

SECTION 4.5

Foreign exchange risk related to net investments and financing activities

The Group primarily enters into financial instruments and transactions with the Group's relationship banks, i.e. banks extending loans to the Group. In most cases, the Group will be in a net debt position with its relationship banks.

Group Treasury monitors the Group's gross credit exposure to banks and operates with individual limits on banks based on rating, level of government support and access to netting of assets and liabilities.

EXPOSURE TO CREDIT RISK

The carrying amount of DKK 3,714m (2012: DKK 5,760m) represents the maximum credit exposure related to cash and cash equivalents.

The credit risk on receivables is described in section 1.6.1.

The Group is exposed to foreign exchange risk on the translation of the net result and net assets in foreign investments to DKK and on borrowings denominated in a currency other than the functional currency of the individual Group entity.

4.5.1 Currency profile of the Group's borrowings

The Group is exposed to foreign exchange risk on borrowings denominated in a currency other than the Group's functional currency due to the foreign exchange risk as well as the risk that arises when net cash inflow is generated in one currency and loans are denominated in and have to be repaid in another currency.

At 31 December 2013, 79% of the Group's net financial debt was in EUR (2012: 87%), cf. section 4.6.

CURRENCY PROFILE OF BORROWINGS BEFORE AND AFTER DERIVATIVE FINANCIAL INSTRUMENTS

2013 DKK million	Original principal	Effect of swap	After swap
CHF	40	1,825	1,865
DKK	1,788	265	2,053
EUR	32,128	-2,668	29,460
GBP	2,796	-2,720	76
RUB	3	-390	-387
USD	1,730	1,771	3,501
Other	1,726	1,917	3,643
Total	40,211	-	40,211
Total 2012	40,058	-	40,058

4.5.2 Hedging of net investments in foreign subsidiaries

The Group holds a number of investments in foreign subsidiaries where the translation of net assets to DKK is exposed to foreign exchange risks. The Group hedges part of this foreign exchange exposure by entering into forward exchange contracts (net investment hedges). This applies to net investments in CHF, CNY, MYR, HKD and SEK. The basis for hedging is reviewed at least once a year, and the two parameters, risk reduction and cost, are balanced.

Where the fair value adjustments do not exceed the value adjustments of the investment, the adjustments of the financial instruments are recognised in other comprehensive income; otherwise the fair value adjustments are recognised in the income statement. For 2013, all fair value adjustments were recognised in other comprehensive income. The effect of net investment hedges on the income statement and other comprehensive income is summarised on the next page.