 | -239 | 229 | -14 | -14 | 5% | -1 | -2 |
| **Total** | | | | | | | **26** | **39** |

| | | | | | | | | 2018 |
|---|---|---|---|---|---|---|---|---|
| 2019 | USD receivable | USD payable | USD cash | Gross exposure | Exposure, net of hedging | % change | Effect on P/L | Effect on P/L |
| USD/RUB | - | -2 | 289 | 287 | 287 | 10% | 29 | 33 |
| USD/UAH | - | -1 | 161 | 160 | 160 | 10% | 16 | 16 |
| **Total** | | | | | | | **45** | **49** |

SECTION 4.6 (CONTINUED)

# FOREIGN EXCHANGE RISK RELATED TO NET INVESTMENTS AND FINANCING ACTIVITIES

### Income statement

The hypothetical impact ignores the fact that the subsidiaries' initial recognition of revenue, cost and debt would be similarly exposed to the exchange rate developments.

### Other comprehensive income

Other comprehensive income is affected by changes in the fair value of currency derivatives designated as cash flow hedges of future purchases and sales.

### APPLIED EXCHANGE RATES

The average exchange rate was calculated using the monthly exchange rates weighted according to the phasing of the revenue per currency throughout the year.

### Applied exchange rates

| | Closing rate | | Average rate | |
|---|---|---|---|---|
| DKK | 2019 | 2018 | 2019 | 2018 |
| Swiss franc (CHF) | 6.8712 | 6.6512 | 6.7135 | 6.4526 |
| Chinese yuan (CNY) | 0.9555 | 0.9479 | 0.9654 | 0.9562 |
| Euro (EUR) | 7.4697 | 7.4673 | 7.4659 | 7.4529 |
| Pound sterling (GBP) | 8.7664 | 8.2719 | 8.5218 | 8.4234 |
| Laotian kip (LAK) | 0.0008 | 0.0008 | 0.0008 | 0.0007 |
| Norwegian krone (NOK) | 0.7587 | 0.7487 | 0.7582 | 0.7775 |
| Polish zloty (PLN) | 1.7548 | 1.7355 | 1.7377 | 1.7471 |
| Russian rouble (RUB) | 0.1077 | 0.0940 | 0.1033 | 0.1007 |
| Swedish krona (SEK) | 0.7155 | 0.7266 | 0.7049 | 0.7256 |
| Ukrainian hryvnia (UAH) | 0.2827 | 0.2355 | 0.2594 | 0.2347 |

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

The Group 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. Net financial debt is shown in section 4.2.

### Committed credit facilities and credit resources available

DKK million

| 2019 | Total committed loans and credit facilities | Utilised portion of credit facilities | Unutilised credit facilities | 2018 Unutilised credit facilities |
|---|---|---|---|---|
| Current | | | | |
| < 1 year | 5,643 | 4,112 | 1,531 | 1,531 |
| **Total current committed loans and credit facilities** | **5,643** | **4,112** | **1,531** | **1,531** |
| Non-current | | | | |
| 1-2 years | 412 | 412 | - | - |
| 2-3 years | 5,729 | 5,729 | - | 15,009 |
| 3-4 years | 3,821 | 3,821 | - | - |
| 4-5 years | 22,404 | 7,465 | 14,939 | - |
| > 5 years | 3,452 | 3,452 | - | - |
| **Total non-current committed loans and credit facilities** | **35,818** | **20,879** | **14,939** | **15,009** |
| Cash and cash equivalents | | | 5,222 | 5,589 |
| Current portion of utilised credit facilities | - | - | -4,112 | -7,233 |
| **Credit resources available (total non-current committed loans and credit facilities - net debt)** | | | **16,049** | **13,365** |

SECTION 4.7 (CONTINUED)

# LIQUIDITY RISK

At 31 December 2019, the Group had total credit resources available of DKK 16,049m consisting of cash and cash equivalents of DKK 5,222m plus committed unutilised non-current credit facilities of DKK 14,939m and less utilisation of current facilities of DKK -4,112m. Including current credit facilities of DKK 1,531m, total committed unutilised credit facilities amounted to DKK 16,470m.

Credit resources available increased by DKK 2.7bn compared with 2018, primarily due to the issuance of a EUR 400m bond. The proceeds were used to partly refinance short-term borrowings.

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 for day-to-day liquidity management in most of the entities in Western Europe, as well as intra-group loans to subsidiaries. Eastern Europe and Asia are less integrated in terms of cash pools, and liquidity is managed via intra-group loans.

The table 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 reflects the one-sided scenario of cash outflows only. Trade payables and other financial liabilities 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 gross financial debt was DKK 153m higher (2018: DKK 125m 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 2019.

The cash flow is estimated based on the notional amount of the above-mentioned borrowings and expected interest rates at year-end 2019 and 2018. Interest on debt recognised at year-end 2019 and 2018, for which no contractual obligation exists (current borrowing and cash pools), has been included for a two-year period. The synthetic interest on lease liabilities has also been included for a two-year period. The interest applied to the part of the debt where no contractual obligation exists is 1% (2018: 2%).

### Time to maturity for non-current borrowings

DKK million

| 2019 | 1-2 years | 2-3 years | 3-4 years | 4-5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Issued bonds | - | 5,587 | 3,712 | 7,424 | 2,950 | 19,673 |
| Bank borrowings | 24 | 19 | 13 | -29 | - | 27 |
| Lease liabilities | 388 | 123 | 94 | 70 | 490 | 1,165 |
| Other non-current borrowings | - | - | 2 | - | 12 | 14 |
| **Total** | **412** | **5,729** | **3,821** | **7,465** | **3,452** | **20,879** |
| **Total 2018** | **21** | **-5** | **5,595** | **3,712** | **7,427** | **16,750** |

### Maturity of financial liabilities

DKK million

| 2019 | Contractual cash flows | Maturity < 1 year | Maturity > 1 year < 5 years | Maturity > 5 years | Carrying amount |
|---|---|---|---|---|---|
| Derivative financial instruments | | | | | |
| Derivative financial instruments, payables | 252 | 252 | - | - | - |
| Non-derivative financial instruments | | | | | |
| Gross financial debt | 25,144 | 4,112 | 17,542 | 3,490 | 24,991 |
| Interest expenses | 1,684 | 431 | 1,134 | 119 | N/A |
| Trade payables and other liabilities | 18,694 | 18,694 | - | - | 18,694 |
| Contingent liabilities | 395 | 395 | - | - | 395 |
| Contingent considerations | 9,023 | 3 | 9,020 | - | 9,023 |
| **Non-derivative financial instruments** | **54,940** | **23,635** | **27,696** | **3,609** | **-** |
| **Financial liabilities** | **55,192** | **23,887** | **27,696** | **3,609** | **-** |
| **Financial liabilities 2018** | **50,630** | **26,234** | **16,837** | **7,559** | **-** |

SECTION 4.8

# DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into various derivative financial instruments to hedge foreign exchange and commodity risks and seeks to apply hedge accounting when this is possible. Hedging of future, highly probable forecast transactions is designated as cash flow hedges. Fair value adjustments of derivative financial instruments that are not designated either as net investment hedges or as cash flow hedges are recognised in financial income and expenses.

The Group monitors the cash flow hedge relationships twice a year to assess whether the hedge is still effective.

Positive fair values of derivatives are recognised as other receivables and negative values as other payables.

The fair value of derivatives classified as cash flow hedges is presented in the cash flow hedge section below.

Cash flow hedges comprise aluminium hedges, where the hedged item is aluminium cans that will be used in a number of Group entities in 2020, and currency forwards entered into to cover the foreign exchange risk on transactions expected to take place in 2020 and 2021.

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.

The closing balance in the equity reserve for hedging of cash flow hedges for which hedge accounting is no longer applied was DKK -837m (2018: DKK -837m).

### Cash flow hedges

| DKK million | | | | | Expected recognition | |
|---|---|---|---|---|---|---|
| **2019** | Other comprehensive income | Fair value receivables | Fair value payables | Fair value, net | 2020 | 2021 |
| Exchange rate instruments | -60 | - | -56 | -56 | -56 | - |
| Other instruments | 62 | - | -24 | -24 | -24 | - |
| **Total** | **2** | **-** | **-80** | **-80** | **-80** | **-** |
| **2018** | | | | | **2019** | **2020** |
| Exchange rate instruments | -31 | 18 | -13 | 5 | 4 | 1 |
| Other instruments | -140 | 4 | -89 | -85 | -74 | -11 |
| **Total** | **-171** | **22** | **-102** | **-80** | **-70** | **-10** |

### Financial derivatives not designated as hedging instruments (economic hedges)

| DKK million | | | | |
|---|---|---|---|---|
| **2019** | Income statement | Fair value receivables | Fair value payables | Fair value, net |
| Exchange rate instruments | 81 | 56 | -13 | 43 |
| Ineffectiveness | 7 | - | - | - |
| **Total** | **88** | **56** | **-13** | **43** |
| **2018** | | | | |
| Exchange rate instruments | -40 | 57 | -55 | 2 |
| Other instruments | -3 | - | - | - |
| Ineffectiveness | -11 | - | - | - |
| **Total** | **-54** | **57** | **-55** | **2** |

SECTION 4.8 (CONTINUED)

# DERIVATIVE FINANCIAL INSTRUMENTS

## 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 twice a year.

Fair values of derivative financial instruments are calculated on the basis of level 2 input consisting 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 to 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.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as one of:

- Fair value hedges of the fair value of recognised assets or liabilities
- Cash flow hedges of particular risks associated with the cash flow from forecast transactions
- Net investment 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** and of derivative financial instruments not designated in a hedge relationship are recognised in financial income or expenses in the income statement.

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 the hedging reserve within equity. When the hedged transaction materialises, amounts previously recognised in other comprehensive income are transferred to the same item as the hedged item.

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.

**Hedges of net investments** in foreign subsidiaries, associates and joint ventures are accounted for in the same way as cash flow hedges.

SECTION 5

# ACQUISITIONS, DISPOSALS, ASSOCIATES AND JOINT VENTURES

## Cambrew

Acquisition of the remaining 25% shareholding in the Cambrew Group bringing the shareholding to 100%.

## Jing-A

Acquisition of a 49% non-controlling interest in the Chinese craft brewery, including the rights to distribute the brand in China.

## Ukraine

Acquisition of the remaining 1.2% shareholding in Carlsberg Ukraine bringing the shareholding to 100%.

SECTION 5.1

## INVESTMENT MODEL AND RISKS

### MARKET ACCESS

In the beer industry, access to local markets is highly dependent on establishing good relationships with customers in the on- and off-trade channels, national distributors, local suppliers and relevant authorities governing the beverage industry. Often, the most efficient way of establishing such relations is by acquiring a local brewer or 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 accordingly.

### INVESTMENT MODEL

Entering into a partnership can 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. Business and financial success, and the related risks, depend on the ability of the Group and the local partner to create a strong and aligned cooperation.

In some markets, the Group enters as a non-controlling shareholder, providing a degree of financing and contributing knowledge of the beer industry, but leaves the controlling influence with the partner. Other investments are structured as joint ventures, where the Group and the local partner jointly make the operational decisions and share strategic and tactical responsibility.

More commonly, the Group structures its partnerships such that it 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 mean that 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 risks associated with these governance models are limited to the investment, the proportionate share of the net profit of the business and any specific additional commitments to banks or other parties, as well as specific guarantees or loans the Group provides to the partnership.

In businesses where the Group exercises management control, the consolidated financials are impacted by full exposure to the earnings and other financial risks. 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 are – for accounting purposes – classified as financial expenses.

SECTION 5.1 (CONTINUED)

# INVESTMENT MODEL AND RISKS

Common to all partnerships is the risk of disagreement and, ultimately, dissolution. Disagreements with partners on the operational management and strategic directions of partnerships may limit our ability to manage the growth and risk profile of our business. The Group continuously seeks to promote a fair and mutually beneficial development of the partnerships, which is crucial for this development to be successful. However, in certain partnerships the partners' pursuit of goals and priorities that are different from those of the Group might result in disagreements, affecting operational and financial performance. Such different goals and priorities can become more pronounced in the period before a partner has the right to exit the partnership.

A dissolution will initially impact the accounting treatment of an investment. The accounting treatment will 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. Therefore, the risk of a partnership dissolution 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

In 2019, the Group completed a minor acquisition of DKK 18m, cf. section 5.4.

### The Cambrew Group

In 2018, Carlsberg gained control of the Cambrew Group (Cambodia) through the acquisition of an additional 25% of the shares, giving Carlsberg a 75% ownership interest. Part of the consideration for the acquisition was a written put option on the remaining 25% ownership interest. This resulted in the acquisition of the remaining 25% in a separate transaction in October 2019. The acquisition did not impact goodwill.

The acquisition of the Cambrew Group was carried out to further strengthen the Group's presence in the Asia region. The calculated goodwill represented staff competences and synergies from expected optimisations of sales and distribution, supply chain and procurement, and the increase in market share.

The fair values of the identifiable assets and liabilities at the date of acquisition in 2018 were provisionally estimated and disclosed in the Annual Report for 2018. In 2019, the values were finalised, primarily impacted by the recognition of brands being separated from goodwill and minor changes to the carrying amount of inventories, receivables, payables and provisions. Comparative figures have not been restated.

### Acquisition of the Cambrew Group

| DKK million | 2018 |
|---|---|
| Consideration paid | 1,349 |
| Fair value of contingent consideration | 1,061 |
| Fair value of previously held investment | 843 |
| **Total cost of acquisition** | **3,253** |
| Acquired assets and liabilities | |
| Goodwill | 2,022 |
| Brands | 301 |
| Property, plant and equipment | 1,482 |
| Financial assets | 46 |
| Inventories | 83 |
| Trade and other receivables | 45 |
| Cash and cash equivalents | 353 |
| Provisions and retirement benefits | -540 |
| Deferred tax liabilities | -175 |
| Trade payables | -271 |
| Other payables | -90 |
| **Acquired assets and liabilities** | **3,256** |
| Non-controlling interests | -3 |
| **Acquired assets and liabilities attributable to shareholders in Carlsberg A/S** | **3,253** |

## ACQUISITION OF NON-CONTROLLING INTERESTS

In 2019, the Group acquired the 1.2% non-controlling interest in Carlsberg Ukraine and the remaining 25% non-controlling interest in Cambrew.

In 2018, the non-controlling interest in Olympic Brewery (Greece) exercised the put option on the remaining 49% shareholding, and a non-controlling interest in Brewery Alivaria (Belarus) exercised one half of a put option on 21% of the shares.

## CASH FLOW

Cash flow to acquire shareholdings in associates and when gaining control of subsidiaries is included in financial investments, while the cash flow on acquisition of an additional shareholding in a subsidiary, i.e. acquiring non-controlling interests, is recognised in financing activities.

### Elements of cash consideration paid/received

| DKK million | 2019 | 2018 |
|---|---|---|
| Consideration received/paid, subsidiaries, net | -18 | -1,327 |
| Consideration received/paid, associates | -41 | -1,491 |
| Cash and cash equivalents acquired/disposed of | 18 | 353 |
| **Total cash consideration received/paid, net** | **-41** | **-2,465** |
| - of which consideration paid for entities acquired | -18 | -1,349 |
| - of which consideration received for entities disposed | - | 46 |
| Cash flow from acquisition of shareholdings | | |
| Cash flow from acquisitions, net, included in investing activities | -41 | -2,465 |
| Consideration paid for acquisition of NCI | -1,670 | -355 |
| **Total** | **-1,711** | **-2,820** |

In 2019, the consideration paid to acquire the remaining shareholding in Cambrew was recognised as cash flow from financing activities of DKK 1.6bn, while the consideration paid when gaining control in 2018 was included as cash flow from financial investments of DKK 1.0bn. The total consideration for the shares in the Cambrew Group thereby amounted to DKK 2.6bn.

SECTION 5.2 (CONTINUED)

# ACQUISITIONS AND DISPOSALS

## ACCOUNTING ESTIMATES AND JUDGEMENTS

### Assessment of control

The classification of entities where Carlsberg controls less than 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, reserved matters or casting votes.

### Remeasurement of shareholding held before a step acquisition

The fair value of the shareholding already held before the acquisition is measured as the net present value of expected future cash flows (value in use). The expected cash flows are based on budgets and business plans for the next three years and projections for subsequent years as well as management's expectations for the future development following gain of control of the entity.

Key parameters are revenue growth, operating margin, future capital expenditure and growth expectations beyond the next three years. As the risk associated with the timing and amount of cash flows is not included in the forecast cash flows for newly acquired entities, the forecast future cash flows are discounted using a weighted average cost of capital (WACC).

### Purchase price allocation

For acquisitions of entities, the assets, liabilities and contingent liabilities of the acquiree are recognised using the acquisition method. The most significant assets acquired generally comprise goodwill, brands, property, plant and equipment, receivables and inventories.

No active market exists for the majority of the acquired assets and liabilities, in particular in respect of acquired intangible assets. Accordingly, management makes estimates of the fair value of acquired assets, liabilities and contingent liabilities. Depending on the nature of the item, the determined fair value of an item may be associated with uncertainty and possibly adjusted subsequently.

The unallocated purchase price (positive amount) is recognised in the statement of financial position as goodwill and allocated to the Group's cash-generating units.

#### Brands

The value of the brands acquired and their expected useful life are assessed based on the individual brand's market position, expected long-term developments in the relevant markets and profitability. The estimated value includes all future cash flows associated with the brand, including the related value of customer relations etc.

Management determines the useful life based on the brand's relative local, regional and global market strength, market share, and the current and planned marketing efforts that are helping to maintain and increase its value. When the value of a well-established brand is expected to be maintained for an indefinite period in the relevant markets, and these markets are expected to be profitable for a long period, the useful life of the brand is determined to be indefinite.

Brands are measured using the relief from royalty method, under which the expected future cash flows are based on key assumptions about expected useful life, royalty rate, growth rate and a theoretically calculated tax effect. A post-tax discount rate is used that reflects the risk-free interest rate with the addition of a risk premium associated with the particular brand. The model and assumptions applied are consistent with those used in impairment testing, and are described in further detail in section 2.2.3.

#### Customer agreements and portfolios

The value of acquired customer agreements and customer portfolios is assessed based on the local market and trading conditions. For most entities, there is a close relationship between brands and sales. Consumer demand for beer and other beverages drives sales, and therefore the value of a brand is closely linked to consumer demand, while there is no separate value attached to customers (shops, bars etc.), as their choice of products is driven by consumer demand. The relationship between brands and customers is carefully considered so that brands and customer agreements are not both recognised on the basis of the same underlying cash flows.

#### Property, plant and equipment

The fair value of land and buildings, and standard production and office equipment is based, as far as possible, on the fair value of assets of similar type and condition that may be bought and sold in the open market.

Property, plant and equipment for which there is no reliable evidence of the fair value in the market (in particular breweries, including production equipment) are valued using the depreciated replacement method.

This method is based on the replacement cost of a similar asset with similar functionality and capacity. The calculated replacement cost is then reduced to reflect functional and physical obsolescence. The expected synergies and the user-specific intentions for the expected use of assets are not included in the determination of the fair value.

### Acquisition of the Cambrew Group

#### Purchase price allocation

Management believes that the purchase price for the Cambrew Group accounted for in the consolidated financial statements reflects the best estimate of the total fair value of the business and the proportionate value of identified assets, liabilities and contingent liabilities, and accordingly the allocation of goodwill. The goodwill is not deductible for tax purposes.

#### Brands

The value of the Angkor brand was estimated using a royalty rate of 3%, a discount rate of 8% and a growth rate of 3%. The brand is assumed to have an indefinite useful life.

#### Customer agreements and portfolios

No customer relationships were recognised in the purchase price allocation for the Cambrew Group.

#### Property, plant and equipment

The fair value and expected useful life of brewery equipment and related buildings have been determined with assistance from leading external engineering experts in the brewery industry.

#### Receivables

Receivables consist primarily of trade receivables and are recognised at the amount that is expected to be collected.

#### Liabilities and contingent liabilities

Potential liabilities related to tax, duties, VAT and other disputes and lawsuits were identified and measured. Potential legal cases were evaluated and provisions recognised based on the expected outcome of any identified potential claim.

SECTION 5.2 (CONTINUED)

# ACQUISITIONS AND DISPOSALS

## ACCOUNTING POLICIES

### Acquisitions

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, including the fair value of consideration contingent on future events.

In a step acquisition, the Group gains control of an entity in which it already held a shareholding. The shareholding held before the step acquisition is remeasured at fair value at the acquisition date, added to the fair value of the consideration paid for the shareholding acquired in the step acquisition and accounted for as the total cost of the shareholding in the acquired entity. The gain or loss on the remeasurement is recognised in the income statement under special items.

Goodwill and fair value adjustments in connection with the acquisition of an entity 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.

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 identifiable assets, liabilities and contingent liabilities on initial recognition at the acquisition date are subsequently 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.

Changes in estimates of contingent purchase considerations are recognised in the income statement under special items, unless they qualify for recognition directly in equity.

### Disposals

Gains or losses on the disposal or liquidation 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 liquidation, foreign exchange adjustments recognised in other comprehensive income, and costs to sell or liquidation expenses.

SECTION 5.3

# CONTINGENT CONSIDERATIONS

Contingent considerations relate to options held by non-controlling interests in subsidiaries to sell their shares to the Group.

At the end of the reporting period, the contingent consideration primarily related to put options on the shares in Carlsberg South Asia Pte Ltd (the parent company holding 100% and 90% of the shares in the businesses in India and Nepal respectively), on the shares in Brewery Alivaria, Belarus, and on the shares in a craft brewery in Western Europe.

In 2019, the remaining outstanding shares in Caretech Limited (the parent company in the Cambrew Group) were acquired. The related contingent consideration was subsequently derecognised.

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. Both the legal and the consolidated ownership are stated in section 10.

The carrying amount of contingent considerations 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.

Interest rates in the range of 8.1-9.8% and residual growth rates in the range of 4.0-4.5% were applied in the valuation of contingent considerations.

Movements during the year comprise acquisition of entities and fair value adjustments of contingent considerations, net of exercised put options during the year.

A loss of DKK 526m was recognised in equity on exercise of put options in 2019 (2018: DKK 63m).

Of the contingent considerations, DKK 9,020m (2018: DKK 6,168m) is expected to fall due within one to five years whereas the rest will fall due within 12 months. The majority of the contingent considerations are expected to fall due within the next few years.

### Contingent considerations

| DKK million | 2019 | 2018 |
|---|---|---|
| Contingent considerations at 1 January | 6,168 | 3,820 |
| Movements, net | 2,855 | 2,348 |
| **Contingent considerations at 31 December** | **9,023** | **6,168** |

SECTION 5.3 (CONTINUED)

# CONTINGENT CONSIDERATIONS

### ACCOUNTING ESTIMATES AND JUDGEMENTS

The fair value of contingent considerations is calculated on the basis of level 3 input consisting of non-observable data, such as entity-specific discount rates and industry-specific expectations of price developments, and 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 assumptions applied are in line with those used in the impairment tests as described in section 2.2, but reflecting the different models and valuation techniques needed.

### 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 adjustments of put options granted to non-controlling interests are recognised directly in the statement of changes in equity.

SECTION 5.4

# ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures include the businesses in Portugal (60%) and Myanmar (51%) and five associates in China (each 50%). The total investment in these associates amounted to DKK 2,658m at 31 December 2019 (2018: DKK 2,697m).

Profit after tax more than doubled in 2019, mainly due to increased ownership of the associates in Portugal having full impact in 2019.

The Group acquired the remaining 35% shareholding in the Acrospires Group, increasing the ownership to 100%. As a result, the Group now exercises management control of the business, which has been fully consolidated since 1 July 2019.

In Portugal, the Group's direct and indirect ownership of Super Bock totals 60%. Nevertheless, Super Bock is an associate of the Group due to the ownership structure. Please refer to section 10 of the consolidated financial statements for details regarding the ownership.

Despite the legal 51% ownership share in Myanmar Carlsberg, the entity is classified as an associate, due to the structure of the agreement with the partner.

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.

### Fair value of investment in listed associates

| DKK million | 2019 | 2018 |
|---|---|---|
| The Lion Brewery Ceylon, Sri Lanka | 443 | 406 |

None of the associates and joint ventures are material to the Group.

### Key figures for associates and joint ventures

| DKK million | Carlsberg Group share | | | |
|---|---|---|---|---|
| **2019** | Profit after tax | Other comprehensive income | Total comprehensive income | Investments in associates and joint ventures |
| Associates | 278 | 4 | 282 | 4,366 |
| Joint ventures | - | - | - | -2 |
| **Total** | **278** | **4** | **282** | **4,364** |
| **2018** | | | | |
| Associates | 131 | 4 | 135 | 4,564 |
| Joint ventures | -1 | - | -1 | -2 |
| **Total** | **130** | **4** | **134** | **4,562** |

### ACCOUNTING POLICIES

Investments in associates and joint ventures are recognised according to the equity method, which entails measurement at cost and adjustment for the Group's share of the profit or loss and other comprehensive income of the associate after the date of acquisition. The share of the result must be calculated in accordance with the Group's accounting policies. The proportionate share of unrealised intra-group profits and losses is eliminated. 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 6

# TAX

**2,751m**

**INCOME TAX** (DKK)

Up from DKK 2,386m in 2018.

**26.9%**

**TAX RATE**

Down from 28.0% in 2018.

SECTION 6.1

## INCOME 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 effective tax rate for the Group of 26.9% (2018: 28.0%) was negatively impacted by withholding taxes (particularly on dividends), non-capitalised tax assets and non-deductible expenses.

It is not possible to deduct all fair value adjustments that arise in Denmark due to thin capitalisation rules. Tax on such adjustments therefore fluctuates from year to year.

### ACCOUNTING POLICIES

Income tax 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 profit/loss for the year. However, if the total tax deduction exceeds the total tax expense, the tax benefit of the excess deduction is recognised directly in equity.

### Reconciliation of the effective tax rate for the year

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | % | DKK million | % | DKK million |
| Nominal weighted tax rate | 21.8 | 2,225 | 20.3 | 1,730 |
| Change in tax rate | -0.1 | -8 | - | -1 |
| Adjustments to tax for prior years | 0.2 | 24 | -0.5 | -42 |
| Non-capitalised tax assets, net movements | 1.5 | 156 | 2.8 | 235 |
| Non-taxable income | -0.5 | -54 | -0.2 | -15 |
| Non-deductible expenses | 1.7 | 172 | 2.7 | 230 |
| Tax incentives etc. | -0.3 | -27 | -0.8 | -64 |
| Special items | -0.9 | -87 | 0.1 | 13 |
| Withholding taxes | 3.9 | 395 | 3.7 | 311 |
| Other, including tax in associates and joint ventures | -0.4 | -45 | -0.1 | -11 |
| **Effective tax rate for the year** | **26.9** | **2,751** | **28.0** | **2,386** |

SECTION 6.1 (CONTINUED)

# INCOME TAX

### Income tax expenses

| DKK million | 2019 Income statement | 2019 Other comprehensive income | 2019 Total comprehensive income | 2018 Income statement | 2018 Other comprehensive income | 2018 Total comprehensive income |
|---|---|---|---|---|---|---|
| **Tax for the year can be specified as follows** | | | | | | |
| Current tax | 2,127 | 5 | 2,132 | 2,356 | -2 | 2,354 |
| Change in deferred tax and non-current tax payables during the year | 608 | -60 | 548 | 73 | -50 | 23 |
| Change in deferred tax as a result of change in tax rate | -8 | - | -8 | -1 | - | -1 |
| Adjustments to tax for prior years | 24 | - | 24 | -42 | - | -42 |
| **Total** | **2,751** | **-55** | **2,696** | **2,386** | **-52** | **2,334** |

### Tax recognised in other comprehensive income

| DKK million | 2019 Recognised item before tax | 2019 Tax income/ expense | 2019 After tax | 2018 Recognised item before tax | 2018 Tax income/ expense | 2018 After tax |
|---|---|---|---|---|---|---|
| Foreign exchange adjustments | -3,485 | - | -3,485 | 2,754 | - | 2,754 |
| Hedging instruments | 323 | -20 | 303 | 640 | -85 | 555 |
| Retirement benefit obligations | 571 | -38 | 533 | -392 | 33 | -359 |
| Share of other comprehensive income in associates and joint ventures | -4 | - | -4 | -4 | - | -4 |
| Other | -14 | 3 | -11 | - | - | - |
| **Total** | **-2,609** | **-55** | **-2,664** | **2,998** | **-52** | **2,946** |

SECTION 6.2

# TAX ASSETS AND LIABILITIES

Of the total deferred tax assets recognised, DKK 312m (2018: DKK 506m) 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 678m (2018: DKK 1,115m) primarily related to tax losses that are not expected to be utilised in the foreseeable future. Of these, tax losses that will not expire amounted to DKK 472m (2018: DKK 839m). Remaining tax losses of DKK 206m (2018: DKK 276m) will expire within five years.

Deferred tax of DKK 54m (2018: DKK 94m) was recognised in respect of the tax of 5% payable on planned dividends from certain entities in Eastern Europe.

Planned distribution of reserves for other subsidiaries 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 was recognised at DKK 180m (2018: DKK 0m). The deferred tax plus the additional tax on the gain of the Group's internal transfer of shares is expected to materialise within the next few years.

SECTION 6.2 (CONTINUED)

# TAX ASSETS AND LIABILITIES

Changes in deferred tax and non-current tax payables for the year amounts to DKK 608m (2018: DKK 37m), of which DKK 214m (2018: DKK 29m) relates to the changes in deferred tax.

### Non-current tax liabilities recognised in the statement of financial position

| DKK million | 2019 | 2018 |
|---|---|---|
| Deferred tax liabilities | 4,708 | 4,021 |
| Non-current tax payables | 1,795 | 1,638 |
| **Non-current tax liabilities at 31 December** | **6,503** | **5,659** |

### ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group recognises deferred tax assets, including the expected tax value of tax loss carryforwards, if management assesses they 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 the planned use of the asset or settlement of the liability. Deferred tax is recognised on expected dividend payments from subsidiaries, associates and joint ventures in countries levying withholding tax on distributions.

Deferred tax assets related to 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 recognised only to the extent that it is probable that the assets will be utilised.

Deferred tax is measured according to the tax rules at the reporting date and at the tax rates applicable when the deferred tax is expected to materialise 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.

### Changes to tax assets and liabilities

| DKK million | 2019 | 2018 |
|---|---|---|
| Tax assets and liabilities at 1 January, net | 3,966 | 3,938 |
| Adjustments to prior years | -206 | -7 |
| Acquisition and disposal of entities | 40 | 129 |
| Recognised in other comprehensive income | -60 | -50 |
| Recognised in the income statement, net | 608 | 73 |
| Change in tax rate | -8 | -1 |
| Foreign exchange adjustments | 225 | -116 |
| **Tax assets and liabilities at 31 December, net** | **4,565** | **3,966** |
| Recognised as follows | | |
| Tax liabilities | 6,503 | 5,659 |
| Tax assets | -1,938 | -1,693 |
| **Tax assets and liabilities at 31 December, net** | **4,565** | **3,966** |

### Specification of deferred tax

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| DKK million | 2019 | 2018 | 2019 | 2018 |
| Intangible assets | 465 | 358 | 3,680 | 3,413 |
| Property, plant and equipment | 432 | 343 | 1,790 | 1,861 |
| Current assets | 367 | 316 | 28 | 25 |
| Provisions and retirement benefit obligations | 1,022 | 1,217 | 26 | 8 |
| Tax losses etc. | 1,403 | 1,192 | 935 | 447 |
| **Total before offset** | **3,689** | **3,426** | **6,459** | **5,754** |
| Offset | -1,751 | -1,733 | -1,751 | -1,733 |
| **Deferred tax assets and liabilities at 31 December** | **1,938** | **1,693** | **4,708** | **4,021** |
| Expected to be used as follows | | | | |
| Within one year | 695 | 643 | 2,115 | 1,731 |
| After more than one year | 1,243 | 1,050 | 2,593 | 2,290 |
| **Total** | **1,938** | **1,693** | **4,708** | **4,021** |

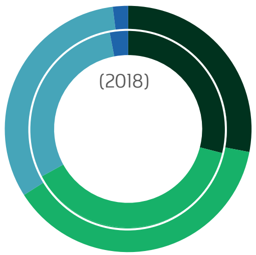
SECTION 7

# STAFF COSTS AND REMUNERATION

## Pensions

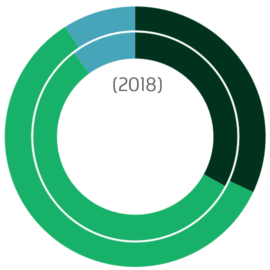
Defined benefit obligations were affected by lower interest rates across Western Europe and by the transfer of the large medical insurance scheme to the municipal government in Chongqing, releasing the Group from the obligation.

### Employees by segment (%)




- Western Europe 28% (29%)
- Asia 38% (38%)
- Eastern Europe 32% (30%)
- Other 2% (3%)

### by function (%)




- Production 32% (33%)
- Sales & Distribution 59% (57%)
- Administration 9% (10%)

SECTION 7.1

## STAFF COSTS

The average number of employees increased during 2019 due to insourcing of brand ambassadors in Russia and the full-year effect of Cambrew, acquired in 2018.

Staff costs increased for several entities due to higher performance-related payouts, but this was offset by savings generated by changes to the employee mix.

### Staff costs

| DKK million | 2019 | 2018 |
|---|---|---|
| Salaries and other remuneration | 8,549 | 8,491 |
| Severance payments | 88 | 75 |
| Social security costs | 1,344 | 1,294 |
| Retirement benefit costs – defined contribution plans | 300 | 286 |
| Retirement benefit costs – defined benefit plans | 32 | 203 |
| Share-based payments | 217 | 174 |
| Other employee benefits | 60 | 91 |
| **Total** | **10,590** | **10,614** |
| **Average number of employees** | **41,248** | **40,837** |
| Staff costs are included in the following line items in the income statement | | |
| Cost of sales | 2,866 | 2,720 |
| Sales and distribution expenses | 5,575 | 5,348 |
| Administrative expenses | 2,192 | 2,433 |
| Other operating activities, net | 63 | 54 |
| Financial expenses (Pensions) | -133 | 23 |
| Special items (Restructurings) | 27 | 36 |
| **Total** | **10,590** | **10,614** |

SECTION 7.2
# REMUNERATION

The remuneration of the Supervisory Board, the executive directors and key management personnel is described in detail in the Remuneration report in the Management review.

The remuneration of key management personnel increased in 2019 as a result of an increase in members of the Executive Committee compared with 2018.

In 2019, the Supervisory Board received total remuneration of DKK 9.59m (2018: DKK 9.35m), comprising fixed salary only.

### 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.

Key management personnel comprise the Executive Committee, excluding the executive directors. Other management personnel included in the share-based payment schemes comprise Vice Presidents and other key employees in central functions as well as the management of significant subsidiaries.

### Remuneration

| | Executive directors | | | | | | Key management personnel | |
|---|---|---|---|---|---|---|---|---|
| | Cees 't Hart | | | Heine Dalsgaard | | | | |
| DKK million | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 | 2019 | 2018 |
| Fixed salary | 12.6 | 12.3 | 12.0 | 7.6 | 7.4 | 7.3 | 26.5 | 25.3 |
| Cash bonus | 11.4 | 12.3 | 9.3 | 7.1 | 7.4 | 5.6 | 23.2 | 18.5 |
| Other benefits | 1.1 | 1.1 | 1.2 | - | - | - | 7.0 | 4.0 |
| Special bonus[1] | - | - | - | - | - | 3.1 | 1.3 | - |
| **Remuneration settled in cash** | **25.1** | **25.7** | **22.5** | **14.7** | **14.8** | **16.0** | **58.0** | **47.8** |
| Non-monetary benefits | 0.1 | 0.1 | 0.1 | 0.3 | 0.3 | 0.3 | 0.7 | 0.5 |
| Share-based payments[2] | 24.6 | 26.7 | 20.6 | 12.4 | 13.3 | 9.0 | 21.4 | 18.8 |
| **Remuneration, non-monetary and share-based** | **24.7** | **26.8** | **20.7** | **12.7** | **13.6** | **9.3** | **22.1** | **19.3** |
| **Total cash and non-cash** | **49.8** | **52.5** | **43.2** | **27.4** | **28.4** | **25.3** | **80.1** | **67.1** |

[1] Special bonus covered remuneration waived from previous employer, in total DKK 15m, paid out in 2016 and 2017.
[2] The amount of remuneration in the form of share-based payments in the table does not reflect the value of shares transferred to or cash equivalents received by the executive director during the year. The amount reflects only the technical accounting charge to the income statement required by IFRS.

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. There is no share-based incentive programme for the Supervisory Board.

The Group has two types of share-based payment: share options and performance shares. Share options entitle the holder to purchase class B shares in Carlsberg A/S at a predetermined price after completing three years of service. Share options are exercisable for five years.

Entitlement to performance shares also requires fulfilment of service in the vesting period (2-3 years), but does not have any exercise price.

Instead, the shares are transferred to the recipients based on the achievement of the KPIs attached to the shares. Performance shares have been awarded under three programmes that differ in terms of KPI structure and vesting period.

### PERFORMANCE SHARES

The number of performance shares granted is the maximum number of performance shares that can vest. The number of shares outstanding at the end of the period is the number expected to vest, based on the extent to which the vesting conditions are expected to be met. The number of shares expected to vest is revised on a regular basis.

#### Regular performance shares

In 2019, 192 employees (2018: 206 employees) across the Group were awarded performance shares.

Vesting is subject to achievement of four KPIs: total shareholder return, adjusted EPS growth, organic revenue growth and growth in ROIC. The average share price at vesting was DKK 803 (2018: DKK 748). The average contractual life at the end of 2019 was 1.5 years (2018: 1.7 years).

#### Funding the Journey performance shares

Funding the Journey performance shares were granted to the executive directors in 2016 only and vested in February 2019.

SECTION 7.3 (CONTINUED)

# SHARE-BASED PAYMENTS

### Fund & Grow performance shares

The Fund & Grow performance share programme was set up in 2018 to align the initiatives driven by Group management in our SAIL'22 strategy with the interests of our shareholders. Shares were granted to 204 employees across the Group, not including the executive directors. Vesting is subject to achievement of two KPIs: organic growth in revenue and in operating profit for 2018 and 2019. The average contractual life at the end of 2019 was 0.1 year (2018: 1.1 years).

### Share options

No share options have been granted since 2016. The outstanding options are all exercisable at the end of the reporting period. The average contractual life was 3.6 years (2018: 4.6 years). In 2018, the average share price at exercise was DKK 766.

### Performance shares

| | Executive directors | Key management personnel | Other management personnel | Total |
|---|---|---|---|---|
| 31 December 2017 | 137,198 | 9,023 | 147,380 | 293,601 |
| Granted | 66,286 | 88,919 | 556,614 | 711,819 |
| Forfeited/adjusted | - | -2,578 | -91,361 | -93,939 |
| Exercised/settled | - | -6,445 | -98,972 | -105,417 |
| **31 December 2018** | **203,484** | **88,919** | **513,661** | **806,064** |
| Granted | 61,331 | 27,569 | 167,918 | 256,818 |
| Forfeited/adjusted/transferred | -17,353 | -18,240 | -64,592 | -100,185 |
| Exercised/settled | -58,057 | - | - | -58,057 |
| **31 December 2019** | **189,405** | **98,248** | **616,987** | **904,640** |

### Performance share disclosures

| | Regular | | Fund & Grow | | Funding the Journey | |
|---|---|---|---|---|---|---|
| DKK million | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Fair value at grant date | 167 | 172 | - | 294 | - | - |
| Cost of shares granted in the year | 46 | 46 | - | 120 | - | - |
| Total cost of performance shares | 104 | 42 | 112 | 120 | 1 | 8 |
| Cost not yet recognised | 162 | 120 | 14 | 154 | - | - |
| Fair value at 31 December | 510 | 185 | 361 | 270 | - | 26 |

### Share option disclosures

| DKK million | 2019 | 2018 |
|---|---|---|
| Cost of share options | - | 4 |
| Fair value at 31 December | 54 | 20 |

#### ACCOUNTING ESTIMATES AND JUDGEMENTS

The volatility of performance shares is based on the historical volatility of the price of Carlsberg A/S' class B shares over the previous three years. For share options, the volatility is based on similar data over the previous eight years.

The share price and the exercise price of 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 statements.

### Key information

| | Regular performance shares | | Fund & Grow performance shares |
|---|---|---|---|
| | 2019 | 2018 | 2018 |
| Expected volatility | 16.0% | 21% | N/A |
| Risk-free interest rate | 0.0% | 0.0% | 0.0% |
| Expected dividend yield | 2.3% | 2.2% | 2.2% |
| Expected life of options, years | 3.0 | 3.0 | 2.0 |
| Fair value at measurement date | DKK 648-651 | DKK 610-642 | DKK 684 |

### Share options

| | Exercise price | Number | | |
|---|---|---|---|---|
| | Fixed, weighted average | Executive directors | Other management personnel | Total |
| 31 December 2017 | 523 | 114,984 | 149,844 | 264,828 |
| Forfeited | 417 | - | -2,825 | -2,825 |
| Exercised | 529 | - | -147,019 | -147,019 |
| **31 December 2018** | **518** | **114,984** | **-** | **114,984** |
| **31 December 2019** | **518** | **114,984** | **-** | **114,984** |

The risk-free interest rate is based on Danish government bonds of the relevant maturity. The expected life is based on exercise at the end of the exercise period.

#### ACCOUNTING POLICIES

The fair value of granted performance shares is estimated using a stochastic (quasi-Monte Carlo) valuation model of market conditions and a Black-Scholes call option-pricing model of other conditions, taking into account the terms and conditions upon which the performance shares were granted.

On initial recognition of performance shares, an estimate is made of the number of awards expected to vest and subsequently revised for any changes. Accordingly, recognition is based on the number of awards that ultimately vest.

SECTION 7.4

# RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

A number of employees are covered by retirement benefit plans. The nature of the plans varies depending on labour market conditions in the individual countries. Benefits are generally based on wages, 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 contributions to a separate independent company. The Group's legal or constructive obligation is limited to the contributions.

61% (2018: 58%) of the Group's retirement benefit costs relate to defined contribution plans. In 2019, the expense recognised in relation to these contributions was DKK 300m (2018: DKK 286m).

### DEFINED BENEFIT PLANS

The defined benefit plans guarantee employees a certain level of pension benefits for life. The pension is based on seniority and salary at the time of retirement. The Group assumes the risk associated with future developments in interest rates, inflation, mortality and disability etc.

The most significant plans are in the UK and Switzerland, representing 47% and 39% respectively (2018: 44% and 40%), while the eurozone countries represented 5% (2018: 6%) of the gross obligation at 31 December 2019.

The majority of the obligations are funded, with assets placed in independent pension funds, mainly in Switzerland and the UK. In some countries, primarily Germany, Sweden and China, the obligation is unfunded. The retirement benefit obligations for these unfunded plans amounted to DKK 1,802m (2018: DKK 1,873m) or 13% (2018: 15%) of the gross obligation.

In 2019, the Group's obligation, net, on defined benefit plans increased by DKK 391m compared with 2018. Changes in actuarial assumptions across Western Europe increased the net obligation, mainly caused by actuarial losses of DKK 285m in the UK, DKK 175m in Switzerland and DKK 67m in Sweden. This effect was partially offset by a decrease in the obligation of DKK 162m, due to the municipal government in Chongqing assuming responsibility for the long-term medical insurance.

### Obligation, net

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| 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** | **12,239** | **9,331** | **2,908** | **13,069** | **9,718** | **3,351** |
| **Recognised in the income statement** | | | | | | |
| Current service cost | 199 | - | 199 | 194 | - | 194 |
| Past service cost | -169 | - | -169 | 9 | - | 9 |
| Net interest on the net defined benefit obligation (asset) | 256 | 189 | 67 | 232 | 155 | 77 |
| Curtailments and settlements | 2 | - | 2 | - | - | - |
| **Total** | **288** | **189** | **99** | **435** | **155** | **280** |
| **Remeasurements** | | | | | | |
| Gain/loss from changes in demographic assumptions | -98 | - | -98 | -203 | - | -203 |
| Gain/loss from changes in financial assumptions | 1,452 | 717 | 735 | -561 | -312 | -249 |
| Asset ceiling | - | 66 | -66 | - | -60 | 60 |
| **Total** | **1,354** | **783** | **571** | **-764** | **-372** | **-392** |
| **Other changes** | | | | | | |
| Contributions to plans | - | 225 | -225 | - | 215 | -215 |
| Benefits paid | -594 | -486 | -108 | -633 | -522 | -111 |
| Acquisition and disposal of entities, net | 1 | - | 1 | 3 | - | 3 |
| Transfers | 1 | - | 1 | 7 | - | 7 |
| Foreign exchange adjustments etc. | 482 | 430 | 52 | 122 | 137 | -15 |
| **Total** | **-110** | **169** | **-279** | **-501** | **-170** | **-331** |
| **Obligation at 31 December** | **13,771** | **10,472** | **3,299** | **12,239** | **9,331** | **2,908** |

The total return on plan assets for the year amounted to DKK 906m (2018: DKK -157m).

SECTION 7.4 (CONTINUED)

# RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

The Group expects to contribute DKK 79m (2018: DKK 76m) to the plan assets in 2020. Plan assets do not include shares in or properties used by Group companies.

Net actuarial loss and foreign exchange adjustment recognised in other comprehensive income for 2019 was DKK 681m (2018: net gain of DKK 392m), which included a reversal of an asset ceiling in the UK of DKK 66m (2018: DKK -60m).

The accumulated actuarial loss and foreign exchange adjustment recognised at 31 December 2019 was DKK 3,710m (2018: DKK 3,029m), with actuarial net losses of DKK 3,734m (2018: DKK 3,097m).

### Assumptions applied

In 2019, the discount rate used for the defined benefit 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 S3PMA/S3PFA tables for post-retirement and AMC00/AFC00 for pre-retirement, both with CMI_2018 projections, while the Swiss entities use BVG 2015 GT for valuation of their retirement benefit 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 2019 was 20 years. The duration is calculated using a weighted average of the duration divided by the obligation.

## Breakdown of plan assets

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | DKK million | % | DKK million | % |
| Shares | 1,004 | 10 | 945 | 10 |
| Bonds and other securities | 7,080 | 68 | 6,165 | 65 |
| Real estate | 2,231 | 21 | 2,117 | 23 |
| Cash and cash equivalents | 157 | 1 | 164 | 2 |
| **Total** | **10,472** | **100** | **9,391** | **100** |

## Assumptions applied

| 2019 | CHF | UK | EUR | Other | Weighted average |
|---|---|---|---|---|---|
| Discount rate | 0.1% | 2.2% | 0.3-0.9% | 0.5-7.1% | 1.3% |
| Growth in wages and salaries | 1.0% | 2.2% | 0.0-2.7% | 2.0-10.0% | 1.8% |
| **2018** | | | | | |
| Discount rate | 0.8% | 3.1% | 1.1-1.8% | 0.5-7.6% | 2.1% |
| Growth in wages and salaries | 1.0% | 2.4% | 0.0-2.7% | 2.0-10.0% | 2.1% |

## Sensitivity analysis

| | 2019 | | 2018 | |
|---|---|---|---|---|
| DKK million | +0.5% | -0.5% | +0.5% | -0.5% |
| Discount rate | -1,063 | 1,216 | -771 | 942 |
| Growth in wages and salaries | 70 | -65 | 90 | -61 |
| | +1 year | -1 year | +1 year | -1 year |
| Mortality | 580 | -582 | 429 | -403 |

## Maturity of retirement benefit obligations

| DKK million | < 1 year | 1-5 years | > 5 years | Total |
|---|---|---|---|---|
| 2019 | 449 | 1,306 | 3,265 | 5,020 |
| 2018 | 435 | 1,235 | 3,819 | 5,490 |

SECTION 7.4 (CONTINUED)

# RETIREMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

### 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 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. 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 obligation 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 termination of a significant number of positions in connection with restructurings are recognised under special items.

SECTION 8

# OTHER DISCLOSURE REQUIREMENTS

**6,160m**

Profit attributable to shareholders in Carlsberg A/S, adjusted for special items after tax (DKK).

**41.0**

Earnings per share, adjusted for special items after tax (DKK).

SECTION 8.1

## EARNINGS PER SHARE

During 2019, the Group repurchased a total of 4.5m B shares under the share buy-back programme, which decreased the average number of shares by 2.1m. This increased the adjusted earnings per share by DKK 0.5. The improved profit for the year compared with last year increased the adjusted earnings per share by DKK 5.3.

For all share-based incentive instruments, the average market price of Carlsberg B shares exceeded the exercise price and the fair value at the grant date. As a result, diluted earnings per share included all share-based incentive instruments that could potentially dilute earnings in the future.

### Earnings per share

| DKK | 2019 | 2018 |
|---|---|---|
| Earnings per share of DKK 20 (EPS) | 43.7 | 34.8 |
| Diluted earnings per share of DKK 20 (EPS-D) | 43.4 | 34.7 |
| Earnings per share, adjusted (EPS-A) | 41.0 | 35.2 |

### Average number of shares

| 1,000 shares | | |
|---|---|---|
| Average number of issued shares | 152,557 | 152,557 |
| Average number of treasury shares | -2,146 | -129 |
| **Average number of shares** | **150,411** | **152,428** |
| Average dilutive effect of share-based incentives | 817 | 683 |
| **Diluted average number of shares** | **151,228** | **153,111** |

### Profit attributable to shareholders

| DKK million | | |
|---|---|---|
| Consolidated profit | 7,477 | 6,133 |
| Non-controlling interests | -908 | -824 |
| **Profit attributable to shareholders in Carlsberg A/S (net profit)** | **6,569** | **5,309** |
| Special items after tax | -409 | 50 |
| **Profit attributable to shareholders in Carlsberg A/S, adjusted** | **6,160** | **5,359** |

SECTION 8.2

# FEES TO AUDITORS

### Fees to auditors appointed by the Annual General Meeting

| DKK million | 2019 | 2018 |
|---|---|---|
| **PwC including network firms** | | |
| Statutory audit | 20 | 19 |
| Assurance engagements | 1 | 1 |
| Tax advisory | 2 | 1 |
| Other services | 7 | 2 |
| **Total** | **30** | **23** |

Fees for services other than the statutory audit of the financial statements provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab, Denmark, amounted to DKK 8m (2018: DKK 3m), including advice relating to information security, internal controls, finance function and tax, other assurance opinions and agreed-upon procedures, as well as accounting advice.

SECTION 8.3

# 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 29.4% of the shares and 75.1% of the voting power in Carlsberg A/S, excluding treasury shares.

The following transactions took place between the Carlsberg Foundation and the Group in 2019:

The Carlsberg Foundation received a dividend of DKK 18.00 per share from Carlsberg A/S, the same as every other shareholder. The dividend received amounted to DKK 832m.

Through its pro-rata participation in the share buy-back programme, the Carlsberg Foundation sold B shares at a fair value of DKK 1.2bn to Carlsberg A/S. The Foundation thereby reduced its shareholding to 29.4% at 31 December 2019 (2018: 30.3%). The shares were sold back at the average weekly share buy-back market prices.

### FUNDING AND GRANTS

Carlsberg A/S received statutory grants and further funding from the Carlsberg Foundation, DKK 39m, for the research and development activities at the Carlsberg Research Laboratory (2018: DKK 38m). Of the total grants, DKK 41m (2018: DKK 26m) was deferred to be used for research projects in the future.

The Carlsberg Foundation will contribute around DKK 53m to support rebuilding the Carlsberg Visitor Center and Museum to better present the rich history and value creation of Carlsberg.

### OTHER ACTIVITIES

Carlsberg A/S held the Annual General Meeting at Ny Carlsberg Glyptotek at a cost of DKK 0.2m and an event for its employees at a cost of DKK 0.5m. Furthermore, Ny Carlsberg Glyptotek has received event products free of charge from the Group as part of the sponsorship of certain events at an accumulated value of DKK 0.2m.

The Group's delivery of beer and soft drinks to the Carlsberg Foundation is charged at ordinary listing price minus a discount. In 2019, the deliveries amounted to DKK 0.2m (total sales of goods) (2018: DKK 0.3m).

Carlsberg A/S leases parking spaces from the Carlsberg Foundation to provide parking for employees at the Research Laboratory and Visit Carlsberg. Furthermore, Carlsberg Breweries A/S leases storage facilities in the researcher apartments. These lease agreements are with subsidiaries of the Foundation. Both of the annual lease payments amount to DKK 0.2m and the lease terms are on market conditions.

In accordance with the Tuborg Foundation's entitlements as a partner of UNLEASH (a non-profit organisation working to promote young people's understanding of & contribution to the UN Sustainable Development Goals), seven seats for an event were given to Carlsberg talents. The total value of the seats was DKK 0.2m. Carlsberg A/S, and the Carlsberg, the Tuborg and the New Carlsberg Foundations participated in Folkemødet (the People's Democratic Festival in Bornholm). Carlsberg A/S spent DKK 0.3m and the three Foundations a total of DKK 1.7m on establishing the event area.

It is estimated that the benefit for the Carlsberg Group corresponds to the value of the other activities provided to the Carlsberg Foundation, which in turn corresponds to what each party would have had to pay 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 of the consolidated financial statements.

### The income statement and the statement of financial position include the following transactions

| DKK million | 2019 | 2018 |
|---|---|---|
| **Associates and joint ventures** | | |
| Revenue | 72 | 62 |
| Cost of sales | -703 | -622 |
| Loans | 241 | 333 |
| Receivables | 48 | 104 |
| Borrowings | - | -7 |
| Trade payables and other liabilities | -2 | -15 |

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.

SECTION 9

# BASIS FOR PREPARATION

## Changes in 2019

### RECOGNITION OF LEASE LIABILITIES

Adoption of the new IFRS leasing standard led to recognition of lease liabilities and identification of right-of-use assets. These have been recognised as property, plant and equipment as of 1 January 2019.

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 |
| Tax assets and liabilities | Section 6 |
| Defined benefit obligations | Section 7 |
| Acquisitions and disposals, including contingent considerations | Section 5 |

SECTION 9.2

## GENERAL ACCOUNTING POLICIES

The Group's 2019 consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and further 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.

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 are considered relevant to stakeholders and necessary for an understanding of the Group's business model, including research, real estate and geographical diversity, are also presented individually in the financial statements.

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.

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 less than 50% of the voting rights or participation in the management of the company. 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.

On consolidation, intra-group income and expenses, shareholdings, balances and dividends, and realised and unrealised gains are eliminated. Unrealised gains on transactions with associates and joint ventures are eliminated in proportion to the Group's ownership share of the entity.

SECTION 9.2 (CONTINUED)

# GENERAL ACCOUNTING POLICIES

Unrealised losses are eliminated in the same way as unrealised gains to the extent that impairment has not taken place.

The accounting items of subsidiaries are included in full in the consolidated financial statements. Non-controlling interests' share of subsidiaries' profit/loss for the year and of equity are included in the Group's profit/loss and equity, but are disclosed separately. Entities acquired or established in the year are recognised in the consolidated financial statements from the date of acquisition or formation. Entities disposed of or discontinued are recognised in the consolidated income statement until the date of disposal or discontinuation. The comparative figures are not restated.

### 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 expenses.

On recognition of entities with a functional currency other than the presentation currency, 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. Foreign exchange differences arising on translation of the opening balance of equity, and of the income statement on the reporting date, are recognised in other comprehensive income and attributed to a separate translation reserve in equity. Foreign exchange differences arising on the translation of the proportionate share of associates and joint ventures are likewise recognised in other comprehensive income.

Foreign exchange adjustment of balances with 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 are designated as hedges of investments in foreign entities, 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.

When the gain or loss from a complete or partial disposal of an entity is recognised, the share of the cumulative exchange differences recognised in other comprehensive income is recognised in the income statement. The same approach is adopted on repayment of balances that constitute part of the net investment in the entity.

### 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 are not directly attributable to ordinary operating activities and are shown separately in order to facilitate a better understanding of the Group's financial performance.

### 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, and payout ratio, adjusted
- Organic development

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 as well as 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

## Glossary and calculation of key figures and financial ratios disclosed in the Annual Report

### FINANCIAL RATIOS

| | |
|---|---|
| Gross margin | Gross profit as a percentage of revenue. |
| EBITDA margin[1] | Operating profit before depreciation, amortisation and impairment losses as a percentage of revenue. |
| Operating margin | Operating profit before special items[1] as a percentage of revenue. |
| Return on invested capital (ROIC) | Operating profit before special items[1] adjusted for tax as a percentage of average invested capital[2] calculated as a 12-month rolling average (MAT). |
| Return on invested capital excluding goodwill (ROIC excl. goodwill) | Operating profit before special items[1] adjusted for tax as a percentage of average invested capital[2] excluding goodwill calculated as a 12-month rolling average (MAT). |
| Effective tax rate[1] | Income tax as a percentage of profit before tax. |
| Equity ratio | Equity attributable to shareholders in Carlsberg A/S at year-end as a percentage of total assets at year-end. |
| NIBD/equity ratio[1] | Net interest-bearing debt[3] at year-end divided by total equity at year-end. |
| NIBD/EBITDA[1] | Net interest-bearing debt[3] divided by operating profit before depreciation, amortisation and impairment losses. |
| Interest cover[1] | Operating profit before special items divided by interest expenses, net. |

### STOCK MARKET RATIOS

| | |
|---|---|
| Earnings per share (EPS) | Consolidated profit for the year, excluding non-controlling interests, divided by the average number of shares. |
| Earnings per share, diluted (EPS-D) | Consolidated profit for the year, excluding non-controlling interests, divided by the average number of shares, fully diluted for share options and performance shares in the money. |
| Earnings per share, adjusted (EPS-A) | Consolidated profit for the year adjusted for special items after tax[1], excluding non-controlling interests, divided by the average number of shares. |
| Free cash flow per share (FCFPS)[1] | Free cash flow[4] divided by the average number of shares, fully diluted for share options and performance shares in the money. |

### STOCK MARKET RATIOS (CONTINUED)

| | |
|---|---|
| Payout ratio | Proposed dividend for the year as a percentage of consolidated profit, excluding non-controlling interests. |
| Payout ratio, adjusted | Proposed dividend for the year on number of shares at year-end as a percentage of consolidated profit, adjusted for special items after tax[1], excluding non-controlling interests. |
| Market capitalisation | Number of shares at year-end multiplied by the share price. |
| Average number of issued shares | Number of issued shares as an average for the year. |
| Average number of shares | Number of issued shares, excluding treasury shares, as an average for the year. |
| Number of shares at year-end | Total number of issued shares, excluding treasury shares, at year-end. |

### GLOSSARY

| | |
|---|---|
| EBITDA[1] | Expression used for operating profit before depreciation, amortisation and impairment losses. |
| OCI | Abbreviation for other comprehensive income. |
| NCI | Abbreviation for non-controlling interests. |
| Operating profit | Expression used for operating profit before special items[1]. |
| On-trade | Expression used for sale of beverages for consumption on the premises (e.g. restaurants, hotels and bars). |
| Off-trade | Expression used for sale of beverages for consumption off the premises (e.g. retailers). |
| Organic development[1] | Measure of growth excluding the impact of acquisitions, divestments and foreign exchange from year-on-year comparisons. |
| Leverage ratio[1] | Expression used for NIBD/EBITDA. |
| Volumes[1] | The Group's sale of beverages in consolidated entities and sale of the Group's products under licence agreements. |

[1] This key figure, ratio or elements thereof is not defined or deviates from the definitions of the Danish Finance Society.
[2] The calculation of invested capital is specified in section 2.1.
[3] The calculation of net-interest bearing debt is specified in section 4.2.
[4] The calculation of free cash flow is specified in the statement of cash flows.

SECTION 9.3

# CHANGES IN ACCOUNTING POLICIES

### 9.3.1 CHANGED ACCOUNTING POLICIES AND CLASSIFICATION IN THE ANNUAL REPORT 2019

The Annual Report has been prepared using the same accounting policies for recognition and measurement as those applied to the consolidated financial statements for 2018, except for the following new IFRS Standards, Improvements, Amendments and Interpretations that were adopted as of 1 January 2019:

- IFRS 16 "Leases".
- Annual Improvements to IFRS Standards 2015-2017 Cycle.
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation".
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement".
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures".
- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments".

**IFRS 16 "LEASES"**

The implementation of IFRS 16 resulted in almost all leased assets and liabilities being recognised in the statement of financial position, except for short-term leases and leases of low-value assets. The Group has applied the simplified transition approach and, accordingly, not restated the comparative figures.

The impact on EBITDA was an improvement of DKK 413m compared with the presentation in accordance with the previous accounting policy for leases, where operating leases were recognised in the income statement on a straight-line basis. The improvement was the result of accounting for right-of-use assets as assets that are depreciated with a corresponding financing liability reflecting the future lease payments for the assets.

In the statement of cash flows, lease payments are presented outside EBITDA as interest paid and reduction of the lease liability. Before the implementation of IFRS 16, lease payments were presented as operating expenses and therefore a reduction in EBITDA.

At implementation, the Group recognised lease liabilities and right-of-use assets at the same amount as leases previously classified as operating leases. The table provides a reconciliation between reported operating leases at 31 December 2018 in the Annual Report 2018 and the recognised lease liabilities as of 1 January 2019.

The impact of the changed accounting policies is specified in the tables below.

**Reconciliation of changes in accounting policy**

| DKK million | |
|---|---|
| Operating lease commitments disclosed at 31 December 2018 | 1,021 |
| Discounted using the incremental borrowing interest rate of 0.75% | -28 |
| Adjustments as a result of a different treatment, including extension and termination options and variable payments | 599 |
| **Lease liability recognised at 1 January 2019** | **1,592** |

**Impact on statement of financial position**

| DKK million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| **Property, plant and equipment** | | |
| Land and buildings | 1,005 | 1,013 |
| Plant and machinery | 23 | 26 |
| Other equipment, fixtures and fittings | 564 | 469 |
| **Total property, plant and equipment** | **1,592** | **1,508** |
| Other receivables | 95 | 81 |
| **Total assets** | **1,687** | **1,589** |
| **Equity** | | |
| Equity, shareholders in Carlsberg A/S | - | - |
| **Total equity** | **-** | **-** |
| **Liabilities** | | |
| Finance lease liabilities | - | - |
| Lease liabilities | 1,687 | 1,589 |
| **Total liabilities** | **1,687** | **1,589** |
| **Total equity and liabilities** | **1,687** | **1,589** |
| **Changes in net interest-bearing debt** | | |
| Lease liabilities | 1,687 | 1,589 |
| Other receivables | -95 | -81 |
| **Lease liabilities, net** | **1,592** | **1,508** |

**Impact on income statement**

| DKK million | 2019 |
|---|---|
| Operating profit before depreciation, amortisation and impairment losses | 413 |
| Depreciation, right-of-use assets | -402 |
| **Operating profit before special items** | **11** |
| Interest expenses, lease liabilities | -11 |
| **Profit before tax** | **-** |
| Income tax | - |
| **Consolidated profit** | **-** |

**Impact on statement of cash flows**

| DKK million | 2019 |
|---|---|
| Operating profit before depreciation, amortisation and impairment losses | 413 |
| Interest etc. paid | -11 |
| **Cash flow from operating activities** | **402** |
| Cash flow from investing activities | 12 |
| Cash flow from financing activities | -414 |
| **Net change in cash flows** | **-** |

**PRESENTATION OF REVENUE**

For clarity, the line item previously named "Net revenue" has been changed to "Revenue". Likewise, "Gross revenue" has been changed to "Revenue including excise duties", and the specification has been moved from the income statement to section 1.1. The changed presentation had no impact on the recognition and measurement of revenue in 2019 and 2018.

SECTION 9.3 (CONTINUED)

# CHANGES IN ACCOUNTING POLICIES

### OTHER CHANGES

Apart from the implementation of IFRS 16, the implemented Standards, Improvements, Amendments and Interpretations had no impact on the Group's accounting policies, as they cover areas that are not material and/or relevant for the Group or do not change the accounting policies applied in 2019.

SECTION 9.4

# NEW LEGISLATION

### NEW AND AMENDED IFRS STANDARDS

The following new or amended IFRS Standards and Interpretations of relevance to the Group became effective as of 1 January 2020:

- Amendments to IAS 1 and IAS 8 "Definition of Material".
- Amendments to IFRS 3 "Business Combinations".
- Amendments to "References to the Conceptual Framework in IFRS Standards".
- Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

The amendment to IFRS 3 is expected to be adopted by the EU in early 2020. The Group will adopt the amendment when it becomes mandatory.

### IMPACT FROM CHANGES IN ACCOUNTING POLICIES FOR 2020

The implemented Standards, Improvements, Amendments and Interpretations listed above are not expected to have any significant impact on the financials or the Group's accounting policies, as they cover areas that are not material and/or relevant for the Group or do not change the accounting policies applied in 2019.

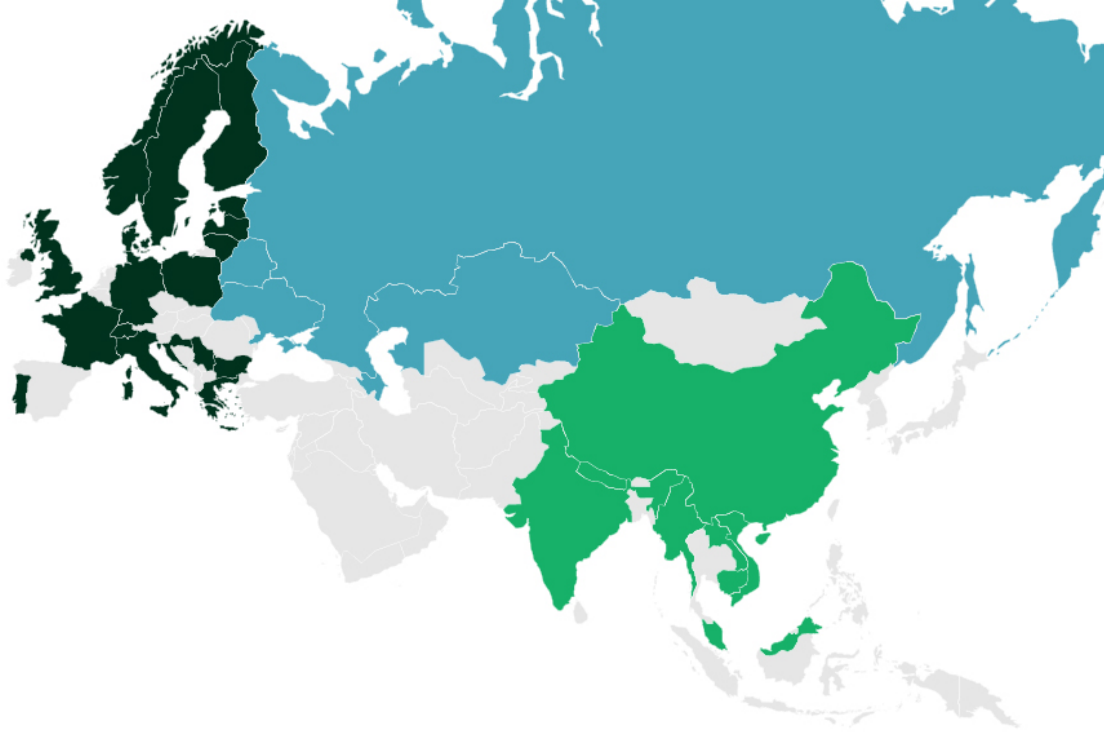
### NEW AND AMENDED IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED BY THE EU

The following new or amended IFRS Standards and Interpretations of relevance to the Group have been issued but not yet adopted by the EU:

- IFRS 17 "Insurance Contracts", effective for financial years beginning on or after 1 January 2021.

The new Standard is not mandatory for the financial reporting for 2019. The Group expects to adopt the new Standard when it becomes mandatory.

# **GROUP** COMPANIES



This section lists the subsidiaries, associates and joint ventures in the Group. Parent direct ownership shows the legal ownership held by the immediate holding company in the Group. Cross-holdings held by fully owned companies in 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.

| | Market | Note | Number of subsidiaries | Parent direct ownership | Consolidated ownership |
|---|---|---|---|---|---|
| Carlsberg Breweries A/S | Denmark | | 3 | 100% | 100% |
| **Western Europe** | | | | | |
| Carlsberg Danmark A/S | Denmark | | | 100% | 100% |
| Carlsberg Supply Company Danmark A/S | Denmark | | | 100% | 100% |
| Carlsberg Sweden Holding 2 AB | Sweden | | | 100% | 100% |
| Carlsberg Sverige AB | Sweden | | | 100% | 100% |
| Carlsberg Supply Company Sverige AB | Sweden | | | 100% | 100% |
| Ringnes Norge AS | Norway | | 1 | 100% | 100% |
| Ringnes AS | Norway | | | 100% | 100% |
| Ringnes Brygghus AS | Norway | | | 100% | 100% |
| Ringnes Supply Company AS | Norway | | | 100% | 100% |
| Ringnes Farris Eiendom AS | Norway | | | 100% | 100% |
| Ringnes Imsdal Eiendom AS | Norway | | | 100% | 100% |
| Ringnes Administrasjon Eiendom AS | Norway | | | 100% | 100% |
| Ringnes Gjelleråsen Eiendom AS | Norway | | | 100% | 100% |
| Solo AS | Norway | | | 91% | 91% |
| Oy Sinebrychoff Ab | Finland | | | 100% | 100% |
| Sinebrychoff Supply Company Oy | Finland | | | 100% | 100% |
| Carlsberg Deutschland Holding GmbH | Germany | | | 100% | 100% |
| Holzmarkt Brewing Company GmbH | Germany | | | 100% | 100% |
| Tuborg Deutschland GmbH | Germany | | | 100% | 100% |

| Western Europe | Market | Note | Number of subsidiaries | Parent direct ownership | Consolidated ownership |
|---|---|---|---|---|---|
| Carlsberg Deutschland GmbH | Germany | | 5 | 100% | 100% |
| Duckstein GmbH | Germany | | | 100% | 100% |
| Holzmarkt Beteiligungsgesellschaft mbH | Germany | | | 100% | 100% |
| Holsten-Brauerei AG | Germany | | | 100% | 100% |
| Carlsberg Supply Company Deutschland GmbH | Germany | | | 100% | 100% |
| Carlsberg Deutschland Logistik GmbH | Germany | | | 100% | 100% |
| Carlsberg Supply Company Polska SA | Poland | | | 100% | 100% |
| Carlsberg Polska Sp. z o.o. | Poland | | | 100% | 100% |
| Saku Õlletehase AS | Estonia | | | 100% | 100% |
| Aldaris JSC | Latvia | | | 100% | 100% |
| Svyturys-Utenos Alus UAB | Lithuania | | | 99% | 99% |
| Carlsberg UK Holdings Limited | UK | | 1 | 100% | 100% |
| Carlsberg UK Limited | UK | | 3 | 100% | 100% |
| Carlsberg Supply Company UK Limited | UK | | | 100% | 100% |
| LF Brewery Holdings Limited | UK | | 4 | 100% | 100% |
| Emeraude S.A.S. | France | | 8 | 100% | 100% |
| Kronenbourg S.A.S. | France | | | 100% | 100% |
| Kronenbourg Supply Company S.A.S. | France | | | 100% | 100% |
| Kronenbourg Breweries Canada Inc. | Canada | | | 100% | 100% |
| Fondation Kronenbourg | France | | | 100% | 100% |
| S.A.S. Onyx | France | | | 100% | 100% |

| Western Europe | Market | Note | Number of subsidiaries | Parent direct ownership | Consolidated ownership |
|---|---|---|---|---|---|
| Feldschlösschen Getränke Holding AG | Switzerland | | 1 | 100% | 100% |
| Feldschlösschen Getränke AG | Switzerland | | | 100% | 100% |
| Schlossgarten Gastronomie AG | Switzerland | | | 100% | 100% |
| SB Swiss Beverage AG | Switzerland | | | 100% | 100% |
| Feldschlösschen Supply Company AG | Switzerland | | | 100% | 100% |
| Carlsberg Supply Company AG | Switzerland | | | 100% | 100% |
| Sicera AG | Switzerland | | 1 | 100% | 100% |
| Acrospires GmbH | Switzerland | | | 100% | 100% |
| Nya Carnegiebryggeriet AB | Sweden | | | 98% | 98% |
| E.C. Dahls Bryggeri AS | Norway | | | 100% | 100% |
| HK Yau Limited | Hong Kong | | | 100% | 100% |
| UAB "Svyturys Brewery" | Lithuania | | | 100% | 100% |
| London Fields Brewery Opco Ltd | UK | | | 100% | 100% |
| Carlsberg Italia S.p.A. | Italy | | | 100% | 100% |
| Carlsberg Horeca Srl | Italy | | | 100% | 100% |
| T&C Italia Srl | Italy | | | 100% | 100% |
| Olympic Brewery SA | Greece | | | 100% | 100% |
| Hellenic Beverage Company SA | Greece | | | 100% | 100% |
| Carlsberg Serbia Ltd | Serbia | | | 100% | 100% |
| Carlsberg BH d.o.o. | Bosnia and Herzegovina | | | 100% | 100% |
| Carlsberg Montenegro d.o.o. | Montenegro | | | 100% | 100% |
| Carlsberg Croatia d.o.o. | Croatia | | | 100% | 100% |
| Carlsberg Bulgaria AD | Bulgaria | | | 100% | 100% |
| B to B Distribution EOOD | Bulgaria | | | 100% | 100% |
| Carlsberg Hungary Kft. | Hungary | | | 100% | 100% |
| Grimbergen Abbey Brewery | Belgium | | | 100% | 100% |
| Zatecky Pivovar spol. S.r.o. | Czechia | | | 100% | 100% |
| CTDD Beer Imports Ltd | Canada | | | 100% | 100% |
| Carlsberg Canada Inc. | Canada | | | 100% | 100% |
| Carlsberg USA Inc. | USA | | | 100% | 100% |

| Asia | Market | Note | Number of subsidiaries | Parent direct ownership | Consolidated ownership |
|---|---|---|---|---|---|
| Carlsberg Supply Company Asia Ltd | Hong Kong | | | 100% | 100% |
| Carlsberg Brewery Hong Kong Ltd | Hong Kong | | | 100% | 100% |
| Guangzhou Carlsberg Consultancy and Management Services Co Ltd | China | | | 100% | 100% |
| Kunming Huashi Brewery Company Limited | China | | | 100% | 100% |
| Carlsberg (China) Breweries and Trading Company Limited | China | | | 100% | 100% |
| Carlsberg Brewery (Guangdong) Ltd | China | | | 99% | 99% |
| Carlsberg Beer Enterprise Management (Chongqing) Company Limited | China | | | 100% | 100% |
| Carlsberg Brewery (Anhui) Company Ltd | China | | | 75% | 75% |
| Carlsberg Tianmuhu Brewery (Jiangsu) Company Ltd | China | | | 100% | 100% |
| Carlsberg Procurement (Shenzhen) Company Ltd | China | | | 100% | 100% |
| Xinjiang Wusu Breweries Co., Ltd | China | | 4 | 100% | 100% |
| Ningxia Xixia Jianiang Brewery Limited | China | | | 70% | 70% |
| Chongqing Brewery Co., Ltd | China | **A** | | 60% | 60% |
| Chongqing Jianiang Brewery Ltd | China | **B** | 5 | 51% | 79% |
| Carlsberg Brewery Malaysia Berhad | Malaysia | **A** | | 51% | 51% |
| Carlsberg Marketing Sdn BHD | Malaysia | | | 100% | 51% |
| Euro Distributors Sdn BHD | Malaysia | | | 100% | 51% |
| Carlsberg Singapore Pte Ltd | Singapore | | | 100% | 51% |
| Maybev Pte Ltd | Singapore | **C** | | 51% | 26% |
| Carlsberg South Asia Pte Ltd | Singapore | **D** | | 67% | 100% |
| South Asian Breweries Pte. Ltd | Singapore | **D** | | 100% | 100% |
| Carlsberg India Pvt. Ltd | India | **D** | | 100% | 100% |
| Gorkha Brewery Pvt. Ltd | Nepal | **D, E** | | 90% | 90% |
| G.B. Marketing Pvt Ltd | Nepal | **D, E** | | 90% | 90% |
| Carlsberg Vietnam Trading Co. Ltd | Vietnam | | | 100% | 100% |

**A** Listed company.

**B** 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%.

**C** 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%.

**D** The Group owns 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 (Nepal). The consolidation percentage of Carlsberg South Asia Pte Ltd is 100% due to a written put option.

**E** Company not audited by PwC

| Asia | Market | Note | Number of subsidiaries | Parent direct ownership | Consolidated ownership |
|---|---|---|---|---|---|
| Carlsberg Vietnam Breweries Ltd | Vietnam | | | 100% | 100% |
| Lao Brewery Co. Ltd | Laos | | | 61% | 61% |
| Paduak Holding Pte. Ltd | Singapore | | | 100% | 100% |
| Caretech Limited | Hong Kong | | 1 | 100% | 100% |
| Cambrew Limited | Cambodia | | 2 | 100% | 100% |
| Cambrew Properties Ltd | Cambodia | | | 99% | 99% |
| Angkor Beverage Co Ltd | Cambodia | | | 100% | 100% |
| CB Distribution Co., Ltd | Thailand | | | 100% | 100% |
| Carlsberg Asia Pte Ltd | Singapore | | | 100% | 100% |
| KS Holding 1 Pte Ltd | Singapore | | | 100% | 100% |

| Eastern Europe | Market | Note | Number of subsidiaries | Parent direct ownership | Consolidated ownership |
|---|---|---|---|---|---|
| Hoppy Union LLC | Russia | | | 100% | 100% |
| Baltika Breweries LLC | Russia | **F** | 3 | 100% | 100% |
| Carlsberg Azerbaijan LLC | Azerbaijan | | | 100% | 100% |
| Baku Piva JSC | Azerbaijan | | | 91% | 91% |
| PJSC Carlsberg Ukraine | Ukraine | | 2 | 100% | 100% |
| OJSC Brewery Alivaria | Belarus | **G** | | 78% | 89% |
| Carlsberg Kazakhstan Ltd | Kazakhstan | | 1 | 100% | 100% |
| Baltic Beverages Invest AB | Sweden | | | 100% | 100% |
| Baltic Beverages Holding AB | Sweden | | 1 | 100% | 100% |

**F** Baltika Breweries is owned by Carlsberg Sverige AB.

**G** Consolidation percentage is higher than the ownership share due to written put options.

| Not allocated | Market | Note | Number of subsidiaries | Parent direct ownership | Consolidated ownership |
|---|---|---|---|---|---|
| Carlsberg Finans A/S | Denmark | | | 100% | 100% |
| Carlsberg International A/S | Denmark | | | 100% | 100% |
| Visit Carlsberg A/S | Denmark | | | 100% | 100% |
| Carlsberg Invest A/S | Denmark | | | 100% | 100% |
| Carlsberg Global Business Services A/S | Denmark | | | 100% | 100% |
| Carlsberg Insurance A/S | Denmark | | | 100% | 100% |
| Carlsberg Central Office A/S | Denmark | | | 100% | 100% |
| Carlsberg Shared Services Sp. z o.o. | Poland | | | 100% | 100% |

| Non-beverage | Market | Note | Number of subsidiaries | Parent direct ownership | Consolidated ownership |
|---|---|---|---|---|---|
| Ejendomsaktieselskabet Tuborg Nord C | Denmark | | | 100% | 100% |
| Carlsberg Ejendomme Holding A/S | Denmark | | | 100% | 100% |
| Boliginteressentskabet Tuborg | Denmark | **H** | | 100% | 100% |

**H** A separate annual report is not prepared.

| Associates and joint ventures | Market | Note | Number of subsidiaries | Parent direct ownership | Consolidated ownership |
|---|---|---|---|---|---|
| Carlsberg Byen P/S | Denmark | **E** | 87 | 25% | 25% |
| Monster the Cat GmbH | Switzerland | | | 65% | 65% |
| Shangri-la Beverages AG | Switzerland | | | 35% | 35% |
| Sinergie Proattive Srl | Italy | | | 50% | 50% |
| Viacer S.G.P.S., Lda | Portugal | **I** | | 29% | 29% |
| Super Bock Group, S.G.P.S., S.A. | Portugal | **I** | 16 | 56% | 60% |
| Serviced Dispense Equipment (Holdings) Limited | UK | | 2 | 33% | 33% |
| Nuuk Imeq A/S | Greenland | **E** | | 32% | 32% |
| Chongqing Jiawei Beer Co. Ltd | China | | | 33% | 26% |
| Tibet Lhasa Brewery Company Limited | China | | | 50% | 50% |
| Lanzhou Huanghe Jianiang Brewery Company Limited | China | | | 50% | 50% |
| Qinghai Huanghe Jianiang Brewery Company Ltd | China | | | 50% | 50% |
| Jiuquan West Brewery Company Limited | China | | | 50% | 50% |
| Tianshui Huanghe Jianiang Brewery Company Ltd | China | | | 50% | 50% |
| Capital Brewing Company Ltd | Hong Kong | | 4 | 49% | 49% |
| Lion Brewery (Ceylon) PLC | Sri Lanka | **A, E, J** | | 25% | 13% |
| Hanoi Beer Alcohol and Beverage Joint Stock Corporation | Vietnam | **E** | | 17% | 17% |
| Carlsberg Distributors Taiwan Limited | Taiwan | | 1 | 50% | 50% |
| NCC Crowns Private Limited | India | | | 33% | 33% |
| Bottlers Nepal Limited | Nepal | | 1 | 22% | 20% |
| Myanmar Carlsberg Co. Ltd | Myanmar | **E** | 1 | 51% | 51% |

**I** Viacer S.G.P.S (Viacer) is the controlling shareholder of Super Bock Group, S.G.P.S. (Super Bock) with a 56% shareholding, with Carlsberg Breweries A/S owning the remaining 44%. In addition, Carlsberg Breweries A/S has a direct ownership in Viacer of 29% without exercising control. Therefore, both Viacer and Super Bock are considered associates of the Group. The Group's direct and indirect ownership of Super Bock totals 60%.

**J** Lion Brewery (Ceylon) PLC is owned by Carlsberg Brewery Malaysia Berhad (25%). Carlsberg owns 51% of Carlsberg Brewery Malaysia Berhad, resulting in 13% of the result being attributed to the shareholders in Carlsberg A/S.

# PARENT COMPANY FINANCIAL STATEMENTS

## PARENT COMPANY FINANCIAL STATEMENTS



### SECTION 1
### SUBSIDIARIES AND RELATED PARTIES



### SECTION 2
### CAPITAL STRUCTURE



### SECTION 3
### STAFF COSTS AND REMUNERATION



### SECTION 4
### OTHER DISCLOSURE REQUIREMENTS



### SECTION 5
### GENERAL ACCOUNTING POLICIES

# INCOME STATEMENT

| DKK million | Section | 2019 | 2018 |
|---|---|---|---|
| Administrative expenses | | -73 | -64 |
| Other operating activities, net | 4.1 | -29 | -56 |
| **Operating profit before special items** | | **-102** | **-120** |
| Special items | | -3 | - |
| Financial income | 2.1 | 2,748 | 2,448 |
| Financial expenses | 2.1 | -11 | -12 |
| **Profit before tax** | | **2,632** | **2,316** |
| Income tax | 4.5 | 23 | 29 |
| **Profit for the year** | | **2,655** | **2,345** |
| **Attributable to** | | | |
| Dividend to shareholders | | 3,204 | 2,746 |
| Reserves | | -549 | -401 |
| **Profit for the year** | | **2,655** | **2,345** |

# STATEMENT OF COMPREHENSIVE INCOME

| DKK million | Section | 2019 | 2018 |
|---|---|---|---|
| **Profit for the year** | | **2,655** | **2,345** |
| **Other comprehensive income** | | | |
| Retirement benefit obligations | 3.2 | -2 | -3 |
| Income tax | 4.5 | - | 1 |
| **Items that will not be reclassified to the income statement** | | **-2** | **-2** |
| **Other comprehensive income** | | **-2** | **-2** |
| **Total comprehensive income** | | **2,653** | **2,343** |

# STATEMENT OF FINANCIAL POSITION

| DKK million | Section | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 4.3 | 5 | 6 |
| Property, plant and equipment | 4.3 | 218 | 205 |
| Investments in subsidiaries | 1.1 | 40,353 | 45,238 |
| Receivables | | 322 | 514 |
| Tax assets | 4.5 | 111 | 117 |
| **Total non-current assets** | | **41,009** | **46,080** |
| **Current assets** | | | |
| Receivables | 1.2 | 86 | 192 |
| Tax receivables | | 6 | 7 |
| Other receivables | 1.2 | 1,205 | 647 |
| **Total current assets** | | **1,297** | **846** |
| **Total assets** | | **42,306** | **46,926** |

| DKK million | Section | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 2.3 | 3,051 | 3,051 |
| Retained earnings | | 37,974 | 41,937 |
| **Total equity** | | **41,025** | **44,988** |
| **Non-current liabilities** | | | |
| Retirement benefit obligations and similar obligations | 3.2 | 33 | 34 |
| Provisions | 4.2 | 48 | 50 |
| **Total non-current liabilities** | | **81** | **84** |
| **Current liabilities** | | | |
| Borrowings | 1.2 | 1,033 | 1,647 |
| Trade payables | | 52 | 113 |
| Provisions | 4.2 | 34 | 35 |
| Other liabilities | | 81 | 59 |
| **Total current liabilities** | | **1,200** | **1,854** |
| **Total liabilities** | | **1,281** | **1,938** |
| **Total equity and liabilities** | | **42,306** | **46,926** |

# STATEMENT OF CHANGES IN EQUITY

| DKK million | Section | Shareholders in Carlsberg A/S | | |
|---|---|---|---|---|
| **2019** | | Share capital | Retained earnings | Total equity |
| **Equity at 1 January** | | **3,051** | **41,937** | **44,988** |
| **Profit for the year** | | | **2,655** | **2,655** |
| **Other comprehensive income** | | **-** | **-2** | **-2** |
| **Total comprehensive income for the year** | | **-** | **2,653** | **2,653** |
| Share-based payments | 3.1 | - | 13 | 13 |
| Share-based payments to employees in subsidiaries | | - | 209 | 209 |
| Share buy-back | 2.3 | - | -4,100 | -4,100 |
| Dividends paid to shareholders | 2.3 | - | -2,738 | -2,738 |
| **Total changes in equity** | | **-** | **-3,963** | **-3,963** |
| **Equity at 31 December** | | **3,051** | **37,974** | **41,025** |
| | | | | |
| **2018** | | | | |
| **Equity at 1 January** | | **3,051** | **41,908** | **44,959** |
| **Profit for the year** | | **-** | **2,345** | **2,345** |
| **Other comprehensive income** | | **-** | **-2** | **-2** |
| **Total comprehensive income for the year** | | **-** | **2,343** | **2,343** |
| Acquisition/disposal of treasury shares | 2.3 | - | 44 | 44 |
| Settlement of share-based payments | 2.3 | - | -94 | -94 |
| Share-based payments | 3.1 | - | 14 | 14 |
| Share-based payments to employees in subsidiaries | | - | 161 | 161 |
| Dividends paid to shareholders | 2.3 | - | -2,439 | -2,439 |
| **Total changes in equity** | | **-** | **29** | **29** |
| **Equity at 31 December** | | **3,051** | **41,937** | **44,988** |

# STATEMENT OF CASH FLOWS

| DKK million | Section | 2019 | 2018 |
|---|---|---|---|
| Operating profit before special items | | -102 | -120 |
| Depreciation and amortisation | 4.3 | 8 | 10 |
| **Operating profit before depreciation and amortisation** | | **-94** | **-110** |
| Other non-cash items | | 18 | 8 |
| Change in working capital[1] | | 29 | 17 |
| Interest etc. received | | 3 | 6 |
| Interest etc. paid | | -11 | -11 |
| Income tax paid | | 31 | 45 |
| **Cash flow from operating activities** | | **-24** | **-45** |
| Acquisition of property, plant and equipment and intangible assets | | -17 | -11 |
| Disposal of property, plant and equipment and intangible assets | | 2 | 5 |
| **Total operational investments** | | **-15** | **-6** |
| Acquisition and disposal of subsidiaries | | 9 | - |
| Dividends from subsidiaries and joint ventures | 1.2 | 2,746 | 2,441 |
| Capital reductions in subsidiaries | 1.2 | 4,500 | - |
| **Total financial investments** | | **7,255** | **2,441** |
| Other investments in real estate | | -4 | -10 |
| **Total other activities[2]** | | **-4** | **-10** |
| **Cash flow from investing activities** | | **7,236** | **2,425** |
| **Free cash flow** | | **7,212** | **2,380** |
| Shareholders in Carlsberg A/S | 2.3 | -6,838 | -2,489 |
| External financing | 2.2 | -374 | 109 |
| **Cash flow from financing activities** | | **-7,212** | **-2,380** |
| **Net cash flow** | | **-** | **-** |
| Cash and cash equivalents at 1 January | | - | - |
| **Cash and cash equivalents at 31 December** | | **-** | **-** |

[1] Change in working capital consists of other receivables of DKK -5m (2018: DKK 7m), trade payables and other liabilities of DKK 40m (2018: DKK 33m) and retirement benefit obligations and other provisions of DKK -6m (2018: DKK -23m).
[2] Other activities cover real estate activities.

SECTION 1

# SUBSIDIARIES AND RELATED PARTIES

SECTION 1.1

## INVESTMENTS IN SUBSIDIARIES

The carrying amount includes goodwill of DKK 11,206m (2018: DKK 11,206m) on acquisition of subsidiaries.

Share-based payments to employees in subsidiaries comprise exercised as well as outstanding share-based incentive instruments.

### Investments in subsidiaries

| DKK million | 2019 | 2018 |
|---|---|---|
| **Cost** | | |
| Cost at 1 January | 45,238 | 45,340 |
| Disposals | -13 | - |
| Capital reduction | -4,500 | - |
| Capital injection | - | 261 |
| Share-based payments to employees, net | -372 | -363 |
| **Cost at 31 December** | **40,353** | **45,238** |
| **Carrying amount at 31 December** | **40,353** | **45,238** |

Please see section 10 in the consolidated financial statements for a list of companies in the Carlsberg Group.

### ACCOUNTING ESTIMATES AND JUDGEMENTS

Indications of impairment of investments in subsidiaries are assessed annually by management. Impairment tests are conducted in the same way as for goodwill in the Group, cf. section 2.2 in the consolidated financial statements.

It is management's assessment that no indications of impairment existed at year-end 2019. Impairment tests have therefore not been carried out for subsidiaries.

### ACCOUNTING POLICIES

Dividends on investments in subsidiaries are recognised 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.

Share-based payments granted to employees of the Company's subsidiaries and the recharge of losses to the subsidiaries in connection with the employees' exercise of share-based awards are recognised as contributions to and reductions of the investment in the subsidiaries respectively.

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 29.4% of the shares and 75.1% 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 2019:

- The Carlsberg Foundation received a dividend from Carlsberg A/S and participated pro rata in the Carlsberg A/S share buy-back.
- Carlsberg A/S received statutory funding and grants for research and development.
- Carlsberg A/S leased parking spaces from the Carlsberg Foundation.
- The Carlsberg Foundation supports the rebuilding of the Carlsberg Visitor Center and Museum.
- Carlsberg Breweries leases storage facilities in the researcher apartments.
- Carlsberg A/S held the Annual General Meeting and an employee gathering at Ny Carlsberg Glyptotek and provided the Ny Carlsberg Glyptotek with products at a discount or free of charge as part of the sponsorship of certain events.
- The Tuborg Foundation sponsored seven seats for Carlsberg employees at an UNLEASH event.
- Carlsberg and the foundations each contributed to the construction of the event infrastructure of Folkemødet, the People's Democratic Festival.

These transactions are described in further detail in section 8.3 of the consolidated financial statements.

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 pay 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 3.

SECTION 2

# CAPITAL STRUCTURE

SECTION 1.2 (CONTINUED)

## RELATED PARTIES

No losses on loans to or receivables from subsidiaries or joint ventures were recognised or provided for in either 2019 or 2018.

### Transactions with subsidiaries

| DKK million | 2019 | 2018 |
|---|---|---|
| Other operating activities, net | 31 | 25 |
| Interest income | 2 | 6 |
| Interest expenses | -14 | -8 |
| Dividends received | 2,746 | 2,441 |
| Capital reduction | -4,500 | - |
| Capital injection | - | 261 |
| Loans | 319 | 560 |
| Receivables | 84 | 144 |
| Borrowings | -1,033 | -1,647 |
| Trade payables | -7 | -9 |
| Other payables | -6 | - |

The fair value of receivables and borrowings in subsidiaries corresponds to the carrying amount in all material respects.

SECTION 2.1

## FINANCIAL ITEMS

Interest income relates to interest from cash and cash equivalents and loans to subsidiaries, whereas interest expenses relate to interest on borrowings.

### Financial items recognised in the income statement

| DKK million | 2019 | 2018 |
|---|---|---|
| **Financial income** | | |
| Interest income | 2 | 7 |
| Dividends from subsidiaries | 2,746 | 2,441 |
| **Total** | **2,748** | **2,448** |
| **Financial expenses** | | |
| Interest expenses | -14 | -8 |
| Other | 3 | -4 |
| **Total** | **-11** | **-12** |
| **Financial items, net** | **2,737** | **2,436** |

No financial items were recognised in other comprehensive income.

The average effective interest rate on loans to subsidiaries was 0.6% (2018: 0.6%) and on loans from subsidiaries 0.5% (2018: 0.5%).

SECTION 2.2

## NET INTEREST-BEARING DEBT

### Net interest-bearing debt

| DKK million | 2019 | 2018 |
|---|---|---|
| Current borrowings | 1,033 | 1,647 |
| **Gross interest-bearing debt** | **1,033** | **1,647** |
| Receivables | -3 | -2 |
| Loans to subsidiaries | -319 | -560 |
| **Net interest-bearing debt** | **711** | **1,085** |
| **Changes in net interest-bearing debt** | | |
| Net interest-bearing debt at 1 January | 1,085 | 976 |
| Cash flow from operating activities, excluding interest-bearing part | 24 | 45 |
| Cash flow from investing activities | -7,236 | -2,425 |
| Share buy-back | 4,100 | - |
| Dividends to shareholders | 2,738 | 2,439 |
| Acquisition/disposal of treasury shares and settlement of share-based payments | - | 50 |
| **Total change** | **-374** | **109** |
| **Net interest-bearing debt at 31 December** | **711** | **1,085** |

SECTION 2.3

# SHARE CAPITAL

### DIVIDENDS

The proposed dividend of DKK 21.00 per share (2018: DKK 18.00 per share), amounting to DKK 3,204m (2018: DKK 2,746m). The proposed dividend has been included in retained earnings at 31 December 2019.

Dividends to be paid out in 2020 for 2019, net of dividends on treasury shares held at 31 December 2019, will amount to DKK 3,108m. Dividends paid out in 2019 for 2018, net of dividends on treasury shares, amounted to DKK 2,738m (paid out in 2018 for 2017: DKK 2,439m). Dividends paid out to shareholders in Carlsberg A/S do not impact taxable income in Carlsberg A/S.

### SHARE BUY-BACK AND TREASURY SHARES

On 6 February 2019, the Company initiated a 12-month DKK 4.5bn share buy-back programme. At 31 December 2019, 4,518,999 B shares had been repurchased at a total purchase price of DKK 4.1bn as part of this programme.

According to the authorisation of the Annual General Meeting, the Supervisory Board may, in the period until 13 March 2023, 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 permitted holding of treasury shares covers those acquired in share buy-back programmes. The Company holds no class A shares.

**Transactions with shareholders in Carlsberg A/S**

| | 2019 | 2018 |
|---|---|---|
| Dividends to shareholders | -2,738 | -2,439 |
| Acquisition of treasury shares | -4,100 | -128 |
| Disposal of treasury shares | - | 78 |
| **Total** | **-6,838** | **-2,489** |

In the 2019 financial year, the Company acquired class B treasury shares of a nominal amount of DKK 90m (2018: DKK 4m) at an average price of DKK 907 (2018: DKK 740). Class B treasury shares are acquired and disposed of as part of the share buy-back programme and to facilitate settlement of the share-based incentive programmes. The Company holds no class A shares.

At 31 December 2019, the fair value of treasury shares amounted to DKK 4,532m (2018: DKK 69m). The holdings of treasury shares are specified in section 4.3 in the consolidated financial statements.

**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 2018 | 33,699,252 | 673,985 | 118,857,554 | 2,377,151 | 152,556,806 | 3,051,136 |
| No change in 2018 | - | - | - | - | - | - |
| **31 December 2018** | **33,699,252** | **673,985** | **118,857,554** | **2,377,151** | **152,556,806** | **3,051,136** |
| No change in 2019 | - | - | - | - | - | - |
| **31 December 2019** | **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

The remuneration of the Supervisory Board, the executive directors and key management personnel is described in detail in the Remuneration report in the Management review.

In 2019, the Supervisory Board received total remuneration of DKK 9.59m (2018: DKK 9.35m), comprising fixed salary only.

### SHARE-BASED INCENTIVE PROGRAMMES

The executive directors in the Parent Company are the same as for the Carlsberg Group. Please refer to section 7.3 in the consolidated financial statements for share-based incentive programmes for the executive directors.

### PERFORMANCE SHARES

Besides the executive directors, one employee in the Parent Company participates in the Group's performance share programmes as described in section 7.3 in the consolidated financial statements. Refunds etc. between Carlsberg A/S and its subsidiaries are recognised directly in equity.

### Staff costs and remuneration

| DKK million | 2019 | 2018 |
|---|---|---|
| Salaries and other remuneration | 112 | 104 |
| Retirement benefit costs - defined contribution plans | 5 | 5 |
| Share-based payments | 38 | 40 |
| **Total** | **155** | **149** |
| **Staff costs are included in the following items in the income statement** | | |
| Administrative expenses | 42 | 43 |
| Other operating activities, net | 63 | 54 |
| **Total staff costs recognised by the Parent Company** | **105** | **97** |
| Staff costs recognised by other Group companies | 50 | 52 |
| **Total** | **155** | **149** |

The Company had an average of 97 (2018: 80) full-time employees during the year.

### ACCOUNTING POLICIES

Staff costs are recognised in the financial year in which the employee renders the related service. The fair value of share-based incentives, which is expensed over the vesting period of the programme according to the service conditions, is recognised in staff costs and offset directly against equity.

The fair value of share-based incentives granted to employees in subsidiaries is recognised as investments in subsidiaries and offset directly against equity.

The difference between the purchase price and the selling price for the exercise of share-based incentives is settled between Carlsberg A/S and the individual subsidiary and offset directly against investments in subsidiaries.

The difference 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 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.

SECTION 3.2

## RETIREMENT BENEFIT 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 amounted to DKK 33m (2018: DKK 34m) and include actuarial losses of DKK 2m (2018: DKK 3m) and benefits paid in the year of DKK 3m (2018: DKK 3m).

Of the expected payment obligation, DKK 3m is due within one year and DKK 15m after more than five years from the reporting date.

The underlying actuarial assumptions are based on local economic and labour market conditions. The discount rate was 0.5% (2018: 0.5%). The rate of increase in future retirement benefit obligations was 1% (2018: 1%).

During the year, DKK 0m (2018: DKK 0m) was recognised in the income statement and DKK -2m (2018: DKK -3m) in other comprehensive income.

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.

In 2019, real estate, net, amounted to DKK -1m (2018: DKK -21m), driven by a property tax refund.

**Other operating activities, net**

| DKK million | 2019 | 2018 |
|---|---|---|
| Gains on disposal of real estate | 1 | 5 |
| Real estate, net | -1 | -21 |
| Research activities, including the Carlsberg Research Laboratory, net | -27 | -40 |
| Other, net | -2 | - |
| **Total** | **-29** | **-56** |

Research expenses are partially financed through funding received from the Carlsberg Foundation for the operation of the Carlsberg Research Laboratory and other grants.

ACCOUNTING POLICIES

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 2019, provisions amounted to DKK 82m (2018: DKK 85m). Provisions amounting to DKK 5m (2018: DKK 20m) were utilised during the year. No provisions were reversed in 2019 or 2018.

Of total provisions, DKK 34m (2018: DKK 35m) fall due within one year and the remaining DKK 48m (2018: DKK 50m) between one and five years. As in previous years, no provisions fell due after more than five years from the end of the reporting period.

SECTION 4.3

## ASSET BASE AND LEASES

The carrying amount of intangible assets was DKK 5m (2018: DKK 6m), and the carrying amount of property, plant and equipment was DKK 218m (2018: DKK 205m). Property, plant and equipment comprised land and buildings of DKK 182m (2018: DKK 176m) and plant and machinery of DKK 36m (2018: DKK 29m).

Depreciation and amortisation of DKK 8m (2018: DKK 10m) were included in administrative expenses.

Carlsberg A/S has no lease contracts to be recognised. The lease expenses recognised in the income statement related to short-term leases and leases of low-value assets and amounted to DKK 8m. Such contracts comprise the lease of copy and printing machines, coffee machines, small IT devices and similar equipment.

SECTION 4.4

## FEES TO AUDITORS

**Fees to auditors appointed by the Annual General Meeting**

| DKK million | 2019 | 2018 |
|---|---|---|
| Statutory audit | 0.3 | 0.3 |
| Assurance engagements | - | - |
| Tax advisory | - | - |
| Other services | - | - |
| **Total** | **0.3** | **0.3** |

SECTION 4.5

# TAX

Deferred tax assets amounted to DKK 111m (2018: DKK 117m) and primarily comprised tax on property, plant and equipment of DKK 39m (2018: DKK 41m), provisions and retirement benefit obligations of DKK 19m (2018: DKK 20m), and tax losses etc. of DKK 68m (2018: DKK 69m).

The utilisation of tax loss carryforwards depends on future positive taxable income exceeding the realised deferred tax liabilities. Deferred tax liabilities amounted to DKK 15m (2018: DKK 13m).

The net change in deferred tax assets of DKK 6m comprised tax recognised in total comprehensive income of DKK 23m (2018: DKK 29m) and a joint taxation contribution of DKK -29m (2018: DKK -39m).

Together with changes to tax for prior years, the total tax for the year recognised in the income statement comprised income of DKK 23m (2018: DKK 29m). Of the deferred tax assets, DKK 6m (2018: 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 Danish companies under the joint taxation scheme for withholding taxes on dividends, interest and royalties.

### Reconciliation of tax for the year

| DKK million | 2019 | 2018 |
|---|---|---|
| Calculated tax on profit | 579 | 510 |
| Adjustments to tax for prior years | - | -4 |
| Non-deductible expenses | 3 | 2 |
| Tax-free dividend and tax-exempted items | -605 | -537 |
| **Tax for the year** | **-23** | **-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.

### 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 income 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.

### Income tax expenses

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| 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 and non-current tax liabilities during the year | -23 | - | -23 | -25 | -1 | -26 |
| Adjustments to current tax for prior years | - | - | - | -1 | - | -1 |
| Adjustments to deferred tax and non-current tax liabilities for prior years | - | - | - | -3 | - | -3 |
| **Total** | **-23** | **-** | **-23** | **-29** | **-1** | **-30** |

SECTION 4.6

## CONTINGENT LIABILITIES AND OTHER COMMITMENTS

Carlsberg A/S has issued guarantees to subsidiaries for pension obligations of DKK 337m (2018: DKK 339m).

Carlsberg A/S is jointly registered for Danish VAT and excise duties with Carlsberg Breweries, Carlsberg Danmark, Carlsberg Supply Company Danmark and various other Danish subsidiaries, and 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 items 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 11m (2018: DKK 32m).

SECTION 4.7

## 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 2019 financial statements of Carlsberg A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further 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.

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# 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 2019.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further 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 2019 and of the results of the Carlsberg Group's and the Parent Company's operations and cash flows for the financial year 2019.

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, 4 February 2020

**Executive Board of Carlsberg A/S**

Cees 't Hart
President & CEO

Heine Dalsgaard
CFO

**Supervisory Board of Carlsberg A/S**

Flemming Besenbacher
Chairman

Lars Fruergaard Jørgensen
Deputy Chairman

Hans Andersen

Carl Bache

Magdi Batato

Domitille Doat-Le Bigot

Lilian Fossum Biner

Richard Burrows

Eva Vilstrup Decker

Finn Lok

Erik Lund

Søren-Peter Fuchs Olesen

Peter Petersen

Majken Schultz

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 54-132) give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2019 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 2019 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 2019 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. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of three years including the financial year 2019.

### 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 2019. 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.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Revenue recognition** | |
| Recognition of revenue is complex due to the variety of different revenue streams, ranging from sales of goods, royalty 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.<br><br>Furthermore, the various discounts and locally imposed duties and fees in regard to revenue recognition are complex and introduce an inherent risk to the revenue recognition process.<br><br>We focused on this area, as there is a risk of non-compliance with accounting policies due to complexity originating from different customer behaviours, structures, market conditions and terms in the various countries.<br><br>Revenue recognition and accounting treatment are described in section 1.1 “Segmentation of operations – Accounting estimates and judgements” in the Consolidated Financial Statements. | Our audit procedures included considering the appropriateness of the revenue recognition accounting policies and assessing compliance with the accounting principles.<br><br>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.<br><br>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.<br><br>We applied data analysis in our testing of revenue transactions in order to identify transactions outside the ordinary transaction flow, including journal entry testing and cut-off testing at year-end. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Recoverability of the carrying amount of goodwill and brands** | |
| The principal risks are in relation to Management’s assessment of the future timing and amount of cash flows that are used to project the recoverability of the carrying amount of goodwill and brands. There are specific risks 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.<br><br>Bearing in mind the generally long-lived nature of the 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.<br><br>We focused on this area, as Management is required to exercise considerable judgement because of the inherent complexity in estimating future cash flows.<br><br>The key assumptions and accounting treatment are described in section 2.2 “Impairment” in the Consolidated Financial Statements. | In addressing the risks, we walked through and tested relevant controls related to assessing the carrying amount of goodwill and brands.<br><br>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.<br><br>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.<br><br>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.<br><br>We used our internal valuation specialists, 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.<br><br>Further, we assessed the appropriateness of disclosures, including sensitivity analyses prepared for the key assumptions. |

### STATEMENT ON THE MANAGEMENT REVIEW

Management is responsible for Management Review (pp 3-53).

Our opinion on the Financial Statements does not cover Management 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 Review and, in doing so, consider whether Management 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 Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management 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 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, 4 February 2020

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