Carlsberg Breweries Group
Annual Report 2019

Carlsberg Breweries A/S
J.C. Jacobsens Gade 1
1799 Copenhagen V
Denmark
CVR no. 25508343

As approved on the Company's Annual General Meeting on
17 / 03 2020

Ulrik Andersen
Chairperson of the meeting

MANAGEMENT REVIEW

2019 at a glance ... 3
Key figures ... 4
Financial Highlights ... 5
2020 earnings expectations ... 7
Purpose and ambition ... 8
Business model ... 9
SAIL'22 in action ... 10
SAIL'22 KPIs ... 13
Capital allocation ... 14
Risk management ... 15
Corporate governance ... 17
Supervisory Board ... 19
Forward-looking statements ... 20

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
Statements ... 22
Notes ... 26

PARENT COMPANY FINANCIAL STATEMENTS
Statements ... 88
Notes ... 91

REPORTS
Management statement ... 103
Auditor's report ... 104

2019 AT A GLANCE

A YEAR OF GOOD PERFORMANCE

2019 was a year of good performance, with organic revenue growth, margin expansion and strong cash flow.

ACTIVITIES OF THE GROUP

The Carlsberg Breweries Group comprise the beverage activities in the Carlsberg Group. Carlsberg Breweries' activities are focused on the markets where the Group has the expertise and the right products to secure a leading position. Due to the variation of the markets, the contribution to growth, earnings and development within the Group differs, both at present and in the longer-term projections.

The Parent Company's main activities are investments in national and international breweries as well as license and export business. The Parent Company has retail bonds listed at the Luxembourg Stock Exchange.

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 and a healthy balance sheet. This has enabled us to significantly increase the cash returns to the shareholder.

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 10.7% and an improvement of 100bp in our operating margin. ROIC improved from 9.5% to 10.3%. The organic growth in operating profit was higher than expected in last year's Annual Report.

Our financial results are discussed on pages 5-6.

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 and maintained a leverage of well below 2x net interest-bearing debt/EBITDA. In November 2019, the share capital was reduced through a cash distribution to Carlsberg A/S of DKK 4.5bn which reflects the share buy-back that was carried out by Carlsberg A/S over a 12 month period from 6 February 2019.

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 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 13, 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 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. You can find highlights of Together Towards ZERO on page 12.

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	15,058	13,449	13,657	13,054	13,354
Operating profit before special items	10,524	9,368	8,962	8,301	8,606
Special items, net	568	-88	-4,615	263	-8,455
Financial items, net	-728	-718	-774	-1,237	-1,513
Profit before tax	10,364	8,562	3,573	7,327	-1,362
Income tax	-2,766	-2,395	-1,485	-2,402	-917
Consolidated profit	7,598	6,167	2,088	4,925	-2,279
Attributable to					
Non-controlling interests	908	824	806	371	344
Shareholder in Carlsberg Breweries A/S (net profit)	6,690	5,343	1,282	4,554	-2,623
Statement of financial position					
Total assets	112,149	107,178	103,361	115,913	113,501
Invested capital	73,460	70,418	72,464	84,410	83,465
Invested capital excl. goodwill	28,758	27,695	30,173	39,752	41,401
Net interest-bearing debt (NIBD)	17,840	15,901	18,347	24,569	30,272
Equity, shareholder in Carlsberg Breweries A/S	32,123	34,848	32,672	40,580	33,145

		2019	2018[1]	2017[1]	2016[1]	2015[1]
Statement of cash flows						
Cash flow from operating activities		12,285	12,103	11,855	9,601	9,943
Cash flow from investing activities		-2,462	-5,875	-2,974	-796	-3,200
Free cash flow		9,823	6,228	8,881	8,805	6,743
Investments						
Acquisition of property, plant and equipment and intangible assets, net		-4,571	-4,006	-3,848	-3,814	-4,061
Acquisition and disposal of subsidiaries, net		-9	-974	268	1,969	-33
Financial ratios						
Gross margin	%	49.5	50.0	50.0	49.8	50.2
EBITDA margin	%	22.8	21.5	22.5	20.8	20.4
Operating margin	%	16.0	15.0	14.8	13.3	13.2
Effective tax rate	%	26.7	28.0	41.6	32.8	67.4
Return on invested capital (ROIC)	%	10.3	9.5	7.9	6.7	6.4
ROIC excl. goodwill	%	25.2	23.7	17.3	13.8	12.2
Equity ratio	%	34.6	32.5	35.5	35.0	29.2
NIBD/equity ratio	x	0.40	0.42	0.47	0.57	0.82
NIBD/EBITDA	x	1.18	1.18	1.34	1.88	2.27
Interest cover	x	14.46	13.05	11.58	6.71	5.69
Dividend per share (proposed)	DKK	6,395	5,470	4,872	3,045	2,741
Payout ratio	%	48	51	190	33	nm
Employees						
Full-time employees (average)		41,151	40,757	41,349	41,985	47,382

[1] Comparative figures for 2015-2018 and 2015-2016 have not been restated to include IFRS 16 and IFRS 15 respectively.

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.

FINANCIAL HIGHLIGHTS

A STRONG SET OF RESULTS

2019 was a good year for the Carlsberg Breweries 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 15.1bn, up organically by 10.2% and by 12.0% 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 10.7%, 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 12.3% growth. The reported operating margin improved by 100bp to 16.0%.

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 +0.6bn, 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
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	9,368	10.7%	0.1%	1.5%	10,524	12.3%
Operating margin (%)	15.0				16.0	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 -728m. Excluding currency gains and fair value adjustments, financial items, net, amounted to DKK -640m, down DKK 114m 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 26.7%. Details on tax are shown in section 6 of the consolidated financial statements.

Net profit was DKK 6.7bn compared to DKK 5.3bn in 2018.This was driven by the strong operating profit growth, a lower tax rate than in 2018, and positive special items.

STATEMENT OF FINANCIAL POSITION

Total assets amounted to DKK 112.1bn at 31 December 2019. This was an increase of DKK 5.0bn compared with 2018 and mainly due to currencies and the implementation of IFRS 16.

Non-current assets amounted to DKK 93.3bn, an increase of DKK 5.7bn 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 18.9bn. Details on current assets are shown in section 1 of the consolidated financial statements.

Equity amounted to DKK 34.7bn, DKK 32.1bn of which was attributed to the shareholder in Carlsberg Breweries A/S and DKK 2.6bn to non-controlling interests. Changes in equity are shown on page 54.

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 3.2bn 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 2.5bn to DKK 30.3bn, 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 9.8bn versus DKK 6.2bn in 2018. The increase of DKK 3.6bn 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 +0.6bn. Average trade working capital to revenue was -16.7%. The change in other working capital was DKK +0.5bn, 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 -2.5bn 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 +0.3bn (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 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 80bp to 10.3%, 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 150bp to 25.2%.

FINANCING

Net interest-bearing debt was DKK 17.8bn. This was a net increase of DKK 1.9bn compared with 2018, impacted by the higher dividend payout in 2019 and the implementation of IFRS 16. Net interest-bearing debt/EBITDA was 1.18x. More information is provided in section 4.2 of the consolidated financial statements.

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 20 for the full forward-looking statements notice.

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.

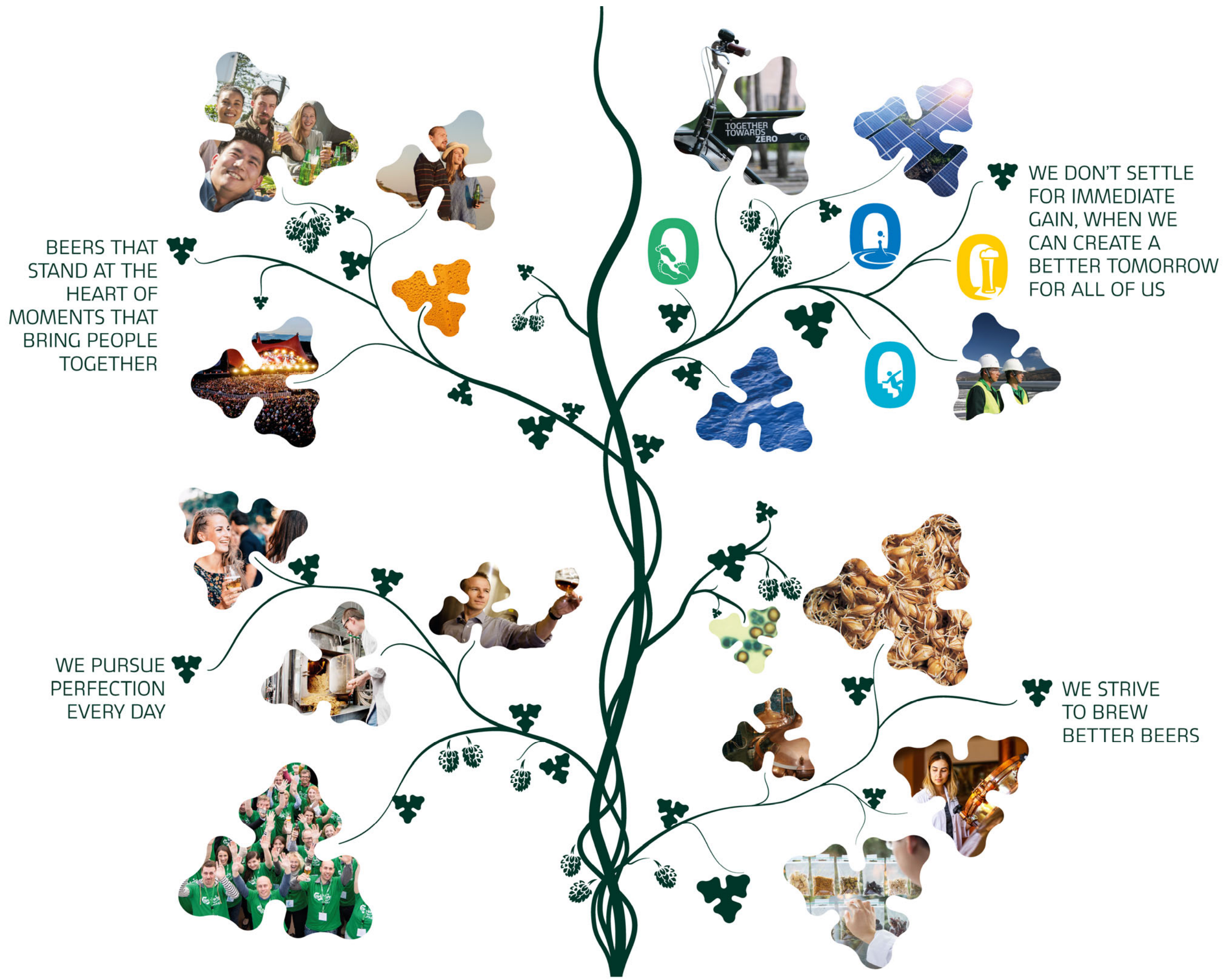
Living our purpose is key for our ability to successfully execute SAIL'22 and for achieving our ambition of being successful, professional and attractive in the markets in which we operate:

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 12-13.

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

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%.

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.

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.

EXCEL IN EXECUTION

Draughtmaster 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

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.

POSITION FOR GROWTH

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%.

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.

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%.

CREATSE A WINNING CULTURE

TOGETHER TOWARDS ZERO

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 for compliance with section 99a of the Danish Financial Statements Act, we refer to the Carlsberg Group Sustainability report 2019, Link: www.carlsberggroup.com/reports-downloads/carlsberg-group-2019-sustainability-report/

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.

Green bottle fibre
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.

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%.

SAIL'22 IN ACTION

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 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.

KPIs & RESULTS
SAIL'22 WINNING CULTURE

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

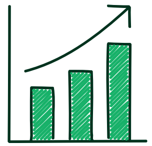
In 2019, Asia accounted for 31% of Group volumes and 33% of operating profit. Growing in Asia is a priority of SAIL'22, and in 2019 volumes in Asia grew organically by 6%, price/mix was 6% and organic operating profit growth was 23.4%. We saw strong growth for 1664 Blanc and Tuborg as well as for our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

DELIVER VALUE FOR SHAREHOLDERS

2018: 10.4% growth
2019: 10.7% growth

ORGANIC GROWTH IN OPERATING PROFIT

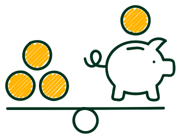
We achieve organic growth in operating profit by delivering top-line growth and margin improvement. In 2019, we delivered strongly against this KPI, achieving 10.7% organic growth in operating profit, supported by 3.2% revenue growth and 100bp operating margin expansion. Top-line growth was the result of volume growth in Asia and positive price/mix in all three regions.



2018: +160bp
2019: +80bp

ROIC IMPROVEMENT

We aim to continuously improve return on invested capital (ROIC) by improving earnings and reducing invested capital. In 2019, ROIC improved by 80bp to 10.3%. The main driver of the improvement was growth in operating profit, a lower tax rate and lower invested capital. Excluding goodwill, ROIC increased by 150bp to 25.2%.



2018: 1.18x
2019: 1.18x

OPTIMAL CAPITAL ALLOCATION

Our capital allocation targets include NIBD/EBITDA of below 2.0x. At the end of 2019, NIBD/EBITDA was 1.18x

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. Distributing excess cash to the shareholder.
4. Deviating from the above only if value-enhancing acquisition opportunities arise.

In 2019, we again delivered on the above priorities, including 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.

REDUCTION OF SHARE CAPITAL

In November 2019, the share capital was reduced from DKK 502m to DKK 501m through a cash distribution of nominally DKK 1m at a (per 100) price of DKK 450,000, corresponding to a total cash distribution to Carlsberg A/S of DKK 4.5bn. This cash distribution reflects the share buy-backs that was carried out by Carlsberg A/S over a 12 month period from 6 February 2019.

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 of Carlsberg A/S 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 activities in both the Carlsberg and Carlsberg Breweries Groups'.

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

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

assessment, the coronavirus in China has appeared as a business 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 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 Carlsberg Breweries Group operates on the same governance framework as the Carlsberg Group where Board committees, including the Audit Committee, are preparing and facilitating Supervisory Board decisions.

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 & Regulations of the Luxembourg Stock Exchange, local legislation, the Company's Articles of Association and the rules of procedure for the Supervisory Board.

A comprehensive description of the Carlsberg Group's corporate governance position is available on www.carlsberggroup.com/who-we-are/corporate-governance/#Statutory Reports.

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.

DIVERSITY- STATEMENT IN ACCORDANCE WITH SECTION 99B OF THE DANISH FINANCIAL STATEMENTS ACT

For our reporting on diversity in accordance with section 99b we refer to the Management Review in the 2019 Annual Report of the Carlsberg Group.

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 of Carlsberg A/S.

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.

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, 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 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.

SUPERVISORY BOARD MEMBERS

FLEMMING BESENBACHER

CHAIRMAN (SINCE 2019)
Nationality: Danish
Year of birth: 1952
Appointed (until): 2012 (2020)

BOARD FUNCTION
Non-executive, non-independent director.

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.

PROFESSION
President & CEO, Novo Nordisk.

NON-EXECUTIVE FUNCTIONS
None other than the Carlsberg Group.

CEES 'T HART

CEO
Nationality: Dutch
Year of birth: 1958
Appointed (until): 2015 (2020)

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 (until): 2016 (2020)

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.

ALBENA JENSEN

Nationality: Danish
Year of birth: 1971
Appointed (until): 2018 (2020)

BOARD FUNCTION
Employee representative.

PROFESSION
Director, Carlsberg Breweries A/S.

NON-EXECUTIVE FUNCTIONS
None.

EVA VILSTRUP DECKER

Nationality: Danish
Year of birth: 1964
Appointed (until): 2006 (2020)

BOARD FUNCTION
Employee representative.

PROFESSION
Director, Carlsberg Breweries A/S.

NON-EXECUTIVE FUNCTIONS
None other than the Carlsberg Group.

SØREN LETH

Nationality: Danish
Year of birth: 1979
Appointed (until): 2017 (2020)

BOARD FUNCTION
Employee representative.

PROFESSION
Consultant, Carlsberg Global Business Services A/S.

NON-EXECUTIVE FUNCTIONS
None.

EXECUTIVE BOARD

CEES 'T HART

CEO OF CARLSBERG A/S AND CARLSBERG BREWERIES A/S

HEINE DALSGAARD

CFO OF CARLSBERG A/S AND CARLSBERG BREWERIES A/S

The Supervisory Board Chairman and Deputy Chairman as well as the Executive Board members' full CVs, including their skills and competences, are available online

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

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

CONSOLIDATED FINANCIAL STATEMENTS

Income statement 22

Statement of comprehensive income 22

Statement of financial position 23

Statement of changes in equity 24

Statement of cash flows 25

Notes 26

PARENT COMPANY FINANCIAL STATEMENTS

Statements 88

Notes 91

REPORTS

Management statement 103

Auditor's report 104

SECTION 1
OPERATING ACTIVITIES

1.1 Segmentation of operations 28
1.2 Operating expenses, inventories and deposit liabilities 31
1.3 Foreign exchange risk related to earnings 33
1.4 Cash flow from operating activities 34
1.5 Trade receivables and on-trade loans 35

SECTION 2
ASSET BASE AND RETURNS

2.1 Segmentation of assets and returns 38
2.2 Impairment 39
2.3 Intangible assets and property, plant and equipment 45

SECTION 3
SPECIAL ITEMS AND PROVISIONS

3.1 Special items 49
3.2 Provisions 50
3.3 Contingent liabilities 51

SECTION 4
FINANCING COSTS, CAPITAL STRUCTURE AND EQUITY

4.1 Financial income and expenses 53
4.2 Net interest-bearing debt 54
4.3 Capital structure 54
4.4 Borrowings and cash 56
4.5 Interest rate risk 57
4.6 Foreign exchange risk related to net investments and financing activities 58
4.7 Liquidity risk 60
4.8 Derivative financial instruments 62

SECTION 5
ACQUISITIONS, DISPOSALS, ASSOCIATES AND JOINT VENTURES

5.1 Investment model and risks 64
5.2 Acquisitions and disposals 65
5.3 Contingent considerations 67
5.4 Associates and joint ventures 68

SECTION 6
TAX

6.1 Income tax 69
6.2 Tax assets and liabilities 70

SECTION 7
STAFF COSTS AND REMUNERATION

7.1 Staff costs 72
7.2 Remuneration 73
7.3 Share-based payments 73
7.4 Retirement benefit obligations and similar obligations 75

SECTION 8
OTHER DISCLOSURE REQUIREMENTS

8.1 Related parties 78
8.2 Fees to auditors 78
8.3 Events after the reporting period 78

SECTION 9
BASIS FOR PREPARATION

9.1 Significant accounting estimates and judgements 79
9.2 General accounting policies 79
9.3 Changes in accounting policies 82
9.4 New legislation 83

SECTION 10
GROUP COMPANIES

10 Group companies 84

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		-4,700	-4,581
Other operating activities, net	1.2.4	176	151
Share of profit after tax of associates and joint ventures	5.4	236	52
Operating profit before special items		**10,524**	**9,368**
Special items, net	3.1	568	-88
Financial income	4.1	374	366
Financial expenses	4.1	-1,102	-1,084
Profit before tax		**10,364**	**8,562**
Income tax	6.1	-2,766	-2,395
Consolidated profit		**7,598**	**6,167**
Attributable to			
Non-controlling interests	1.1	908	824
Shareholder in Carlsberg Breweries A/S (net profit)		6,690	5,343

STATEMENT OF COMPREHENSIVE INCOME

DKK million	Section	2019	2018
Consolidated profit		**7,598**	**6,167**
Other comprehensive income			
Retirement benefit obligations	7.4	-569	395
Share of other comprehensive income in associates and joint ventures	5.4	4	4
Income tax	6.1	38	-34
Items that will not be reclassified to the income statement		**-527**	**365**
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		**2,666**	**-2,944**
Total comprehensive income		**10,264**	**3,223**
Attributable to			
Non-controlling interests		905	855
Shareholder in Carlsberg Breweries A/S		9,359	2,368

STATEMENT OF FINANCIAL POSITION

DKK million	Section	31 Dec. 2019	31 Dec. 2018
ASSETS			
Non-current assets			
Intangible assets	2.2, 2.3	58,593	55,656
Property, plant and equipment	2.2, 2.3	27,737	25,258
Investments in associates and joint ventures	5.4	3,958	4,002
Receivables	1.5	1,177	1,094
Tax assets	6.2	1,810	1,560
Total non-current assets		**93,275**	**87,570**
Current assets			
Inventories	1.2.1	4,751	4,435
Trade receivables	1.5	5,344	5,092
Tax receivables		192	206
Other receivables	1.5	2,590	3,446
Prepayments		775	840
Cash and cash equivalents	4.4.2	5,222	5,589
Total current assets		**18,874**	**19,608**
Total assets		**112,149**	**107,178**

DKK million	Section	31 Dec. 2019	31 Dec. 2018
EQUITY AND LIABILITIES			
Equity			
Share capital	4.3.2	501	502
Reserves		-33,652	-36,837
Retained earnings		65,274	71,183
Equity, shareholder in Carlsberg Breweries A/S		**32,123**	**34,848**
Non-controlling interests		2,587	2,587
Total equity		**34,710**	**37,435**
Non-current liabilities			
Borrowings	4.2, 4.4.1	20,879	16,750
Retirement benefit obligations and similar obligations	7.4	3,266	2,874
Tax liabilities	6.2	5,843	4,997
Provisions	3.2	3,981	3,770
Other liabilities	5.3	9,054	6,186
Total non-current liabilities		**43,023**	**34,577**
Current liabilities			
Borrowings	4.2, 4.4.1	4,121	7,364
Trade payables		17,188	16,239
Deposits on returnable packaging materials	1.2.2	1,545	1,583
Provisions	3.2	1,629	1,064
Tax payables		990	860
Other liabilities		8,943	8,056
Total current liabilities		**34,416**	**35,166**
Total liabilities		**77,439**	**69,743**
Total equity and liabilities		**112,149**	**107,178**

STATEMENT OF CHANGES IN EQUITY

DKK million	Section	Shareholder in Carlsberg Breweries A/S							
2019		Share capital	Currency translation	Hedging reserves	Total reserves	Retained earnings	Total	Non-controlling interests	Total equity
Equity at 1 January		**502**	**-36,116**	**-721**	**-36,837**	**71,183**	**34,848**	**2,587**	**37,435**
Consolidated profit		**-**	**-**	**-**	**-**	**6,690**	**6,690**	**908**	**7,598**
Other comprehensive income	4.3.3	**-**	**3,185**	**-**	**3,185**	**-516**	**2,669**	**-3**	**2,666**
Total comprehensive income for the year		**-**	**3,185**	**-**	**3,185**	**6,174**	**9,359**	**905**	**10,264**
Capital reduction	4.3.1	-1	-	-	-	-4,499	-4,500	-	-4,500
Refund to parent company for exercise of share-based payments		-	-	-	-	-25	-25	-	-25
Change in expected future refunds for exercise of share-based payments		-	-	-	-	-551	-551	-	-551
Share-based payments	7.3	-	-	-	-	204	204	3	207
Dividend paid to the shareholder	4.3.2	-	-	-	-	-2,746	-2,746	-853	-3,599
Non-controlling interests		-	-	-	-	-4,466	-4,466	-55	-4,521
Total changes in equity		**-1**	**3,185**	**-**	**3,185**	**-5,909**	**-2,725**	**-**	**-2,725**
Equity at 31 December		**501**	**-32,931**	**-721**	**-33,652**	**65,274**	**32,123**	**2,587**	**34,710**
2018									
Equity at 1 January		**501**	**-32,902**	**-581**	**-33,483**	**69,654**	**36,672**	**2,595**	**39,267**
Consolidated profit		**-**	**-**	**-**	**-**	**5,343**	**5,343**	**824**	**6,167**
Other comprehensive income	4.3.3	**-**	**-3,214**	**-140**	**-3,354**	**379**	**-2,975**	**31**	**-2,944**
Total comprehensive income for the year		**-**	**-3,214**	**-140**	**-3,354**	**5,722**	**2,368**	**855**	**3,223**
Capital increase	4.3.1	1	-	-	-	260	261	-	261
Refund to parent company for exercise of share options		-	-	-	-	-86	-86	-	-86
Change in expected future refunds for exercise of share options		-	-	-	-	-441	-441	-	-441
Share-based payments	7.3	-	-	-	-	157	157	3	160
Dividend paid to the shareholder	4.3.2	-	-	-	-	-2,441	-2,441	-869	-3,310
Non-controlling interests		-	-	-	-	-1,642	-1,642	-	-1,642
Disposal of entities	5.2	-	-	-	-	-	-	3	3
Total changes in equity		**1**	**-3,214**	**-140**	**-3,354**	**1,529**	**-1,824**	**-8**	**-1,832**
Equity at 31 December		**502**	**-36,116**	**-721**	**-36,837**	**71,183**	**34,848**	**2,587**	**37,435**

STATEMENT OF CASH FLOWS

DKK million	Section	2019	2018
Operating profit before special items		10,524	9,368
Depreciation, amortisation and impairment losses[1]	2.3	4,534	4,081
Operating profit before depreciation, amortisation and impairment losses[1]		**15,058**	**13,449**
Other non-cash items		-295	213
Change in trade working capital		553	1,912
Change in other working capital		544	35
Restructuring costs paid		-445	-238
Interest etc. received		153	161
Interest etc. paid		-1,037	-1,019
Income tax paid		-2,246	-2,410
Cash flow from operating activities	1.4	**12,285**	**12,103**
Acquisition of property, plant and equipment and intangible assets		-4,571	-4,006
Disposal of property, plant and equipment and intangible assets		1,713	249
Change in on-trade loans	1.4	50	-192
Total operational investments		**-2,808**	**-3,949**
Free operating cash flow		**9,477**	**8,154**
Acquisition and disposal of subsidiaries, net	5.2	-9	-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		-61	-36
Dividends received		432	572
Total financial investments		**346**	**-1,926**
Cash flow from investing activities		**-2,462**	**-5,875**
Free cash flow		**9,823**	**6,228**
Shareholder in Carlsberg Breweries A/S	4.3.2	-7,246	-2,441
Non-controlling interests	4.3.2	-2,520	-1,186
External financing	4.4.1	-388	-243
Cash flow from financing activities		**-10,154**	**-3,870**
Net cash flow		**-331**	**2,358**
Cash and cash equivalents at 1 January[2]		5,434	3,120
Foreign exchange adjustment of cash and cash equivalents		46	-44
Cash and cash equivalents at 31 December[2]	4.4.2	**5,149**	**5,434**

[1] Impairment losses excluding those reported in special items, cf. section 3.1.
[2] Cash and cash equivalents less bank overdrafts.

SECTION 1

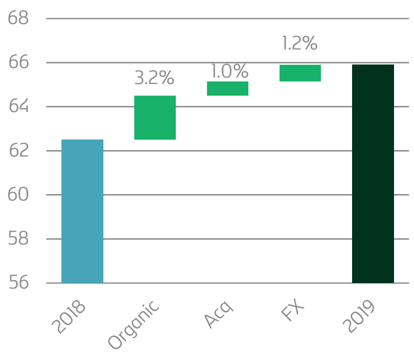
OPERATING ACTIVITIES

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

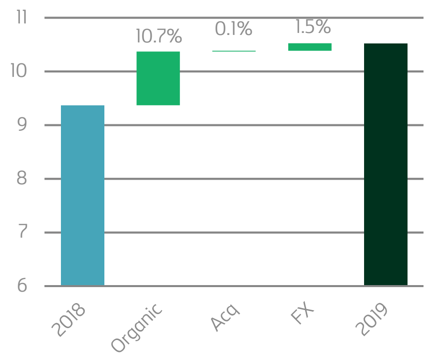
OPERATING PROFIT (DKK)

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 80bp.

Operating profit before depreciation, amortisation and impairment losses (EBITDA) grew organically by 10.2%. Reported EBITDA grew by 12.0% and was impacted by positive currency movements and a positive net acquisition effect.

Operating profit before special items was DKK 10,524m (2018: DKK 9,368m). The 12.3% increase was driven by organic growth of 10.7%, supported by a positive currency and net acquisition impact of 1.5% and 0.1% respectively. Western Europe and Asia delivered positive operating profit growth, while the operating profit in Eastern Europe declined.

Operating profit growth (%)



6.7bn

NET PROFIT (DKK)

Special items, net, amounted to DKK 568m (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 -728m against DKK -718m in 2018. Excluding currency gains and fair value adjustments, financial items, net, amounted to DKK -640m (2018: DKK -754m).

Tax amounted to DKK -2,766m (2018: DKK -2,395m). The effective tax rate was 26.7% (2018: 28.0%).

Consolidated profit was DKK 7,598m compared to DKK 6,167m 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 Group's share of consolidated profit was DKK 6,690m (2018: DKK 5,343m).

12.3bn

OPERATING CASH FLOW (DKK)

Cash flow from operating activities increased by 1% compared with 2018 and amounted to DKK 12,285m (2018: DKK 12,103m).

The strong operating cash flow was positively impacted by the change in trade working capital of DKK +553m (2018: DKK +1,912m). Average trade working capital to revenue improved from -15.8% in 2018 to -16.7%. The change in other working capital was DKK +544m (2018: DKK +35m), impacted by provisions, VAT and other accruals.

Restructuring costs paid amounted to DKK -445m (2018: DKK -238m). Net interest etc. paid amounted to DKK -884m (2018: DKK -858m). The increase in interest paid was due to settlement of financial instruments as well as lower interest income.

Income tax paid was DKK -2,246m (2018: DKK -2,410m). The decrease from 2018 was due to a lower effective tax rate.

9.8bn

FREE CASH FLOW (DKK)

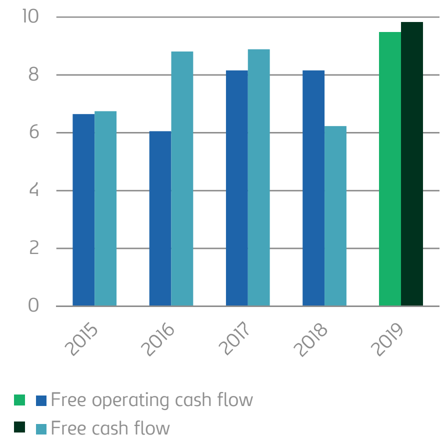
Free cash flow amounted to DKK 9,823m (2018: DKK 6,228m), while the free operating cash flow amounted to DKK 9,477m (2018: DKK 8,154m).

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 -2,462m against DKK -5,875m in 2018, an improvement of DKK 3,413m, due to the disposal of two brewery sites in Western Europe and lower cost of acquisition of entities. Operational investments totalled DKK -2,808m (2018: DKK -3,949m). Total financial investments amounted to DKK +346m (2018: DKK -1,926m), the negative amount in 2018 reflecting the acquisitions of Cambrew and Super Bock.

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	Carlsberg Breweries Group, total
Revenue	**36,317**	**18,416**	**11,097**	**72**	**65,902**
Total cost	-30,320	-14,536	-9,215	-1,543	-55,614
Share of profit after tax of associates and joint ventures	190	51	-	-5	236
Operating profit before special items	**6,187**	**3,931**	**1,882**	**-1,476**	**10,524**
Special items, net					568
Financial items, net					-728
Profit before tax					**10,364**
Income tax					-2,766
Consolidated profit					**7,598**
Operating margin	17.0%	21.3%	17.0%		16.0%

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

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 Breweries 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	9,368	10.7%	0.1%	1.5%	10,524	12.3%
Operating margin (%)	15.0				16.0	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 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	55	8
On-trade loans, net	44	21
Real estate, net	13	6
Research centres, net	-57	-54
Other, net	121	170
Total	**176**	**151**

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 France less 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

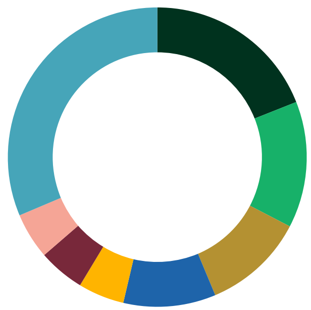
The Group is exposed to risk from translation of foreign entities into the Group's presentation currency, DKK.

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)



EUR 19% (20%)
CNY 14% (12%)
RUB 11% (12%)
DKK 10% (10%)
GBP 5% (6%)
CHF 5% (6%)
NOK 5% (6%)
Other 31% (28%)

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 553m (2018: DKK 1,912m) 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 544m (2018: DKK 35m), 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 -884m (2018: DKK -858m). 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 -2,246m (2018: DKK -2,410m). 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 1,713m, 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 -15.8% to -16.7% 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	-236	-52
Gain on disposal of property, plant and equipment and intangible assets, net	2.3	-55	-8
Share-based payments		207	160
Transfer of long-term medical insurance obligation	7.4	-162	-
Other items		-49	113
Total		**-295**	**213**
Trade working capital			
Inventories		-188	-586
Trade receivables		84	-422
Trade payables, duties payable and deposits on returnable packaging materials		657	2,920
Total		**553**	**1,912**
Other working capital			
Other receivables		197	182
Other payables		228	-463
Retirement benefit obligations and other liabilities related to operating profit before special items		161	363
Unrealised foreign exchange gains/losses		-42	-47
Total		**544**	**35**
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 205m (2018: DKK 169m) 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	4,204	-101	4,103	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	**5,371**	**-477**	**4,894**	
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	2,566	-2	2,564	0%
Overdue 1-30 days	12	-	12	-
Overdue 31-90 days	143	-1	142	1%
Overdue > 90 days	92	-18	74	20%
Other receivables	**2,813**	**-21**	**2,792**	
Total	**9,823**	**-712**	**9,111**	
Total 2018	**10,286**	**-654**	**9,632**	

Receivables included in the statement of financial position

2019	Current	Non-current	Total
Receivables from sales of goods and services	4,894	-	4,894
On-trade loans	450	975	1,425
Other receivables	2,590	202	2,792
Total	**7,934**	**1,177**	**9,111**

2018	Current	Non-current	Total
Receivables from sales of goods and services	4,613	-	4,613
On-trade loans	479	972	1,451
Other receivables	3,446	122	3,568
Total	**8,538**	**1,094**	**9,632**

SECTION 1.5 (CONTINUED)

TRADE RECEIVABLES AND ON-TRADE LOANS

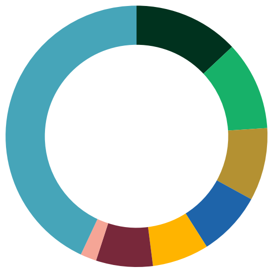
1.5.1 CREDIT RISK

In 2019, receivables not past due amounts to 86% (2018: 89%) 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

112.1bn

TOTAL ASSETS (DKK)

Total assets increased by DKK 5.0bn, mainly due to an increase in intangible assets and property, plant and equipment. Intangible assets amounted to DKK 58.6bn at 31 December 2019 (2018: DKK 55.7bn), impacted among other things by the appreciation of the Russian rouble.

Property, plant and equipment increased by DKK 2.5bn to DKK 27.7bn (2018: DKK 25.3bn), mainly impacted by the capitalisation of right-of-use assets on implementation of IFRS 16 and currencies.

Current assets decreased by DKK 0.7bn to DKK 18.9bn. The 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)

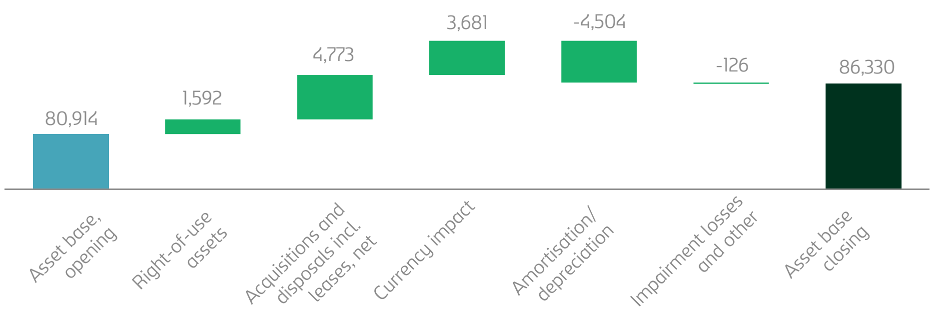
CapEx included finalisation of the new greenfield brewery in Germany, the new central office in Copenhagen, enhancement of craft production sites in China and Denmark, and sustainability investments such as Snap Pack and total water management. The increase in CapEx led to an increase in the ratio of 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.

10.3%

ROIC

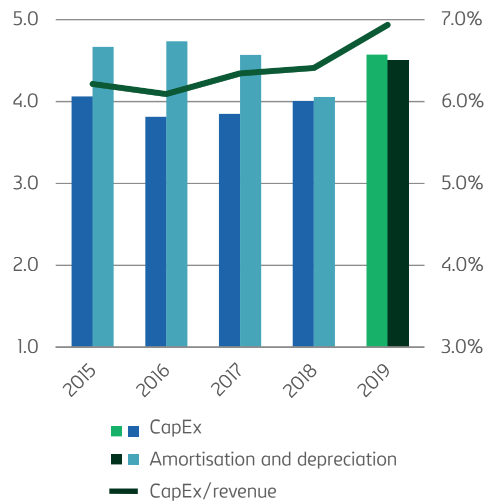
Return on invested capital (ROIC) increased by 80bp to 10.3%, impacted by a higher operating profit and a lower effective tax rate. ROIC excluding goodwill increased by 150bp to 25.2%, with improvements mainly achieved in Asia.

Asset base[1] (DKKm)

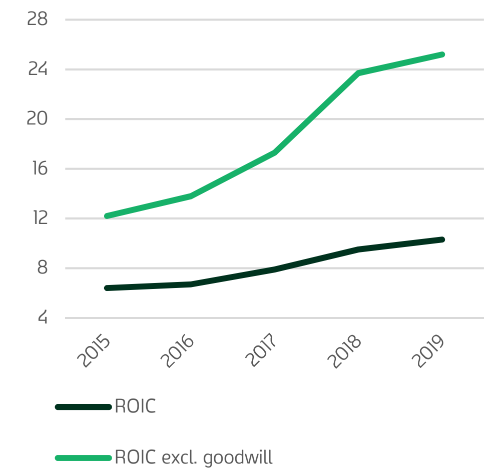


[1] The asset base represents the total investment in intangible assets and property, plant and equipment.

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 3.0bn, affected by an increase in assets included of DKK 5.9bn, 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 Breweries A/S' domicile)	3,318	3,782
Russia	24,518	21,578
China	14,569	14,152
Other countries	47,883	45,404
Total	**90,288**	**84,916**

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	112,149	107,178
Less		
Tax assets	-1,810	-1,560
Financial receivables, hedging instruments and receivables sold	947	117
Cash and cash equivalents	-5,222	-5,589
Assets included	**106,064**	**100,146**
Trade payables	-17,188	-16,239
Deposits on returnable packaging materials	-1,545	-1,583
Provisions, excl. restructurings	-5,299	-4,453
Other liabilities, excl. hedging instruments	-8,572	-7,453
Liabilities offset	**-32,604**	**-29,728**
Invested capital	**73,460**	**70,418**
Goodwill	-44,702	-42,723
Invested capital excl. goodwill	**28,758**	**27,695**
Invested capital, average	**74,849**	**70,629**

DKK million

2019	Western Europe	Asia	Eastern Europe	Not allocated	Carlsberg Breweries Group, total
Invested capital	30,719	19,701	25,387	-2,347	73,460
Invested capital excl. goodwill	15,372	4,389	11,344	-2,347	28,758
Acquisition of property, plant and equipment and intangible assets	2,100	1,539	602	330	4,571
Amortisation and depreciation	2,025	1,450	710	319	4,504
Impairment losses	42	29	50	-	121
Return on invested capital (ROIC)	14.6%	14.8%	6.2%	-	10.3%
ROIC excl. goodwill	28.0%	63.5%	13.9%	-	25.2%
2018					
Invested capital	29,674	20,270	22,170	-1,696	70,418
Invested capital excl. goodwill	14,440	5,040	9,911	-1,696	27,695
Acquisition of property, plant and equipment and intangible assets	1,948	1,164	547	347	4,006
Amortisation and depreciation	1,725	1,227	667	435	4,054
Impairment losses	56	56	-45	-	67
Return on invested capital (ROIC)	14.1%	12.3%	7.6%	-	9.5%
ROIC excl. goodwill	29.8%	44.0%	17.1%	-	23.7%

Segmentation of assets and invested capital in Carlsberg Breweries Group is different from the beverages, total segment in the Carlsberg Group, due to the goodwill and brands recognised as part of the acquisition of the non-controlling interest in Carlsberg Breweries A/S from Orkla in 2004.

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.

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

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	15,347	15,234
Asia	15,312	15,230
Eastern Europe	14,043	12,259
Total	**44,702**	**42,723**

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
Significant brands	**6,402**	**5,585**

In 2019, significant brands represented 51% (2018: 49%) 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%

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	Fixtures and fittings, other plant and equipment	Total	Total
Cost									
Cost at 1 January	44,329	22,028	5,669	72,026	17,226	28,887	14,196	60,309	132,335
Recognition of right-of-use assets	-	-	-	-	1,005	23	564	1,592	1,592
Restated cost at 1 January	**44,329**	**22,028**	**5,669**	**72,026**	**18,231**	**28,910**	**14,760**	**61,901**	**133,927**
Acquisition of entities	22	301	4	327	-	115	4	119	446
Additions, including right-of-use assets	-	-	118	118	420	2,122	2,449	4,991	5,109
Disposals	-	-	-925	-925	-871	-1,028	-2,011	-3,910	-4,835
Transfers	-	-	3	3	509	-673	156	-8	-5
Foreign exchange adjustments etc.	1,969	2,219	84	4,272	592	1,066	402	2,060	6,332
Cost at 31 December	**46,320**	**24,548**	**4,953**	**75,821**	**18,881**	**30,512**	**15,760**	**65,153**	**140,974**
Amortisation, depreciation and impairment losses									
Amortisation, depreciation and impairment losses at 1 January	1,606	10,305	4,459	16,370	7,518	17,405	10,128	35,051	51,421
Disposals	-	-	-912	-912	-433	-887	-1,821	-3,141	-4,053
Amortisation and depreciation	-	21	403	424	621	1,418	2,041	4,080	4,504
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**	**4,017**	**17,228**	**7,995**	**18,780**	**10,641**	**37,416**	**54,644**
Carrying amount at 31 December	**44,702**	**12,955**	**936**	**58,593**	**10,886**	**11,732**	**5,119**	**27,737**	**86,330**
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	Fixtures and fittings, other plant and equipment	Total	Total
Cost									
Cost at 1 January	43,907	24,243	5,700	73,850	16,380	27,782	13,630	57,792	131,642
Acquisition of entities	2,047	-	-	2,047	1,003	438	41	1,482	3,529
Additions	-	-	127	127	159	2,729	1,251	4,139	4,266
Disposal of entities	-	-	-21	-21	-21	-5	-	-26	-47
Disposals	-	-	-107	-107	-181	-835	-977	-1,993	-2,100
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	**44,329**	**22,028**	**5,669**	**72,026**	**17,226**	**28,887**	**14,196**	**60,309**	**132,335**
Amortisation, depreciation and impairment losses									
Amortisation, depreciation and impairment losses at 1 January	1,616	11,553	4,102	17,271	7,214	17,131	9,506	33,851	51,122
Disposal of entities	-	-	-21	-21	-21	-3	-	-24	-45
Disposals	-	-	-100	-100	-128	-618	-930	-1,676	-1,776
Amortisation and depreciation	-	21	515	536	465	1,369	1,684	3,518	4,054
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**	**4,459**	**16,370**	**7,518**	**17,405**	**10,128**	**35,051**	**51,421**
Carrying amount at 31 December	**42,723**	**11,723**	**1,210**	**55,656**	**9,708**	**11,482**	**4,068**	**25,258**	**80,914**

SECTION 2.3 (CONTINUED)

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment under construction amounted to DKK 1,497m (2018: DKK 2,108m) 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 88m. 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	169	123	252	164
Special items	13	-	78	40
Total	**437**	**536**	**4,188**	**3,585**

Gain/loss on disposal of assets

DKK million	2019	2018
Gain on disposal of property, plant and equipment and intangible assets	89	32
Loss on disposal of property, plant and equipment and intangible assets	-34	-24
Total	**55**	**8**

SECTION 2.3 (CONTINUED)

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

Cost

Intangible assets and property, plant and equipment are initially recognised at cost and subsequently measured at cost less accumulated amortisation or depreciation and impairment losses.

Cost comprises the purchase price and costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, wages and salaries, and capitalised borrowing costs on specific or general 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

1,131m

SPECIAL ITEMS, INCOME (DKK)

Mainly 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. Furthermore, the Group recognised the gain on the acquisition of an minor entity from the parent company.

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 acquisition and disposal of entities and assets	1,128	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	**1,131**	**303**
Special items, expenses		
Restructurings and impairment of property, plant and equipment in Western Europe, net	-337	-382
Restructurings and impairment of property, plant and equipment in Asia, net	-8	
Restructurings and impairment of property, plant and equipment in Eastern Europe, net	-96	
Provisions related to disposal of real estate	-110	-
Impairment of brands, cf. section 2.2	-6	-
Other	-6	-9
Total	**-563**	**-391**
Special items, net	**568**	**-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	1,128	179
Other operating expenses	-242	-18
Special items, net	**568**	**-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 4,899m 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	4,045	4,834
Acquisition of entities	-	2	154	156
Additional provisions recognised	102	5	700	807
Used during the year	-170	-41	-202	-413
Reversal of unused provisions	-13	-	-122	-135
Transfers	4	18	292	314
Discounting	4	3	30	37
Foreign exchange adjustments etc.	3	5	2	10
Provisions at 31 December 2019	**311**	**400**	**4,899**	**5,610**
Recognised in the statement of financial position				
Non-current provisions	88	356	3,537	3,981
Current provisions	223	44	1,362	1,629
Total	**311**	**400**	**4,899**	**5,610**

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

17.8bn

NET INTEREST-BEARING DEBT (DKK)

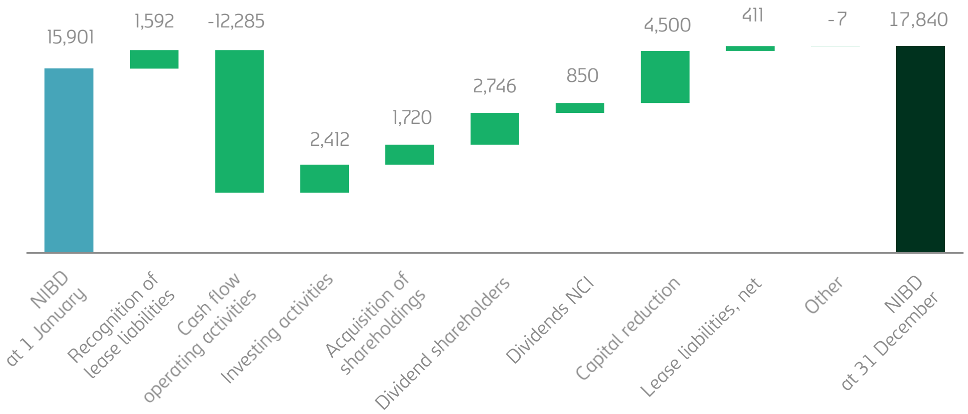
At 31 December 2019, gross financial debt amounted to DKK 25.0bn (2018: DKK 24.1bn). Net interest-bearing debt was DKK 17.8bn, an increase of DKK 1.9bn versus year-end 2018.

The financial position is impacted by the strong free cash flow.

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 1.18x at year-end (2018: 1.18x).

Changes in net interest-bearing debt (DKKm)



34.7bn

EQUITY (DKK)

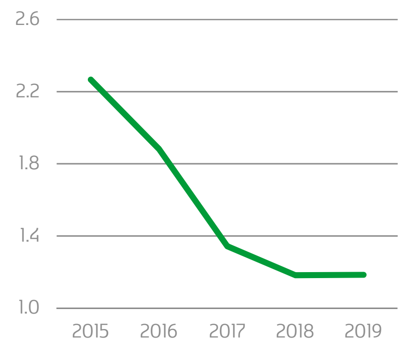
Equity amounted to DKK 34.7bn at 31 December 2019 (2018: DKK 37.4bn), DKK 32.1bn of which was attributable to the shareholder in Carlsberg Breweries A/S and DKK 2.6bn to non-controlling interests. The change in equity of DKK 2.7bn was mainly the result of the consolidated profit of DKK 7.6bn being offset by the dividend payout of DKK 3.6bn, a capital reduction of DKK 4.5bn and non-controlling interests of DKK 4.5bn, including the acquisition of the remaining 25% in Cambrew.

-728m

NET FINANCIAL ITEMS (DKK)

Financial items, net, amounted to DKK -728m against DKK -718m in 2018. Excluding currency gains and fair value adjustments, financial items, net, amounted to DKK -640m (2018: DKK -754m), positively impacted by lower average funding costs.

Leverage ratio (NIBD/EBITDA)



SECTION 4.1

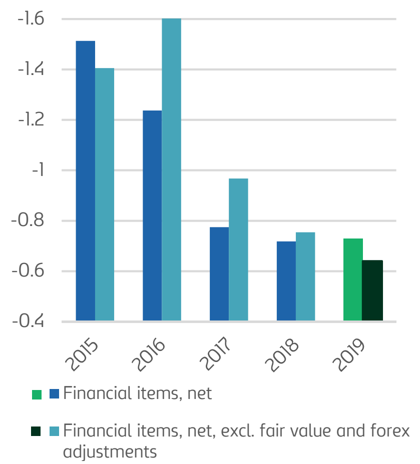
FINANCIAL INCOME AND EXPENSES

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	149	160
Foreign exchange gains, net	-	36
Interest on plan assets, defined benefit plans	189	155
Other	36	15
Total	**374**	**366**
Financial expenses		
Interest expenses	-520	-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	-244	-283
Total	**-1,102**	**-1,084**
Financial items, net, recognised in the income statement	**-728**	**-718**
Financial items excluding foreign exchange, net	-640	-754

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**
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: 69%) 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 24.1bn). Long-term borrowings totalled DKK 20.9bn (2018: DKK 16.8bn) and short-term borrowings totalled DKK 4.1bn (2018: DKK 7.4bn). 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 7.2bn 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	4,121	7,364
Gross financial debt	**25,000**	**24,114**
Cash and cash equivalents	-5,222	-5,589
Net financial debt	**19,778**	**18,525**
Loans to associates, interest-bearing portion	-226	-325
On-trade loans, net	-668	-717
Other receivables, net	-1,044	-1,582
Net interest-bearing debt	**17,840**	**15,901**

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 stakeholders.

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.

The Group targets a leverage ratio below 2.0x. At the end of 2019, the leverage ratio was 1.18x (2018: 1.18x).

Optimisation of share capital is carried out by managing the listed shares of Carlsberg A/S, including payment of dividends and share buy-backs. Borrowings are managed in Carlsberg Breweries A/S, where the majority of the Group's debt is denominated in listed bonds.

In November 2019, the share capital was reduced from DKK 502m to DKK 501m through a cash distribution of nominally DKK 1m at a (per 100) price of DKK 450,000, corresponding to a total cash distribution to Carlsberg A/S of DKK 4.5bn. This cash distribution reflects the share buy-backs that was carried out by Carlsberg A/S over a 12 month period from 6 February 2019.

In 2018, the increase in the share capital related to the injection of a dormant company from Carlsberg A/S to the Carlsberg Breweries Group.

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

	Total share capital	
	Shares of DKK 1,000	Nominal value, DKK '000
1 January 2018	501,000	501,000
Capital increase	1,000	1,000
31 December 2018	**502,000**	**502,000**
Capital reduction	-1,000	-1,000
31 December 2019	**501,000**	**501,000**

The share capital amounts to DKK 501m divided into shares in denominations of DKK 1,000 and multiples thereof. None of the shares confer any special rights. The share capital is fully owned by Carlsberg A/S, Copenhagen, Denmark.

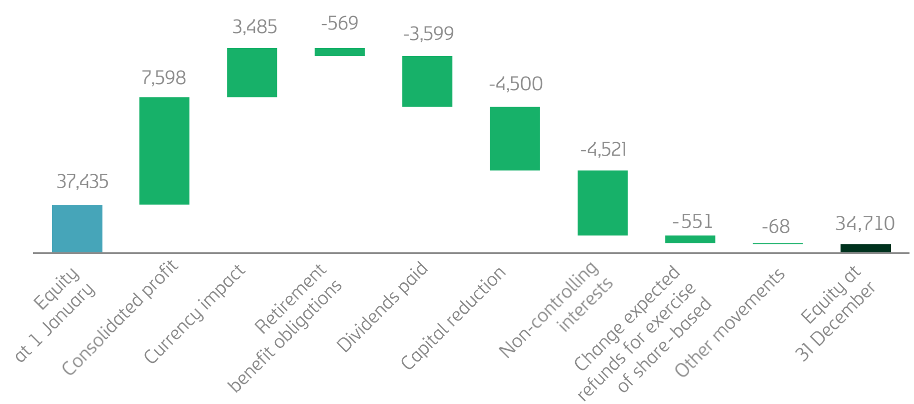
4.3.2 EQUITY

DIVIDENDS

The Group proposes a dividend of DKK 6,395 per share (2018: DKK 5,470 per share), amounting to DKK 3,204m (2018: DKK 2,746m). The proposed dividend has been included in retained earnings at 31 December 2019.

Dividend paid out in 2019 for 2018, amounted to DKK 2,746m (paid out in 2018 for 2017: DKK 2,441m). Dividends paid out to the shareholder in Carlsberg Breweries A/S do not impact taxable income in Carlsberg Breweries A/S.

Equity (DKKm)



SECTION 4.3 (CONTINUED)

CAPITAL STRUCTURE

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

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.

Transactions with the shareholder in Carlsberg Breweries A/S

DKK million	2019	2018
Dividend paid to the shareholder	-2,746	-2,441
Capital reduction	-4,500	-
Total	**-7,246**	**-2,441**

ACCOUNTING POLICIES

Proposed dividend

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.

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	-	-	-568	-568	-1	-569
Other	-	-	16	16	2	18
Income tax	20	-	36	56	-1	55
Total	**3,185**	**-**	**-516**	**2,669**	**-3**	**2,666**

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	-	-	409	409	-14	395
Other	-	-	4	4	-	4
Income tax	58	27	-34	51	-	51
Total	**-3,214**	**-140**	**379**	**-2,975**	**31**	**-2,944**

SECTION 4.4
BORROWINGS AND CASH

4.4.1 BORROWINGS
As of 1 January 2019, the Group recognised lease liabilities of DKK 1.6bn. 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	3,350	1,236
Total	**4,121**	**7,364**
Total borrowings	**25,000**	**24,114**
Fair value	26,423	25,379

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	**24,114**	**24,271**
Recognition of lease liabilities	1,592	-
Restated gross financial debt at 1 January	**25,706**	**24,271**
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	-
Instalments on and proceeds from intercompany loans and borrowings	547	-120
Other	129	-85
External financing	**-388**	**-243**
Change in bank overdrafts	-82	-187
Increase in lease liabilities, net	411	-
Intercompany loans	-669	169
Other, including foreign exchange adjustments and amortisation	22	104
Gross financial debt at 31 December	**25,000**	**24,114**

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[1]	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	-707	-707	-	100%	-
Total	**19,778**	**28**	**19,750**	**0%**	**100%**
2018					
EUR	16,436	-339	16,775	24%	76%
DKK	1,410	1,410	-	100%	-
PLN	-372	-372	-	100%	-
USD	986	986	-	100%	-
CHF	977	977	-	100%	-
RUB	-58	-58	-	100%	-
Other	-854	-854	-	100%	-
Total	**18,525**	**1,750**	**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 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	5,251	Cash flow
Fixed-rate	Fixed	0.9%	> 1 year	76	Fair value
Total bank borrowings and other borrowings				**5,327**	
Total bank borrowings and other borrowings 2018				**1,815**	

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

2019	Original principal	Effect of swap	After swap
CHF	142	1,439	1,581
DKK	133	-120	13
EUR	23,805	-5,580	18,225
RUB	122	386	508
USD	130	1,947	2,077
Other	668	1,928	2,596
Total	**25,000**	**-**	**25,000**
Total 2018	**24,114**	**-**	**24,114**

Net investment hedges

									2019		2018	
	Hedging of investment, amount in local currency		Intra-group loans, amount in local currency		Other comprehensive income (DKK)		Average hedged rate		Fair value of derivatives		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.

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	5,652	4,121	1,531	1,531
Total current committed loans and credit facilities	**5,652**	**4,121**	**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	-	-	-4,121	-7,364
Credit resources available (total non-current committed loans and credit facilities-net debt)			**16,040**	**13,234**

SECTION 4.7 (CONTINUED)

LIQUIDITY RISK

At 31 December 2019, the Group had total credit resources available of DKK 16,040m 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 -4,121m. Including current credit facilities of DKK 1,531m, total committed unutilised credit facilities amounted to DKK 16,470m.

Credit resources available increased by DKK 2.8bn 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	25,153	4,121	17,542	3,490	25,000
Interest expenses	1,684	431	1,134	119	N/A
Trade payables and other liabilities	18,733	18,733	-	-	18,733
Contingent liabilities	395	395	-	-	395
Contingent considerations	9,023	3	9,020	-	9,023
Non-derivative financial instruments	**54,988**	**23,683**	**27,696**	**3,609**	**-**
Financial liabilities	**55,240**	**23,935**	**27,696**	**3,609**	**-**
Financial liabilities 2018	**50,806**	**26,408**	**16,839**	**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 comprehen-sive 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 partners receive 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	
Intangible assets	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 the shareholder in Carlsberg Breweries 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 the shareholder in Carlsberg Breweries 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 the shareholder in Carlsberg Breweries 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).

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.

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.

Key figures for associates and joint ventures

DKK million	Carlsberg Breweries Group share			
2019	Profit after tax	Other comprehensive income	Total comprehensive income	Investments in associates and joint ventures
Associates	236	4	240	3,960
Joint ventures	-	-	-	-2
	236	**4**	**240**	**3,958**
2018				
Associates	53	4	57	4,004
Joint ventures	-1	-	-1	-2
	52	**4**	**56**	**4,002**

SECTION 6

TAX

2,766m

INCOME TAX (DKK)

Up from DKK 2,395m in 2018.

26.7%

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 26.7% (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	2,255	20.3	1,740
Change in tax rate	-0.1	-8	-	-1
Adjustments to tax for prior years	0.2	25	-0.5	-41
Non-capitalised tax assets, net movements	1.5	156	2.8	235
Non-taxable income	-0.5	-53	-0.2	-15
Non-deductible expenses	1.6	169	2.7	228
Tax incentives etc.	-0.3	-27	-0.8	-64
Special items	-0.9	-103	0.2	13
Withholding taxes	3.8	395	3.6	311
Other, including tax in associates and joint ventures	-0.4	-43	-0.1	-11
Effective tax rate for the year	**26.7**	**2,766**	**28.0**	**2,395**

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	2,147	5	2,152	2,395	-2	2,393
Change in deferred tax and non-current tax payables during the year	602	-60	542	42	-49	-7
Change in deferred tax as a result of change in tax rate	-8	-	-8	-1	-	-1
Adjustments to tax for prior years	25	-	25	-41	-	-41
Total	**2,766**	**-55**	**2,711**	**2,395**	**-51**	**2,344**

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	569	-38	531	-395	34	-361
Share of other comprehensive income in associates and joint ventures	-4	-	-4	-4	-	-4
Other	-14	3	-11	-	-	-
Total	**-2,611**	**-55**	**-2,666**	**2,995**	**-51**	**2,944**

SECTION 6.2
TAX ASSETS AND LIABILITIES

Of the total deferred tax assets recognised, DKK 244m (2018: DKK 436m) 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 602m (2018: DKK 42m), 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	4,048	3,359
Non-current tax payables	1,795	1,638
Non-current tax liabilities at 31 December	**5,843**	**4,997**

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	3,437	3,432
Adjustments to prior years	-203	-
Acquisition and disposal of entities	40	129
Recognised in other comprehensive income	-60	-49
Recognised in the income statement, net	602	42
Change in tax rate	-8	-1
Foreign exchange adjustments	225	-116
Tax assets and liabilities at 31 December, net	**4,033**	**3,437**
Recognised as follows		
Tax liabilities	5,843	4,997
Tax assets	-1,810	-1,560
Tax assets and liabilities at 31 December, net	**4,033**	**3,437**

Specification of deferred tax

	Deferred tax assets		Deferred tax liabilities	
DKK million	2019	2018	2019	2018
Intangible assets	465	358	3,019	2,753
Property, plant and equipment	393	302	1,786	1,858
Current assets	367	316	28	25
Provisions and retirement benefit obligations	1,004	1,198	26	8
Tax losses etc.	1,326	1,114	934	443
Total before offset	**3,555**	**3,288**	**5,793**	**5,087**
Offset	-1,745	-1,728	-1,745	-1,728
Deferred tax assets and liabilities at 31 December	**1,810**	**1,560**	**4,048**	**3,359**
Expected to be used as follows				
Within one year	689	638	2,115	1,732
After more than one year	1,121	922	1,933	1,627
Total	**1,810**	**1,560**	**4,048**	**3,359**

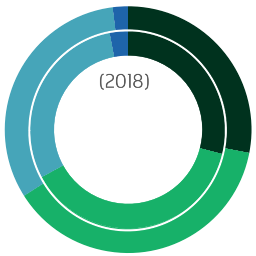
SECTION 7

STAFF COSTS AND REMUNERATION

Pensions

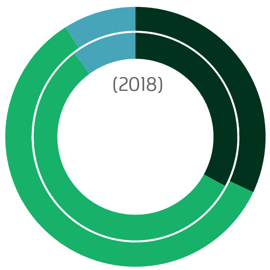
Defined benefit obligations were affected by lower interest rates across Western Europe and by the transfer of the large medical insurance scheme to the municipal government in Chongqing, releasing the Group from the obligation.

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	8,465	8,415
Severance payments	87	75
Social security costs	1,344	1,293
Retirement benefit costs – defined contribution plans	294	281
Retirement benefit costs – defined benefit plans	32	203
Share-based payments	207	160
Other employee benefits	57	103
Total	**10,486**	**10,530**
Average number of employees	**41,151**	**40,757**
Staff costs are included in the following line items in the income statement		
Cost of sales	2,866	2,720
Sales and distribution expenses	5,576	5,348
Administrative expenses	2,150	2,403
Financial expenses (Pensions)	-133	23
Special items (restructurings)	27	36
Total	**10,486**	**10,530**

SECTION 7.2

REMUNERATION

Remuneration of the executive directors and key management personnel is based on a fixed salary, cash bonus payments and non-monetary benefits such as company car, telephone etc. Furthermore, share option programmes and incentive schemes have been established for the executive directors and other management personnel. These programmes and schemes cover a number of years.

Employment contracts for the executive directors contain terms and conditions that are considered common to executive board members in Danish listed companies, including terms of notice and non-competition clauses.

For 2019, the potential maximum bonus for the CEO and CFO was 100% of fixed salary, with a bonus equal to 60% of fixed salary payable for on-target performance. A scorecard of performance measures is used to assess performance.

The remuneration of key management personnel increased in 2019 as a result of more full-year members of the Executive Committee and severance payments in 2019.

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.

In 2019, the Supervisory Board received total remuneration of DKK 3.10m (2018: DKK 3.35m), comprising fixed salary only.

Remuneration

	Executive directors				Key management personnel	
	Cees 't Hart		Heine Dalsgaard[3]			
DKK million	2019	2018	2019	2018	2019	2018
Fixed salary	12.6	12.3	7.6	7.4	26.5	25.3
Cash bonus	11.4	12.3	7.1	7.4	23.2	18.5
Other benefits	1.1	1.1	-	-	7.0	4.0
Special bonus[1]	-	-	-	-	1.3	-
Remuneration settled in cash	**25.1**	**25.7**	**14.7**	**14.8**	**58.0**	**47.8**
Non-monetary benefits	0.1	0.1	0.3	0.3	0.7	0.5
Share-based payments[2]	24.6	26.7	12.4	13.3	21.4	18.8
Remuneration, non-monetary and share-based	**24.7**	**26.8**	**12.7**	**13.6**	**22.1**	**19.3**
Total cash and non-cash	**49.8**	**52.5**	**27.4**	**28.4**	**80.1**	**67.1**

[1] Special bonus covering remuneration waived from previous employer, in total DKK 15m, which was 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 only reflects the technical accounting charge to the income statement that is required by IFRS.
[3] The remuneration of Heine Dalsgaard was recognised in the parent company Carlsberg A/S and is therefore not included in the staff cost disclosed in the consolidated financial statements for Carlsberg Breweries Group.

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.

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 the shareholder. 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, 191 employees (2018: 205 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

SECTION 7.3 (CONTINUED)

SHARE-BASED PAYMENTS

DKK 803 (2018: DKK 748). The average contractual life at the end of 2019 was 1.5 years (2018: 1.8 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.

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 203 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 785.

Performance shares

	Executive directors	Key management personnel	Other management personnel	Total
31 December 2017	137,198	9,023	146,860	293,081
Granted	66,286	88,919	554,481	709,686
Forfeited/expired/adjusted	-	-2,578	-91,212	-93,790
Exercised/settled	-	-6,445	-98,601	-105,046
31 December 2018	**203,484**	**88,919**	**511,528**	**803,931**
Granted	61,331	27,569	167,119	256,019
Forfeited/adjusted/transferred	-17,353	-18,240	-64,547	-100,140
Exercised/settled	-58,057	-	-	-58,057
31 December 2019	**189,405**	**98,248**	**614,100**	**901,753**

Performance share disclosures

	Regular		Fund & Grow		Funding the Journey	
	2019	2018	2019	2018	2019	2018
Fair value at grant date	153	159	-	293	-	-
Cost of shares granted in the year	42	43	-	119	-	-
Total cost of performance shares	94	32	112	120	1	8
Cost not yet recognised	147	120	14	153	-	-
Fair value at 31 December	448	151	360	269	-	16

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.

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.

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**

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.

60% (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 294m (2018: DKK 281m).

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 1,770m (2018: DKK 1,839m) or 13% (2018: 15%) of the gross obligation.

In 2019, the Group's obligation, net, on defined benefit plans increased by DKK 392m 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	**12,205**	**9,331**	**2,874**	**13,035**	**9,718**	**3,317**
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 actuarial assumptions	-100	-	-100	-206	-	-206
Gain/loss from changes in financial assumptions	1,452	717	735	-561	-312	-249
Asset ceiling	-	66	-66	-	-60	60
Total	**1,352**	**783**	**569**	**-767**	**-372**	**-395**
Other changes						
Contributions to plans	-	225	-225	-	215	-215
Benefits paid	-591	-486	-105	-630	-522	-108
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	**-107**	**169**	**-276**	**-498**	**-170**	**-328**
Obligation at 31 December	**13,738**	**10,472**	**3,266**	**12,205**	**9,331**	**2,874**

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 679m (2018: net gain of DKK 395m), 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 3,645m (2018: DKK 2,966m), with actuarial net losses of DKK 3,669m (2018: DKK 3,034m).

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%	0.6-7.1%	1.3%
Growth in wages and salaries	1.0%	2.2%	0.0-2.7%	2.0-10.0%	1.8%

2018	CHF	UK	EUR	Others	Weighted average
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	-1,148	1,309	-771	942
Growth in wages and salaries	148	-139	90	-61
	+1 year	-1 year	+1 year	-1 year
Mortality	612	-612	429	-403

Maturity of retirement benefit obligations

DKK million	< 1 year	1-5 years	> 5 years	Total
2019	445	1,293	3,249	4,987
2018	432	1,222	3,802	5,456

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

SECTION 8.1

RELATED PARTIES

RELATED PARTIES EXERCISING CONTROL

Carlsberg A/S, J.C. Jacobsens Gade 1, 1799 Copenhagen V, Denmark, holds all the shares in Carlsberg Breweries A/S. During the year, the Group had the following transactions with the parent and ultimate parent company (the Carlsberg Foundation).

Carlsberg A/S received a dividend of DKK 5,470 per share, amounting to DKK 2,746m, a loan facility of DKK 929m at 31 December 2019 and paid interest of DKK 14m to Carlsberg Breweries A/S.

The Carlsberg Foundation will contribute about DKK 53m to support rebuilding the Carlsberg Visitor Centre and Museum to better present the rich history and value creation of Carlsberg.

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).

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.
Carlsberg Breweries A/S leases storage facilities in the researcher apartments. The lease agreement is with a subsidiary of the Carlsberg Foundation. The annual lease payment 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. The Group, and the Carlsberg, the Tuborg and the New Carlsberg Foundations participated in Folkemødet (the People's Democratic Festival in Bornholm). The Group 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 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 Breweries 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.

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	47	104
Borrowings	-	-7
Trade payables and other liabilities	-2	-15

SECTION 8.2

FEES TO AUDITORS

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.

Fees to auditors appointed by the Annual General Meeting

DKK million	2019	2018
PwC including network firms		
Statutory audit	19	18
Other assurance engagements	-	-
Tax advisory	2	1
Other services	7	2
Total	**28**	**21**

SECTION 8.3

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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and in accordance with IFRS as endorsed 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 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 Breweries 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 Breweries 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.

SECTION 9.2 (CONTINUED)

GENERAL ACCOUNTING POLICIES

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.

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 measure disclosed in the Annual Report is 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 the shareholder in Carlsberg Breweries 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.
Payout ratio	Proposed dividend for the year as a percentage of consolidated profit, excluding non-controlling interests.

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.

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, shareholder in Carlsberg Breweries 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

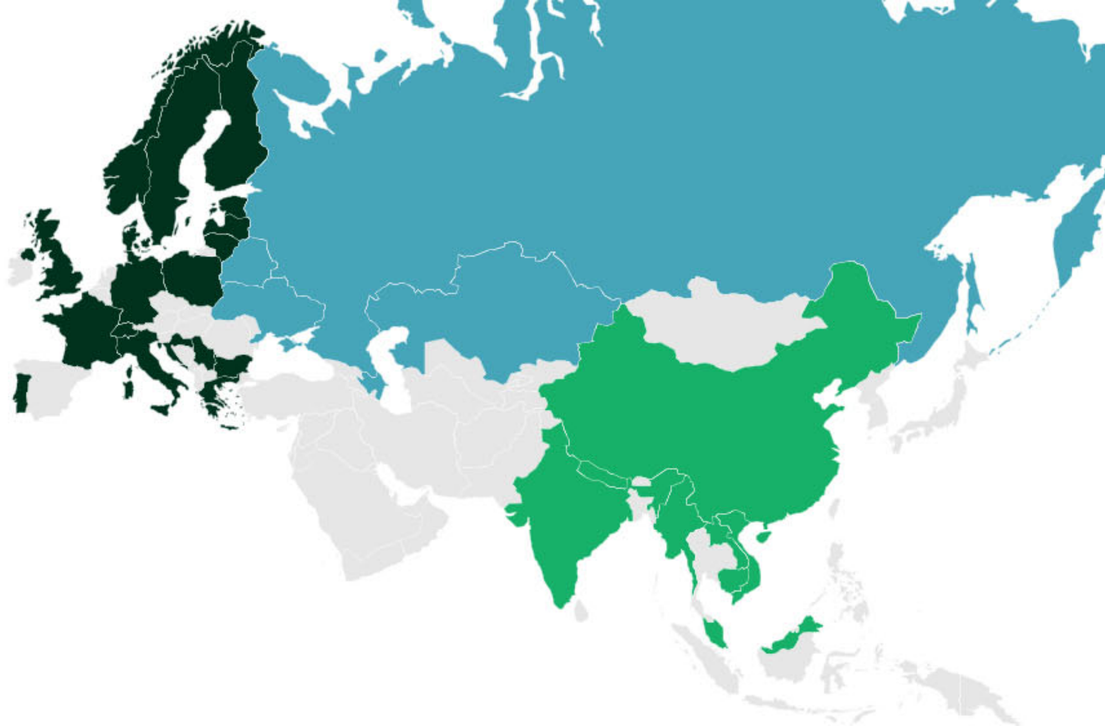
The following new or amended IFRS Standards and Interpretations of relevance to the Group have been issued but not yet adopted by the EU:

- 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.

SECTION 10

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 shareholder of Carlsberg Breweries A/S in the consolidated financial statements.

Western Europe	Market	Note	Number of subsidiaries	Parent direct ownership	Consolidated ownership
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%

Associates and joint ventures	Market	Note	Number of subsidiaries	Parent direct ownership	Consolidated ownership
Monster the Cat GmbH	Switzerland			65%	65%
Sinergie Proattive Srl	Italy			50%	50%
Viacer S.G.P.S., Lda	Portugal	**H**		29%	29%
Super Bock Group, S.G.P.S., S.A.	Portugal		16	60%	60%
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%
Lion Brewery (Ceylon) PLC	Sri Lanka	**A, E, I**		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%

H 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%.

I 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 Breweries A/S.

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY FINANCIAL STATEMENTS

Income statement 88

Statement of comprehensive income 88

Statement of financial position 89

Statement of changes in equity 90

Statement of cash flows 90

Notes 91

SECTION 1
SUBSIDIARIES AND RELATED PARTIES

1.1 Investments in subsidiaries, Associates and joint ventures 91
1.2 Special items 91
1.3 Related parties 92

SECTION 2
CAPITAL STRUCTURE

2.1 Share capital 93
2.2 Financial income and expenses 93
2.3 Net interest-bearing debt 93
2.4 Borrowings and cash 94
2.5 Credit risk 94
2.6 Foreign exchange risk related to net investments and financing activities 94
2.7 Interest rate risk 95
2.8 Liquidity risk 95
2.9 Derivative financial instruments 96

SECTION 3
OPERATING ACTIVITIES

3.1 Operating expenses 97
3.2 Cash flow from operating activities 97
3.3 Receivables 97

SECTION 4
STAFF COSTS AND REMUNERATION

4.1 Staff costs and remuneration 98
4.2 Share-based payments 99

SECTION 5
OTHER DISCLOSURE REQUIREMENTS

5.1 Provisions 100
5.2 Fees to auditors 100
5.3 Asset base and leases 100
5.4 Tax 100
5.5 Contingent liabilities and other commitments 101
5.6 Events after the reporting period 101

SECTION 6
GENERAL ACCOUNTING POLICIES

6 General accounting policies 102

INCOME STATEMENT

DKK million	Section	2019	2018
Revenue		**2,390**	**2,276**
Cost of sales	3.1	-914	-937
Gross profit		**1,476**	**1,339**
Sales and distribution expenses	3.1	-874	-995
Administrative expenses		-946	-798
Other operating activities, net	3.1	89	3
Operating profit before special items		**-255**	**-451**
Special items, net	1.2	-30	-353
Financial income	2.2	8,056	3,135
Financial expenses	2.2	-1,017	-1,359
Profit before tax		**6,754**	**972**
Income tax	5.4	-167	243
Profit for the year		**6,587**	**1,215**
Attributable to			
Dividend to shareholder		3,204	2,746
Reserves		3,383	-1,531
Profit for the year		**6,587**	**1,215**

STATEMENT OF COMPREHENSIVE INCOME

DKK million	Section	2019	2018
Profit for the year		**6,587**	**1,215**
Other comprehensive income			
Value adjustments of hedging instruments		-2	-30
Income tax	5.4	-	6
Items that may be reclassified to the income statement		**-2**	**-24**
Other comprehensive income		**-2**	**-24**
Total comprehensive income		**6,585**	**1,191**

STATEMENT OF FINANCIAL POSITION

DKK million	Section	31 Dec. 2019	31 Dec. 2018
ASSETS			
Non-current assets			
Intangible assets	5.3	845	901
Property, plant and equipment	5.3	43	14
Investments in subsidiaries	1.1	77,984	72,799
Investments in associates and joint ventures	1.1	4,098	4,096
Receivables	3.3	313	148
Deferred tax assets	5.4	-	33
Total non-current assets		**83,283**	**77,991**
Current assets			
Inventories		6	6
Trade receivables	3.3	875	776
Tax receivables		132	175
Other receivables	3.3	17,250	19,129
Prepayments		29	2
Cash and cash equivalents	2.4	1,051	1,858
Total current assets		**19,343**	**21,946**
Total assets		**102,626**	**99,937**

DKK million	Section	31 Dec. 2019	31 Dec. 2018
EQUITY AND LIABILITIES			
Equity			
Share capital	2.1	501	502
Hedging reserves		-283	-281
Retained earnings		53,154	54,025
Total equity		**53,372**	**54,246**
Non-current liabilities			
Borrowings	2.4	19,642	16,676
Deferred tax liabilities	5.4	243	-
Provisions	5.1	381	321
Other liabilities		10	-
Total non-current liabilities		**20,276**	**16,997**
Current liabilities			
Borrowings	2.4	26,993	26,583
Trade payables		1,248	1,324
Deposits on returnable packaging materials		53	42
Provisions	5.1	51	2
Other liabilities, etc.		633	743
Total current liabilities		**28,978**	**28,694**
Total liabilities		**49,254**	**45,691**
Total equity and liabilities		**102,626**	**99,937**

STATEMENT OF CHANGES IN EQUITY

DKK million	Shareholder in Carlsberg Breweries A/S			
	Share capital	Hedging reserves	Retained earnings	Total equity
2019				
Equity at 1 January	**502**	**-281**	**54,025**	**54,246**
Profit for the year	**-**	**-**	**6,587**	**6,587**
Other comprehensive income	**-**	**-2**	**-**	**-2**
Total comprehensive income for the year	**-**	**-2**	**6,587**	**6,585**
Capital reduction	-1	-	-4,499	-4,500
Settlement of share-based payments	-	-	-286	-286
Share-based payments	-	-	73	73
Dividend paid to shareholder	-	-	-2,746	-2,746
Total changes in equity	**-1**	**-2**	**-871**	**-874**
Equity at 31 December	**501**	**-283**	**53,154**	**53,372**
2018				
Equity at 1 January	**501**	**-257**	**55,054**	**55,298**
Profit for the year	**-**	**-**	**1,215**	**1,215**
Other comprehensive income	**-**	**-24**	**-**	**-24**
Total comprehensive income for the year	**-**	**-24**	**1,215**	**1,191**
Capital increase	1	-	260	261
Settlement of share-based payments	-	-	-124	-124
Share-based payments	-	-	61	61
Dividend paid to shareholder	-	-	-2,441	-2,441
Total changes in equity	**1**	**-24**	**-1,029**	**-1,052**
Equity at 31 December	**502**	**-281**	**54,025**	**54,246**

STATEMENT OF CASH FLOWS

DKK million	Section	2019	2018
Operating profit before special items		-255	-451
Depreciation, amortisation and impairment losses[1]		54	69
Operating profit before depreciation, amortisation and impairment losses[1]		**-201**	**-382**
Other non-cash items	3.2	71	57
Change in working capital	3.2	-508	768
Restructuring costs paid		-5	-18
Interest etc. received		454	397
Interest etc. paid		-951	-966
Income tax paid		151	24
Cash flow from operating activities		**-989**	**-120**
Acquisition of property, plant and equipment and intangible assets		-34	-205
Disposal of property, plant and equipment and intangible assets		1	-
Total operational investments		**-33**	**-205**
Acquisition and disposal of subsidiaries, net		-1,647	-1,713
Capital injection in subsidiaries		-3,425	261
Acquisition and disposal of associates and joint ventures, net		-	-1,515
Change in financial receivables		129	-15
Dividends received		7,597	2,652
Total financial investments		**2,654**	**-330**
Cash flow from investing activities		**2,621**	**-535**
Free cash flow		**1,632**	**-655**
Shareholder in Carlsberg Breweries A/S	2.1	-7,246	-2,441
Minority interests		-5	-
External financing	2.4	4,796	4,898
Cash flow from financing activities		**-2,455**	**2,457**
Net cash flow		**-823**	**1,802**
Cash and cash equivalents at 1 January[2]		1,858	67
Foreign exchange adjustment of cash and cash equivalents		16	-11
Cash and cash equivalents at 31 December[2]	2.4	**1,051**	**1,858**

[1] Impairment losses excluding those reported in special items, cf. section

[2] Cash and cash equivalents less bank overdrafts.

SECTION 1

SUBSIDIARIES AND RELATED PARTIES

SECTION 1.1

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Please see section 10 in the consolidated financial statements for a list of companies in the Carlsberg Breweries Group.

Investments in subsidiaries

DKK million	2019	2018
Cost		
Cost at 1 January	79,032	76,922
Acquisition of entities	18	1,349
Additions	5,236	286
Transfers	-2	475
Cost at 31 December	**84,284**	**79,032**
Value adjustments		
Value adjustments at 1 January	6,233	6,124
Impairment in the period	67	109
Value adjustments at 31 December	**6,300**	**6,233**
Carrying amount at 31 December	**77,984**	**72,799**

Impairment losses in 2019 of DKK 67m are related to the liquidation of an investment in China. In 2018, impairment losses related to investments in Carlsberg Thailand and were primarily attributable to deterioration in business conditions amounting to DKK 109m.

Investments in associates and joint ventures

DKK million	2019	2018
Cost		
Cost at 1 January	4,096	2,795
Additions	-	1,515
Transfers	2	-214
Cost at 31 December	**4,098**	**4,096**
Value adjustments		
Value adjustments at 1 January	-	-
Value adjustments at 31 December	**-**	**-**
Carrying amount at 31 December	**4,098**	**4,096**

ACCOUNTING ESTIMATES AND JUDGEMENTS

Management performs an annual test on investments in subsidiaries for indications of impairment. Impairment tests are conducted in the same way as for goodwill in the Group, cf. section 2.2 in the consolidated financial statements.

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.

SECTION 1.2

SPECIAL ITEMS

Special items

DKK million	2019	2018
Provisions related to disposal of a former brewery site in previous years	-110	-
Impairment of intangible assets	-7	-225
Investments in subsidiaries	-67	-109
Other	154	-19
Special items, net	**-30**	**-353**

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 items:		
Cost of sales	-7	-225
Administrative expenses	-127	-10
Other operating activities, net	104	-118
Special items, net	**-30**	**-353**

SECTION 1.3
RELATED PARTIES

Carlsberg A/S, Ny Carlsberg Vej 100, 1799 Copenhagen V, Denmark, holds all the shares in Carlsberg Breweries A/S.

The following transactions took place between Carlsberg Breweries A/S and the parent and the Carlsberg Foundation (the ultimate parent company) in 2019:

- Carlsberg Breweries A/S has paid a dividend to Carlsberg A/S.
- The Carlsberg Foundation supports the rebuilding of the Carlsberg Visitor Center and Museum.
- Carlsberg Breweries leases storage facilities in the researcher apartments.
- The Tuborg Foundation sponsored seven seats for Carlsberg employees at an UNLEASH event.
- Carlsberg Breweries 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 8.2 of the consolidated financial statements.

It is estimated that the benefit for the Carlsberg Breweries 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 Breweries 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 4.

Related party disclosures

DKK million	2019	2018
Carlsberg A/S		
Other operating activities, net	14	4
Financial income	14	8
Loans	935	1,543
Receivables from the sale of goods and services	4	6
Trade payables	-15	-2
Associates and joint ventures		
Revenue	53	43
Loans	22	151
Receivables from the sale of goods and services	50	42
Borrowings	-	-7
Subsidiaries		
Revenue	772	673
Cost of sales	-57	-62
Sales and distribution income	12	13
Administrative expenses	-228	-95
Other operating activities, net	103	168
Interest income	436	389
Interest expenses	-239	-248
Loans	17,058	18,646
Receivables	816	677
Borrowings	-23,728	-20,974
Trade payables and other liabilities etc.	-400	-545

Dividends of DKK 352m (2018: DKK 140m) were received from **associates and joint ventures**. No losses on loans to or receivables from subsidiaries, associates or joint ventures were recognised or provided for in either 2019 or 2018.

Dividends of DKK 7,248m (2018: DKK 2,551m) were received from **subsidiaries**.

SECTION 2

CAPITAL STRUCTURE

SECTION 2.1

SHARE CAPITAL

Share capital

	Shares of DKK 1,000	Nominal value, DKK '000
1 January 2018	501	501,000
Change in 2018	1	1,000
31 December 2018	**502**	**502,000**
Change in 2019	-1	-1,000
31 December 2019	**501**	**501,000**

The share capital amounts to DKK 501m divided into shares in denominations of DKK 1,000 and multiples thereof. None of the shares confer any special rights. The share capital is owned by Carlsberg A/S, Copenhagen, Denmark.

In November 2019, the share capital was reduced from DKK 502m to DKK 501m through a cash distribution of nominally DKK 1m at a (per 100) price of DKK 450,000, corresponding to a total cash distribution to Carlsberg A/S of DKK 4.5bn. This cash distribution reflects the share buy-backs that was carried out by Carlsberg A/S over a 12 month period from 6 February 2019.

In 2018, the increase in the share capital related to the injection of a dormant company from Carlsberg A/S to the Carlsberg Breweries Group.

The dividend paid out in 2019 relating to 2018 to the shareholder amounted to DKK 2,746m (paid out in 2018 for 2017: DKK 2,441m).

Carlsberg Breweries A/S proposes a dividend of DKK 6,395 per share, in total DKK 3,204m (2018: DKK 5,470 per share, in total DKK 2,746m). The proposed dividend is included in retained earnings at 31 December 2019.

The dividend paid out to the shareholder in Carlsberg Breweries A/S do not impact taxable income in Carlsberg Breweries A/S.

SECTION 2.2

FINANCIAL INCOME AND EXPENSES

Interest income relates to interest from cash and cash equivalents and loans to subsidiaries, whereas interest expenses relate to interest on borrowings.

Foreign exchange adjustments of balances with foreign entities which are considered part of the total net investment in the entity are recognised in the income statement.

Financial items recognised in the income statement

DKK million	2019	2018
Financial income		
Interest income	448	408
Dividends from subsidiaries and associates	7,600	2,691
Foreign exchange gains, net	-	26
Other	8	10
Total	**8,056**	**3,135**
Financial expenses		
Interest expenses	-727	-793
Foreign exchange losses, net	-271	-
Impairment of financial assets	8	-8
Bank and commitment fees	-27	-27
Total	**-1,017**	**-1,359**
Financial items, net	**7,039**	**1,776**

SECTION 2.3

NET INTEREST-BEARING DEBT

DKK million	2019	2018
Non-current borrowings	19,642	16,676
Current borrowings	26,993	26,583
Gross financial debt	**46,635**	**43,259**
Cash and cash equivalents	-1,051	-1,858
Net financial debt	**45,584**	**41,401**
Loans to Group companies and associated companies	-17,065	-18,789
Net interest-bearing debt	**28,519**	**22,612**
Changes in net interest-bearing debt		
Net interest-bearing debt at 1 January	**22,612**	**19,428**
Cash flow from operating activities	989	120
Cash flow from investing activities, excl. acquisition of subsidiaries, net	-4,268	-1,178
Cash flow from acquisition of subsidiaries, net	1,647	1,713
Dividend to shareholder	2,746	2,441
Change in interest-bearing lending	136	-6
Capital reduction	4,500	-
Effect of currency translation	163	94
Other	-6	-
Total change	**5,907**	**3,184**
Net interest-bearing debt at 31 December	**28,519**	**22,612**

SECTION 2.4

BORROWINGS AND CASH

DKK million	2019	2018
Non-current borrowings		
Issued bonds	19,673	16,697
Bank borrowings	-31	-21
Total	**19,642**	**16,676**
Current borrowings		
Issued bonds	-	5,602
Borrowings from associates	-	7
Other borrowings	26,993	20,974
Total	**26,993**	**26,583**
Total non-current and current borrowings	**46,635**	**43,259**
Fair value	48,058	44,524

The fair value of borrowings in subsidiaries corresponds to the carrying amount in all material respects.

Borrowings are measured at amortised cost.

Changes in gross financial debt

DKK million	2019	2018
Gross financial debt at 1 January	**43,259**	**40,237**
Proceeds from issue of bonds	-2,652	-
Instalments on and proceeds from borrowings, long term	-234	5
Instalments on and proceeds from European Commercial Papers	3,264	-
Change in non-current borrowings from Group companies	-	-563
Change in current borrowings from Group companies	2,754	3,532
Borrowings from associates	-7	-15
Change in current loans to Group companies	1,660	1,940
Other	11	-1
External financing	**4,796**	**4,898**
Change in bank overdrafts	-	-38
Intercompany loans	-1,660	-1,940
Other, including foreign exchange adjustments and amortisation	240	101
Gross financial debt at 31 December	**46,635**	**43,259**

Cash and cash equivalents amounts to DKK 1,051m (2018: DKK 1,858m) and bank overdrafts amount to DKK 0m (2018: DKK 0m). Cash and cash equivalents are not associated with any significant credit risks.

SECTION 2.5

CREDIT RISK

Credit risk is the risk of a counterparty failing to meet its contractual obligations and so inflicting a loss on the Carlsberg Breweries Group. Group policy is that financial transactions may be entered into only with financial institutions with a solid credit rating.

SECTION 2.6

FOREIGN EXCHANGE RISK RELATED TO NET INVESTMENTS AND FINANCING ACTIVITIES

Carlsberg Breweries A/S' main activity is to own a number of subsidiaries and funding the capital required for both net investment and loans to subsidiaries. As a consequence, Carlsberg Breweries A/S is exposed to foreign exchange risk from its lending to and borrowing from external parties, group companies and financial instruments. Carlsberg Breweries A/S manages these exposure within limits which on a net basis only leads to insignificant foreign exchange exposure. The exceptions are semi-equity loans and derivatives designated as net investment hedges which in the consolidated account are recognized in other comprehensive income and are accounted for in the income statement in the parent company. For more details on semi-equity loans and net investment hedges see section 4.6 of the consolidated financial statements.

Currency profile of borrowings

Before and after derivative financial instruments

DKK million

2019	Original principal	Effect of swap	After swap
CHF	1,010	958	1,968
DKK	2,920	-119	2,801
EUR	33,293	-3,151	30,142
GBP	871	-515	356
RUB	-37	99	62
USD	339	2,304	2,643
Other	8,239	424	8,663
Total	**46,635**	-	**46,635**
Total 2018	**43,259**	-	**43,259**

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
USD/DKK	6.4660	-156	5%	-8	6.0928	-8
Other	-	-138	5%	-7	-	-6
Total				**-15**		**-14**

SECTION 2.7

INTEREST RATE RISK

Carlsberg Breweries A/S performs the role of internal bank in the Carlsberg Breweries Group. Part of this role is to implement the Group's interest rate risk target, which is to have a duration of 1 to 5 years. This duration is measured on the net debt in the Carlsberg Breweries Group.

The Company's loan portfolio consists of bilateral loan agreements, syndicated credit facilities and loans from the shareholder and subsidiaries.

Interest rate risks are mainly managed using bonds with fixed interests.

At the reporting date, 45% of the gross loan portfolio consisted of fixed-rate borrowings with interest rates fixed for more than one year (2018: 39%). At 31 December 2019, Carlsberg Breweries A/S borrowed DKK 23,728m from subsidiaries and associated companies (2018: DKK 20,981m). At 31 December 2019, Carlsberg Breweries A/S provided interest-bearing loans to subsidiaries and associated companies of DKK 17,065m (2018: DKK 18,789m).

All lending to and borrowings from subsidiaries and associated companies are at floating interest rates.

Interest rate risk

DKK million

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 and other borrowings					
Floating-rate	Floating	-0.3%	<1 year	3,264	Cash flow
Total bank and other borrowings		**-0.3%**		**3,264**	
Total bank and other borrowings 2018				**-**	

SECTION 2.8

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.

Carlsberg Breweries A/S is the main funding vehicle in the Carlsberg Breweries Group. Accordingly, reference to the section on financial risk in Carlsberg Breweries Group with regards to the liquidity risk is made.

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	-	-	-	-31	-	-31
Total	**-**	**5,587**	**3,712**	**7,393**	**2,950**	**19,642**
Total 2018	**-**	**-21**	**5,580**	**3,705**	**7,412**	**16,676**

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	239	239	-	-	258
Non-derivative financial instruments					
Financial debt gross	46,760	26,992	16,763	3,005	46,635
Interest expense	2,116	647	1,350	119	N/A
Trade payables and other liabilities	1,301	1,301	-	-	1,301
Non-derivate financial instruments total	**50,177**	**28,940**	**18,113**	**3,124**	**-**
Financial liabilities	**50,416**	**29,179**	**18,113**	**3,124**	**-**
Financial liabilities 2018	**49,043**	**30,482**	**11,017**	**7,544**	**-**

SECTION 2.9

DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into various derivative financial instruments to hedge foreign exchange, interest rate and commodity risks and seeks to apply hedge accounting when this is possible. Hedging of future, highly probable forecast transactions is designated as other cash flow hedges. Fair value adjustments of derivative financial instruments are recognised in financial income and expenses.

The Company 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 liabilities.

The fair value of derivatives classified as a cash flow hedge is presented in the cash flow hedge section below.

Cash flow hedges comprise 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 the Company's purchases and sales in currencies other than their functional currencies.

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).

The Company's process for hedging of raw material price risk is unchanged from Carlsberg Breweries Group. Accordingly, reference is made to the section on operating activities in Carlsberg Breweries Group with regards to the commodity risk

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%	28	23,024	12,729	23,024	-
2018					2019	2020
Aluminium	10%	34	28,261	13,567	21,631	6,630

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	-90	114	-162	-48
Other instruments	24	-	-12	-12
Total	**-66**	**114**	**-174**	**-60**
2018				
Exchange rate instruments	-477	-	-	-
Other instruments	-54	147	-216	-69
Ineffectiveness	-	-	-36	-36
Total	**-531**	**147**	**-252**	**-105**

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	-2	-	-8	-8	-8	-
Total	**-2**	**-**	**-8**	**-8**	**-8**	**-**
2018					2019	2020
Exchange rate instruments	-30	-	-6	-6	-7	1
Total	**-30**	**-**	**-6**	**-6**	**-7**	**1**

SECTION 3

OPERATING ACTIVITIES

SECTION 3.1

OPERATING EXPENSES

Cost of sales

DKK million	2019	2018
Purchased finished goods and other costs	914	937
Total	**914**	**937**

Sales and distribution expenses

DKK million	2019	2018
Marketing expenses	688	728
Sales expenses	136	215
Distribution expenses	50	52
Total	**874**	**995**

Other operating activities, net

DKK million	2019	2018
Management fee from Group companies	139	48
Other, net	-50	-45
Total	**89**	**3**

SECTION 3.2

CASH FLOW FROM OPERATING ACTIVITIES

DKK million	2019	2018
Other non-cash items		
Share-based payments	73	61
Other items	-2	-4
Total	**71**	**57**
Change in working capital		
Receivables	-36	12
Trade payables and other liabilities	-465	756
Other provisions	-1	10
Adjusted for unrealised foreign exchange gains/losses	-6	-10
Total	**-508**	**768**

SECTION 3.3

RECEIVABLES

Trade receivables comprise invoiced goods and services.

Receivables included in the statement of financial position

DKK million	2019	2018
Trade receivables	875	776
Other receivables	17,250	19,129
Total current receivables	**18,125**	**19,905**
Non-current receivables	313	148
Total	**18,438**	**20,053**

Receivables by origin

DKK million	2019	2018
Receivables from sale of goods and services	246	267
Receivables from Group companies	757	645
Loans to Group companies	17,058	18,646
Loans, fair value of hedging instruments and other receivables	377	495
Total	**18,438**	**20,053**

Other receivables comprise VAT receivables, loans to Group companies, associates, interest receivables and other financial receivables.

The fair value of receivables in subsidiaries corresponds to the carrying amount in all material respects.

SECTION 4

STAFF COSTS AND REMUNERATION

SECTION 4.1

STAFF COSTS AND REMUNERATION

The remuneration of the Supervisory Board, the executive directors and key management personnel is described in detail in section 7.2 in the consolidated financial statements.

Remuneration of executive directors is based on a fixed salary, cash bonus payments and non-monetary benefits, such as company car, telephone etc. Furthermore, performance share programmes and incentive schemes have been established for executive directors. These programmes and schemes cover a number of years.

Employment contracts for executive directors contain terms and conditions that are considered common to executive board members in Danish listed companies, including terms of notice and non-competition clauses.

Staff costs and remuneration also cover costs and remuneration regarding executive directors of the Company who are contractually employed by other Group companies where the related cost is recognised and payment is made in those companies.

Remuneration of executive directors and the Supervisory Board are specified in section 7 in the consolidated financial statements.

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.

Staff cost and remuneration

DKK million	2019	2018
Salaries and other remuneration	551	558
Severance payments	9	4
Social security costs	3	3
Retirement benefit costs - defined contribution plans	28	17
Share-based payments	85	74
Other employee benefits	7	5
Total	**683**	**661**

Staff costs are included in the following items in the income statement

Sales and distribution expenses	264	251
Administrative expenses	392	382
Total staff costs recognised by Parent Company	**656**	**633**
Remuneration of executive director recognised by Carlsberg A/S	27	28
Total	**683**	**661**

The Company had an average of 393 (2018: 394) full-time employees during the year.

SECTION 4.2

SHARE-BASED PAYMENTS

Share-based incentive programmes have been setup for management personnel in Carlsberg Breweries A/S. Please refer to section 7.3 in the consolidated financial statements for general descriptions of the programmes.

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 estimated number of shares expected to 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.

Regular performance shares

In 2019, 44 employees (2018: 45 employees) in Carlsberg Breweries A/S were awarded performance shares.

Vesting is subject to achievement of the four KPIs: total shareholder return, adjusted EPS growth, organic revenue growth and growth in ROIC. The average share price at transfer was DKK 803 (2018: DKK 750). The average contractual life at the end of 2019 was 1.3 years (2018: 1.6 years).

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).

Funding the Journey performance shares

Funding the Journey performance shares were granted to the executive directors in 2016 only. and vested in February 2019.

SHARE OPTIONS

No share options have been granted since 2016. As in 2018, 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 2019, no share options were exercised.

Share-based payments

	Exercise price			Number
Performance shares	Fixed, weighted average	Executive directors	Other management personnel	Total
Performance shares outstanding at 31 December 2017		137,198	39,611	176,809
Granted		66,286	170,518	236,804
Forfeited/expired/adjusted		-	-24,236	-24,236
Exercised		-	-28,644	-28,644
Performance shares outstanding at 31 December 2018		**203,484**	**157,249**	**360,733**
Granted		61,331	57,216	118,547
Forfeited/expired/adjusted		-17,353	-24,808	-42,161
Exercised		-58,057	-	-58,057
Performance shares outstanding at 31 December 2019		**189,405**	**189,657**	**379,062**
Share options				
Share options outstanding at 31 December 2017	485	114,984	140,555	255,539
Exercised	534	-	-140,555	-140,555
Share options outstanding at 31 December 2018	**426**	**114,984**	**-**	**114,984**
Share options outstanding at 31 December 2019	**518**	**114,984**	**-**	**114,984**

SECTION 5

OTHER DISCLOSURE REQUIREMENTS

SECTION 5.1

PROVISIONS

Provisions primarily relates to ongoing disputes, lawsuits, restructurings etc.

Provisions

DKK million	Other	Total
Provisions at 1 January 2019	323	323
Additional provisions recognised	111	111
Used during the year	-2	-2
Provisions at 31 December 2019	**432**	**432**

DKK 51m of total provisions (2018: DKK 2m) falls due within one year and DKK 1m (2018: DKK 1m) after more than five years from the end of the reporting period.

SECTION 5.2

FEES TO AUDITORS

Fee to the auditors appointed by the Annual General Meeting is specified as follows.

DKK million	2019	2018
Statutory audit	2	2
Other assurance engagements	-	-
Tax advisory	-	-
Other services	3	-
Total	**5**	**2**

SECTION 5.3

ASSET BASE AND LEASES

The carrying amount of intangible assets was DKK 845m (2018: DKK 901m), and the carrying amount of property, plant and equipment was DKK 43m (2018: DKK 14m). Intangible assets comprise mainly of brands of DKK 707m (2018: DKK 721m).

Of the depreciation and amortisation of DKK 54m (2018: DKK 67m), DKK 6m (2018:DKK 6m) were included in cost of sales whereas DKK 48 (2018: DKK 61m) were included in sales and distribution expenses.

As of 1 January 2019, Carlsberg Breweries A/S implemented IFRS 16 and recognised right-of-use assets at a total value of DKK 17m. During the year, additions amounted to DKK 3m and depreciation to DKK 11m.
The lease expenses recognised in the income statement related to short-term leases and leases of low-value assets and amounted to DKK 0.5m. Such contracts comprise the lease of copy and printing machines, coffee machines, small IT devices and similar equipment.

SECTION 5.4

TAX

The domestic tax rate in 2019 is 22% (2018: 22%). The effective tax rate is 2.5% (2018: -25.0%) and is mainly impacted by non-taxable dividends of -25.0% (2018: -25.0%).

Hedging instruments recognised in other comprehensive income before tax amounts to DKK -2m (2018: DKK -30m) with a tax income of DKK 0m (2018: income of DKK 6m).

Deferred tax asset amounts to DKK 266m (2018: DKK 364m) and comprise mainly provisions of DKK 137m (2018: DKK 70m), loan costs of DKK 30m (2018: DKK 7m) and tax loss carry forwards etc. of DKK 71m (2018: DKK 278m). The utilisation of tax loss carry forwards depends on future positive taxable income exceeding the realised deferred tax liabilities.

Deferred tax liabilities amounts to DKK 509m (2018: DKK 331m) and mainly comprise intangible assets of DKK 130m (2018: DKK 131m) and other liabilities of DKK 379m (2018: DKK 200m). Deferred tax at 31

SECTION 5.4 (CONTINUED)

TAX

December, net is a deferred tax liability of DKK 243m (2018: asset of DKK 33m).

The net changes in deferred tax of DKK 276m (2018: DKK -157m) are due to joint taxation contribution of DKK 57m (2018: DKK 102m), tax recognised in other comprehensive income DKK 0m (2018: DKK 6m) and recognised deferred tax in the income statement DKK 219m (2018: DKK 49m).

Not recognised tax assets amount to DKK 574m (2018: DKK 505m). Of the tax asset DKK 602m (2018: DKK 505m) relate to tax losses on exchange rates effect of the Danish tax rules for interest ceiling. The tax loss must be utilised within 3 years otherwise it will expire.

The administration company, Carlsberg A/S, has unlimited and joint legal responsibility with the other companies under the joint taxation scheme for withholding taxes on dividends, interest and royalties.

ACCOUNTING ESTIMATES AND JUDGEMENTS

Carlsberg Breweries 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).

SECTION 5.5

CONTINGENT LIABILITIES AND OTHER COMMITMENTS

Carlsberg Breweries A/S has issued guarantees for loans etc. raised by subsidiaries and associates (non-consolidated share of loan) of DKK 1,771m (2018: DKK 1,416m).

Carlsberg Breweries A/S is jointly registered for Danish VAT and excise duties with Carlsberg A/S, Carlsberg Danmark A/S and various other minor Danish subsidiaries, and Carlsberg Breweries A/S is jointly and severally liable for payment of VAT and excise duties.

Carlsberg Breweries 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.

SECTION 5.6

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.

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	-52	-	-52	-194	-	-194
Change in deferred tax during the year	219	-	219	-36	-6	-42
Adjustments to tax for prior years	-	-	-	-13	-	-13
Total	**167**	**-**	**167**	**-243**	**-6**	**-249**

SECTION 6

GENERAL ACCOUNTING POLICIES

The 2019 financial statements of Carlsberg Breweries A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and in accordance with IFRS as endorsed 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 Breweries A/S' financial statements, management makes various accounting estimates and judgements that form the basis of presentation, recognition and measurement of the Company's assets and liabilities.

The estimates and judgements made are based on historical experience and other factors that management assesses to be reliable, but that by their very nature are associated with uncertainty and unpredictability. These estimates and judgements may therefore prove incomplete or incorrect, and unexpected events or circumstances may arise.

The significant accounting estimates and judgements made and accounting policies specific to the Parent Company are presented in the explanatory notes.

REPORTS

MANAGEMENT STATEMENT

The Supervisory Board and the Executive Board have today discussed and approved the Annual Report of the Carlsberg Breweries Group and the Parent Company for 2019.

The Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and in accordance with IFRS as endorsed 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 Breweries Group's and the Parent Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Carlsberg Breweries 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 Breweries Group's and the Parent Company's operations and financial matters, of the result for the year, and of the Carlsberg Breweries Group's and the Parent Company's financial position, as well as describing the significant risks and uncertainties affecting the Carlsberg Breweries Group and the Parent Company.

We recommend that the Annual General Meeting approve the Annual Report.

Copenhagen, 17 March 2020

Executive Board of Carlsberg Breweries A/S

Cees 't Hart
President & CEO

Heine Dalsgaard
CFO

Supervisory Board of Carlsberg Breweries A/S

Flemming Besenbacher
Chairman

Lars Fruergaard Jørgensen
Deputy Chairman

Cees 't Hart

Heine Dalsgaard

Albena Jensen

Eva Vilstrup Decker

Søren Leth

REPORTS

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF CARLSBERG BREWERIES A/S

OUR OPINION

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements (pp 21-102) 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 (IFRS) as issued by the International Accounting Standards Board and in accordance with IFRS as endorsed 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 Supervisory Board.

What we have audited

The Consolidated Financial Statements and Parent Company Financial Statements of Carlsberg Breweries 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 Breweries A/S on 28 April 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. 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. 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. 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. We tested the relevant controls, including applicable information systems and Management's monitoring of controls used to ensure the completeness, accuracy and timing of revenue recognised. We discussed the key assumptions related to the recognition and classification of revenue with Management. Further, we performed substantive procedures regarding invoicing, significant contracts, significant transactions (including discounts) and locally imposed duties and fees in order to assess the accounting treatment and principles applied. We applied data analysis in our testing of revenue 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. 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. We focused on this area, as Management is required to exercise considerable judgement because of the inherent complexity in estimating future cash flows. The key assumptions and accounting treatment are described in section 2.2 "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. We considered the appropriateness of Management's defined cash-generating units (CGUs) within the business. We evaluated whether there were factors requiring Management to change their definition. We examined the methodology used by Management to assess the carrying amount of goodwill and brands assigned to CGUs, and the process for identifying CGUs that require impairment testing to determine compliance with IFRS. We performed detailed testing for the assets where an impairment review was required or indications of impairment were identified. For those assets, we analysed the reasonableness of key assumptions in relation to the ongoing operation of the assets. We corroborated estimates of future cash flows and challenged whether they are reasonable and supported by the most recent approved Management budgets, including expected future performance of the CGUs, and challenged whether these are appropriate in light of future macroeconomic expectations in the markets. We used our internal valuation specialists, evaluated the assumptions used by Management, including assessment of price and volume forecasts, discount rates and long-term growth rates, and tested the mathematical accuracy of the relevant value-in-use models prepared by Management. Further, we assessed the appropriateness of disclosures, including sensitivity analyses prepared for the key assumptions.

STATEMENT ON THE MANAGEMENT REVIEW

Management is responsible for Management Review (pp 3-20).

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 issued by the International Accounting Standards Board, in accordance with IFRS as endorsed 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, 17 March 2020

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

Mogens Nørgaard Mogensen
State Authorised Public Accountant
mne21404

Gert Fisker Tomczyk
State Authorised Public Accountant
mne9777

Carlsberg Breweries A/S
100 Ny Carlsberg Vej
1799 Copenhagen V
Denmark
Phone +45 3327 3300
www.carlsberggroup.com
CVR No. 25508343