

RISK MANAGEMENT

High risks 2013

Three high risks were identified for 2013. Their impact on the Group and the proactive steps taken were as follows.

CHANGE AGENDA RELATED TO THE SUPPLY CHAIN INTEGRATION

In late 2011, it was decided to integrate and centralise the Carlsberg supply chain, incorporating procurement, planning, production and logistics and rolling out the business standardisation project (BSP1).

Due to the scale of the BSP1 project and the dependency on initiatives being implemented smoothly, the change agenda related to the integration of the supply chain was deemed a high risk for 2013.

During 2013, a number of initiatives were undertaken to ensure the smooth implementation of BSP1. Initiatives included frequent communication and regular interaction with markets and commercial teams to increase awareness and resolve questions. Also, the change agenda was a standard item on the senior supply chain management agenda. In addition, close continuous cooperation between the business standardisation implementation teams and the supply chain ensured alignment of tasks, needs, requirements etc.

The integration and centralisation of the supply chain and the roll-out of BSP1 remain key priorities for the Group, and the associated risks are still considered high.

LEGAL RESTRICTIONS IN EASTERN EUROPE

Eastern Europe accounts for approximately 35% of Group beer volumes and 40% of operating profit. In recent years, our largest market in the region, Russia, has passed new regulations impacting the beer industry, such as sales and advertising restrictions and recipe requirements. For 2013, the Group considered the changing laws and regulations in Russia and the rest of the region to be a high risk.

The changing laws led to a change in the retail landscape in Russia in 2013, which had a negative impact on Russian beer consumption in 2013. The market volume decline impacted our Russian volumes, but was partly mitigated through lower costs of goods sold, significant efficiency improvements across the region and lower marketing expenses.

In addition, senior management at Group and local level maintained a sharp focus on government relations in 2013. We also engaged in coordinated initiatives with the other brewers in Russia aimed at bet-

ter representation of the industry to the government and other key stakeholders. In continuation of this, the Russian brewers have announced a self-regulation scheme concerning beer bottle sizes.

The Group still considers legal restrictions in Eastern Europe a strategic risk, although not a high risk for 2014. Consequently, we will continue our proactive approach to government relations and initiatives with the brewers' associations in our Eastern European markets.

PROMOTIONAL PRESSURE FROM RETAIL

In late 2012, the global economic environment was challenging and consumer sentiment was under pressure, particularly in Western Europe.

In view of this, increased pressure from customers for more promotions leading to lower net sales/hl was considered a high risk for 2013.

A number of actions were taken in response to this high risk. The most important of these was the continued development and roll-out of our sophisticated value management toolbox, which aims at strengthening our position with customers and increasing the net sales value per hl in close cooper-

ation with our customers. In addition, we continued the development and roll-out of tools to measure the return on marketing investment (ROMI).

These tools have increased the transparency and oversight of the Group's pricing and promotional decisions and marketing investments, and have enabled us to optimise net sales per hl and the value gained from sales and marketing activities. Consequently, the risk has been reduced and is not a part of the heat map for 2014.