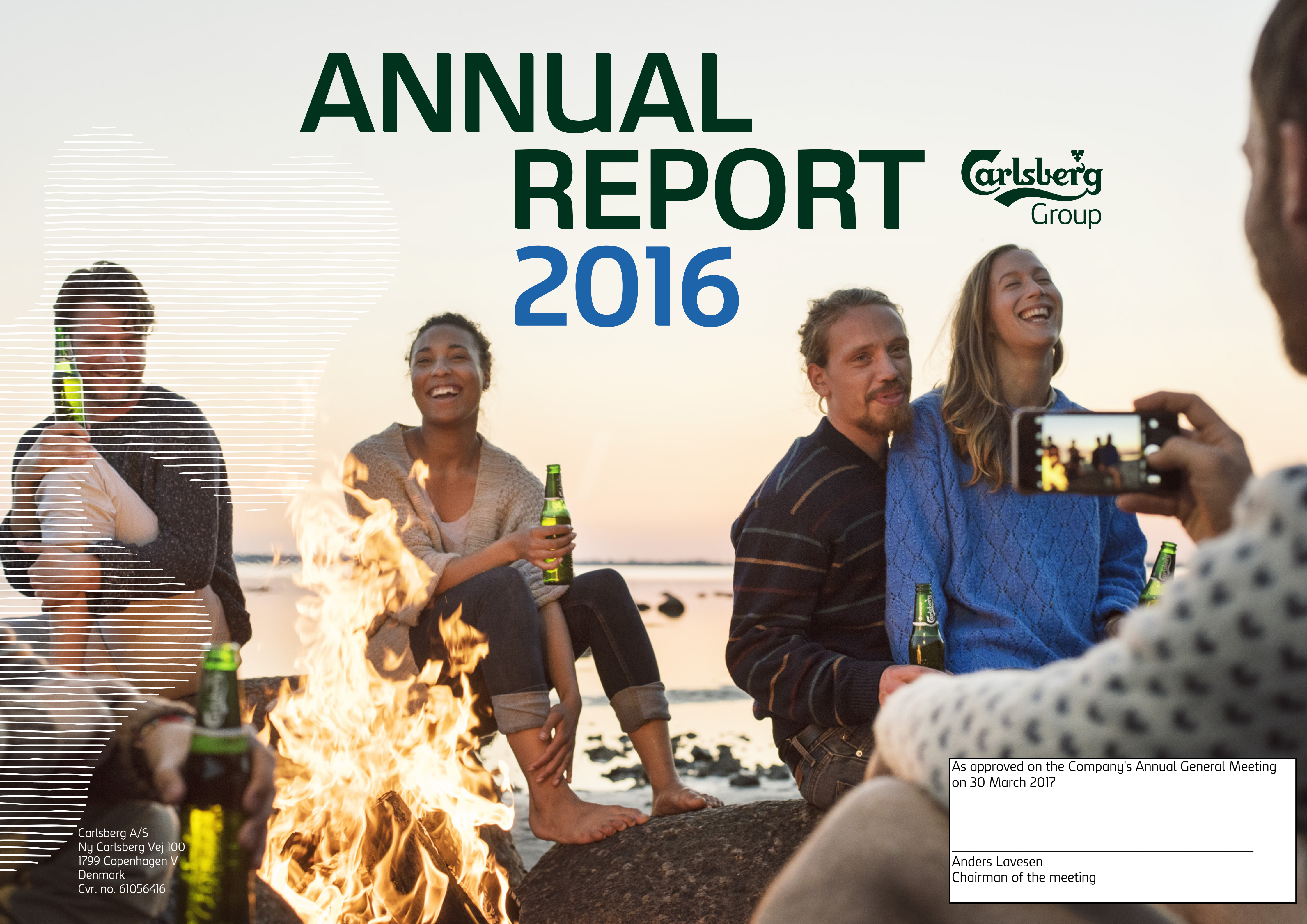
ANNUAL REPORT 2016

Carlsberg Group



Carlsberg A/S
Ny Carlsberg Vej 100
1799 Copenhagen V
Denmark
Cvr. no. 61056416

As approved on the Company's Annual General Meeting on 30 March 2017

Anders Lavesen
Chairman of the meeting

MANAGEMENT REVIEW

FINANCIAL STATEMENTS

SAIL'22 New strategy in 2016

A very important event in 2016 was the launch of our new strategy – SAIL'22 – in March. SAIL'22 sets a new direction for the Group with a focus on our core beer business and well-defined areas for future growth. Read more about the strategy on pages 25-32.

CHAIRMAN'S STATEMENT

The first step in the right direction

"The Group's new strategy sets a distinct course for the Group with a firm commitment as to how the Group intends to allocate capital.

I am delighted to report that 2016 was a year of achievement and a new beginning.

Clear priorities

The Group's new strategy, SAIL'22, sets a distinct course for the Group. The Board firmly supports the clear priorities of SAIL'22, which address how we are to succeed with the core beer business as well as defining the areas that will drive the future growth of the Company.

The Carlsberg Group has embarked on a new and ambitious journey that will deliver improved results and increased value for our shareholders. Our 2016 results represented the first step on this journey.

Dividend

As part of SAIL'22, we have set clear targets for capital allocation. Our first priority is to invest in the business; secondly, we will reduce leverage to below 2x EBITDA; and thirdly, we will increase the return to our shareholders.

The strong cash flow delivery in 2016 meant that we reached a leverage of 1.96x. We wish to further reduce our debt, and we are well on the way to achieving this. Thus, the Supervisory Board will propose a dividend of DKK 10 per share, representing an increase of 11%.

More than beer

A very important task during the year was to redefine the purpose of the Carlsberg Group.

We are a company with a long and proud history of being more than just a beer company. J.C. Jacobsen, the founder of Carlsberg, was a strong believer in quality, perfection and the importance of science for continuously perfecting the art of brewing.

To this end, he established the Carlsberg Laboratory, and in those days the findings of the laboratory were shared with the entire brewing industry. Today, the Carlsberg Foundation continues to give back to society, supporting science, art and the humanities.

We believe this makes a difference for our dedicated employees as well as our external stakeholders. Our purpose therefore reflects our unique heritage and links it to our ambition for the future:

We pursue perfection every day. We strive to brew better beers; beers that stand at the heart of moments that bring people together. We don't settle for immediate gain, when we can create a better tomorrow for all of us. ***Brewing for a better today and tomorrow****.*

Bringing our purpose to life restores the founder's mentality to our Company. This means that we enthusiastically grow our business and create value for our stakeholders while also having a compelling raison d'être.

Our competitive advantage

Pursuing perfection is an art that requires capabilities. The Carlsberg Group has a competitive advantage in our strong R&D roots, with enviable strengths within areas such as yeast, barley, and brewing science and technology.

These capabilities will be important in pursuing our strategic priorities, for example our ambition to grow our non-alcoholic beer portfolio and further develop our business in selected big cities around the world.

Leadership team

The Supervisory Board has been very pleased with the performance of Group CEO Cees 't Hart, who joined the Group in June 2015.

During 2016, there were a number of changes in the Group's leadership team, including the appointment of Heine Dalsgaard as new CFO. The Supervisory Board fully supports the work and decisions made by Cees and Heine. We are confident that they are the right team to take the Carlsberg Group to the next level and we believe the 2016 results confirm this.

Thank you

I would like to thank our shareholders for the support and trust they have given the Company during 2016.

On behalf of the Supervisory Board, I would also like to thank the Executive Committee and our employees for their outstanding achievements and hard work throughout the year.

Flemming Besenbacher
Chairman of the Supervisory Board

Our 2016 priorities

Up 5%

Organic operating profit growth target upgraded in 2016

Operating profit was up 5% organically, ahead of the initial guidance for the year of a low-single-digit percentage.

0.5bn

Funding the Journey progressed well

Funding the Journey delivered benefits of approx. DKK 0.5bn. In total, the programme is anticipated to deliver net benefits of DKK 1.5-2.0bn by 2018. We will invest half of this amount in support of the SAIL'22 priorities.

Western Europe

The operating margin improved by

50bp

Eastern Europe

Organic operating profit growth of

+12%

Asia

The growth trajectory continued; price/mix of

+6%

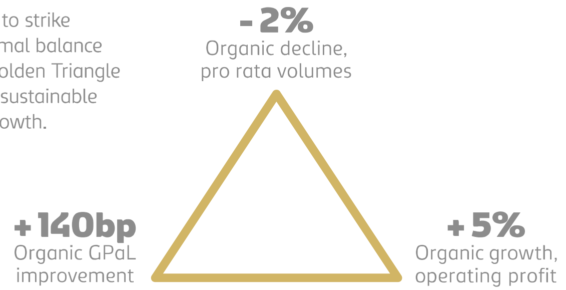
1.96x

Leverage reduced towards target

Free cash flow was DKK 8.6bn, leading to a net debt reduction of DKK 5.4bn. Net debt/EBITDA was consequently 1.96x. Our leverage target is below 2.0x and we are thus on track.

Financial highlights

We aim to strike the optimal balance in the Golden Triangle to drive sustainable value growth.



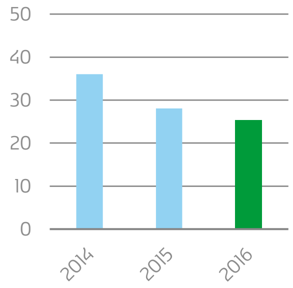
62.6
Net revenue
DKKbn

8.2
Operating profit
DKKbn

In 2016, we applied our new value management approach based on the Golden Triangle across the Group. The Golden Triangle seeks to optimise the balance between market share/volumes, gross profit after logistics (GPaL) margin and operating profit. As part of this, we intensified the focus on profitability by brand, SKU and channel.

Consequently, net revenue was up organically by 2% due to solid price/mix of 3%, while total volumes were down organically by 2% due to less exposure to margin-dilutive volumes. GPaL margin improved by 140bp as a result of the positive price/mix and efficiency improvements.

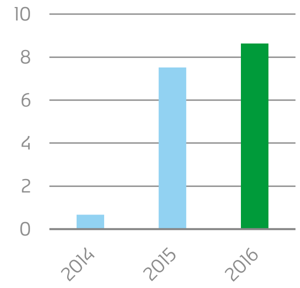
Operating profit grew organically by 5%. All three regions delivered operating profit growth, with Eastern Europe performing particularly well. Reported operating profit declined by 3% due to a negative currency impact and disposal of businesses.



25.4
EPS, adjusted
DKK

Adjusted EPS (adjusted for special items after tax) was positively impacted by the organic growth in operating profit in addition to lower net financial items versus 2015, while negatively impacted by currencies and an increase in corporation tax, primarily related to a lost tax case in Finland in 2016. The related tax expense was non-recurring and had no impact on cash flow in the year.

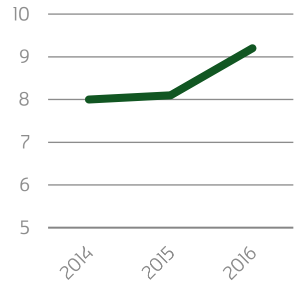
Reported EPS was DKK 29.4.



8.6
Free cash flow
DKKbn

Free cash flow was positively impacted by disposals of non-core businesses, including Danish Malting Group, Carlsberg Malawi, the Vung Tau brewery in Vietnam and the plant breeding company Sejet.

The average trade working capital to net revenue improved further in 2016 and was -9.5% compared to -6.6% in 2015. Other working capital was negatively impacted by an extraordinary payment into the UK pension fund.

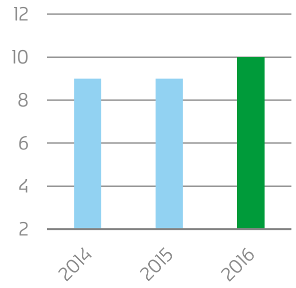


9.2
ROIC (MAT)
%

Return on invested capital (ROIC) is a key metric for the Group.

In 2016, ROIC (MAT) showed a significant improvement of 110bp, driven by lower capital employed due to disposals, impairments, currencies and the fact that CapEx was below depreciation.

The improvement in ROIC excluding goodwill was even more significant, being up 430bp to 21.2%.



10.0
Dividend per share, proposed
DKK

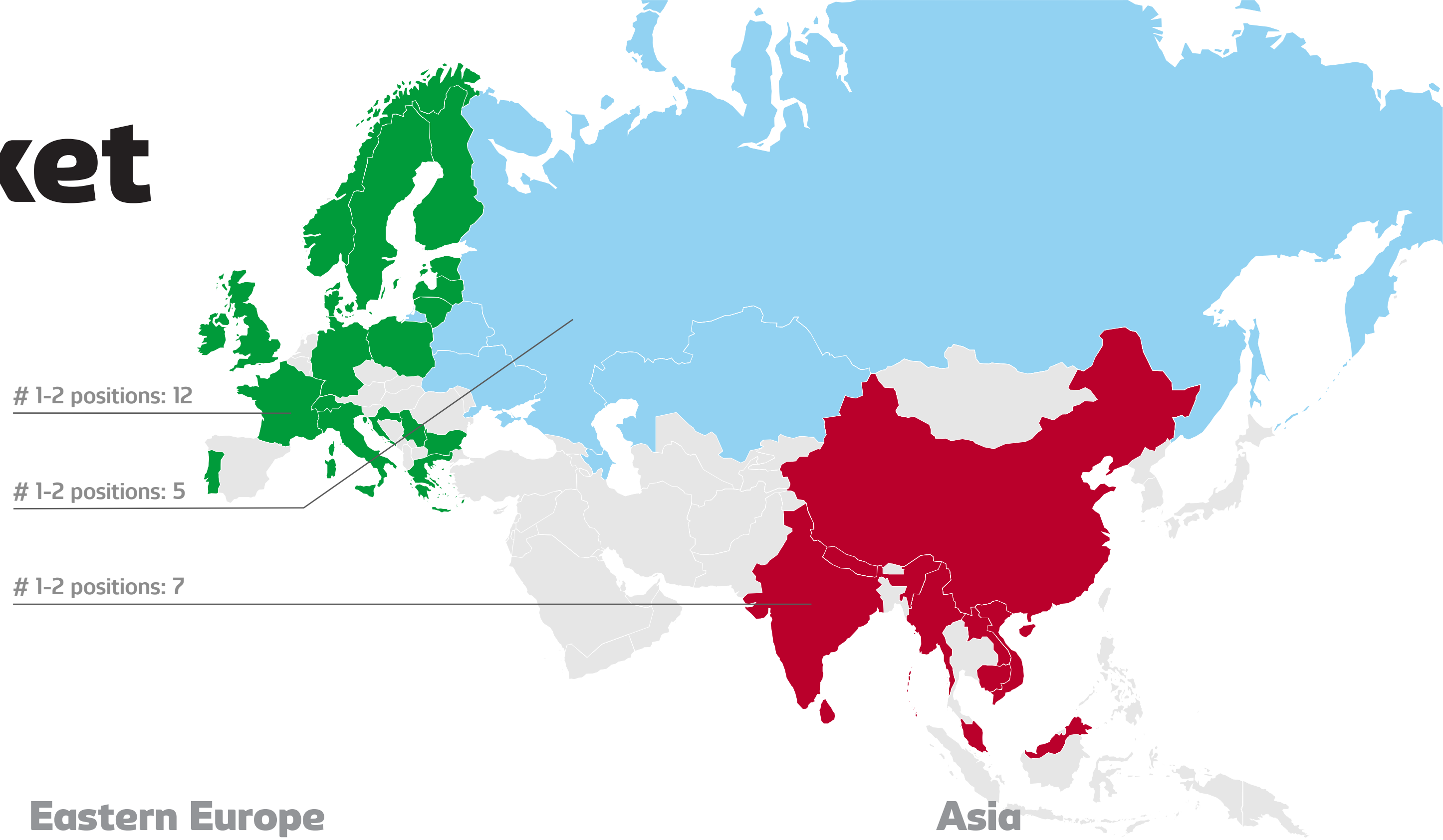
As a result of the strong free cash flow, net interest-bearing debt/EBITDA declined to 1.96x from 2.34x in 2015.

Consequently, the Supervisory Board will propose an increase in the dividend of 11% to DKK 10.0 per share at the Annual General Meeting on 30 March.

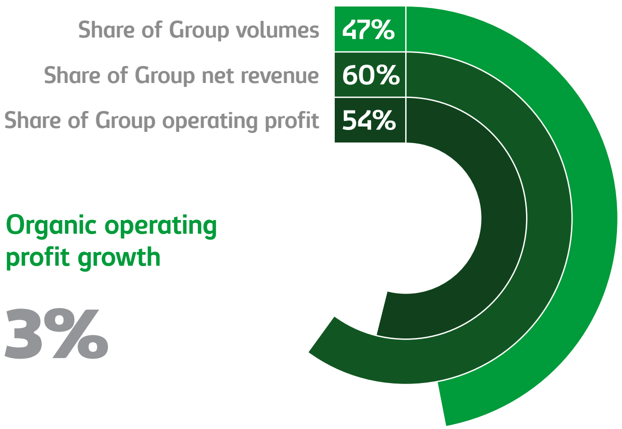
A dividend of DKK 10.0 per share equals a payout ratio of 39% of adjusted net profit (34% of reported net profit).

Strong market positions

The Carlsberg Group has strong market positions in 24 markets across Europe and Asia. 74% of volumes are sold in these markets.



Western Europe



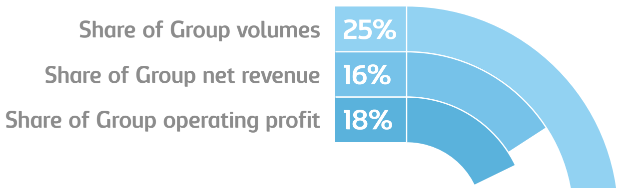
Organic operating profit growth

3%

SAIL'22 Value management

Value management is one of the four elements in Funding the Journey. We are changing our ways of working to improve performance by optimising four levers: pricing, promotions, trade terms and assortment.

Eastern Europe



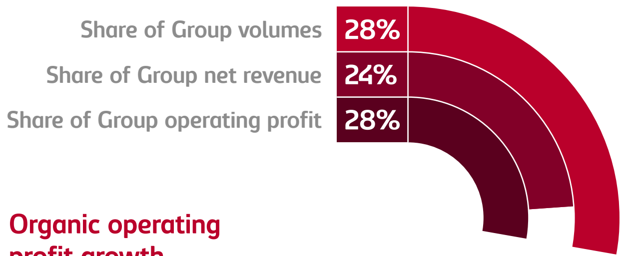
Organic operating profit growth

12%

SAIL'22 Transform our business in Russia

Russia continues to be an important market for the Group. Transforming our Russian business involves several initiatives aimed at returning to growth in volumes as well as earnings.

Asia



Organic operating profit growth

6%

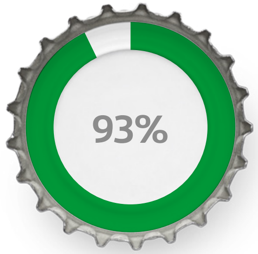
SAIL'22 Grow in Asia

Asia has been growing in importance during the past decade. We want to support the continued growth of the region with particular emphasis on premiumisation and the markets of China, India and Vietnam.

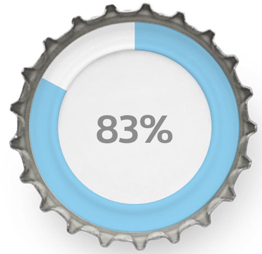
A strong portfolio of core beer brands...

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

Share of beer volume



Share of beer net revenue



International brands

Carlsberg beer was first brewed by the founder of the Group in 1847. The brand was first exported in 1868. In 2016, Carlsberg volumes grew by 5%.

Ringnes dates back to 1876. Today, it is the largest beer brand in Norway, with a market share of 14%.

Local power brands

Baltika is the no. 1 national brand in Russia and Baltika 3 is the leading mainstream lager.

Beerlao is the leading beer brand in Laos, with a market share of 96%.

SAIL'22 Revitalise core beer

Our core beer is the backbone of our business. We will drive category growth within core beer and improve brand fundamentals to further improve the market position of these brands.

Tuborg and Carlsberg are important core brands with an international footprint. They cater to different consumer needs; Tuborg, for example, is closely associated with music and festivals. In 2016, Tuborg volumes grew by 9%.

Our local power brands each have a long and proud history in their markets, enjoying high levels of consumer loyalty.

... craft & speciality and non-alcoholic brands

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

Share* of beer volume

Share* of beer net revenue

Craft & speciality and NAB.

Craft & speciality

Through our long-term distribution partnership, we sell Brooklyn's iconic beers in more than 15 markets globally.

Nya Carnegie Brewery is our successful craft brewery in Stockholm, operated in cooperation with Brooklyn.

Frydenlund IPA is a craft-like line extension in Norway. Launched in 2016, it reached a segment value share of 20%.

NAB

Nordic has redefined the NAB category in Denmark, where it was launched in 2014. Nordic is the market leader, with a market share of 43%.

Tourtel Twist tapped into a consumer need when launched in France in 2015. This non-alcoholic beer mix was named the best beer innovation in 10 years and grew by 77% in 2016.

SAIL'22 Build craft & speciality

Our craft & speciality portfolio caters for most consumer choices: authentic craft brands such as Brooklyn and Jacobsen, imported speciality brands such as Grimbergen and 1664 Blanc, and craft-like line extensions of local brands such as Frydenlund IPA. These brands offer superior net revenue per hl and margins versus core beer.

SAIL'22 Actively shape NAB

Our share of the global NAB market is around 15% and the category is growing faster than the average beer market. We will leverage our technological leadership and winning brews to develop the NAB category in our markets. As for craft & speciality, NAB delivers superior net revenue per hl and margins.

CEO LETTER

Delivering on our priorities

With SAIL'22, we have embarked upon a journey to create a business model that generates sustainable organic growth.

2016 was a good year for Carlsberg. It was a year of change as well as a year of delivering on our priorities. The uplift in our operating profit guidance, announced in November, served as a proof point of our commitment and ability to deliver on our plans, although the uplift was also supported by the warm summer in Russia.

SAIL'22

To me, the most important activity during the year was the announcement and embedding of the Group's new strategy, SAIL'22.

SAIL'22 defines the key priorities and sets a clear direction for our work in the coming years. Our investments will be allocated to support successful delivery of the SAIL'22 priorities. Recognising the importance of SAIL'22 for the future success of the Carlsberg Group, we have included a detailed presentation of the strategy on pages 25-32.

The strategy was the result of a joint effort by the Carlsberg leadership team over a period of about six months. The co-creation approach really proved itself during the roll-out phase in the second quarter of the year. By July, all leaders across our markets had participated in workshops where the priorities of SAIL'22 were communicated and discussed.

Throughout the Group, people have welcomed the priorities of SAIL'22, and during the second half of the year a lot of enthusiastic work was done to turn the priorities into strong tangible plans for the coming years. Thus, 2016 was a year of change and getting the hearts and minds of our people behind our new strategy.

2017 will be the first year of execution, made possible by the strong delivery of Funding the Journey. We are very pleased with the progress of this programme. Delivery of approx. DKK 0.5bn of the benefits this year was, timing-wise, slightly ahead of our expectations, giving us confidence that we will reach our target of DKK 1.5-2.0bn by 2018 as planned.

Portfolio, capabilities and culture

SAIL'22 is about making the Carlsberg Group a more successful, professional and attractive company. Consequently, we intervened on three levels in 2016: portfolio, capabilities and culture.

We are addressing the portfolio by intensifying the focus on core beer, recognising that our strong, mostly local power brands account for 93% of beer volumes, as well as pursuing a strong position in craft & speciality beer and non-alcoholic beer (NAB), leveraging our strong brands in these segments.

To build capabilities, we welcomed new, highly qualified colleagues within areas such as IT, digital, core beer and NAB. Another very important appointment was Heine Dalsgaard as our new CFO. I am confident that our new people will be valuable contributors to our future success and I believe that we now have the right balance of new and established employees to drive the Group forward.

Finally, we are changing the culture of the Group towards a team-based performance culture. Read more about this on page 30.

To use sailing terminology, we now have the crew on board, the sails have been set, and we have embarked upon the journey to turn the Carlsberg Group into a company that delivers sustainable value growth.

Health & safety

The health and safety of our employees is very important. It is with great sadness that I have to report that five people died in 2016 carrying out their duties for the Carlsberg Group. We will work hard to improve our health & safety record in the future.

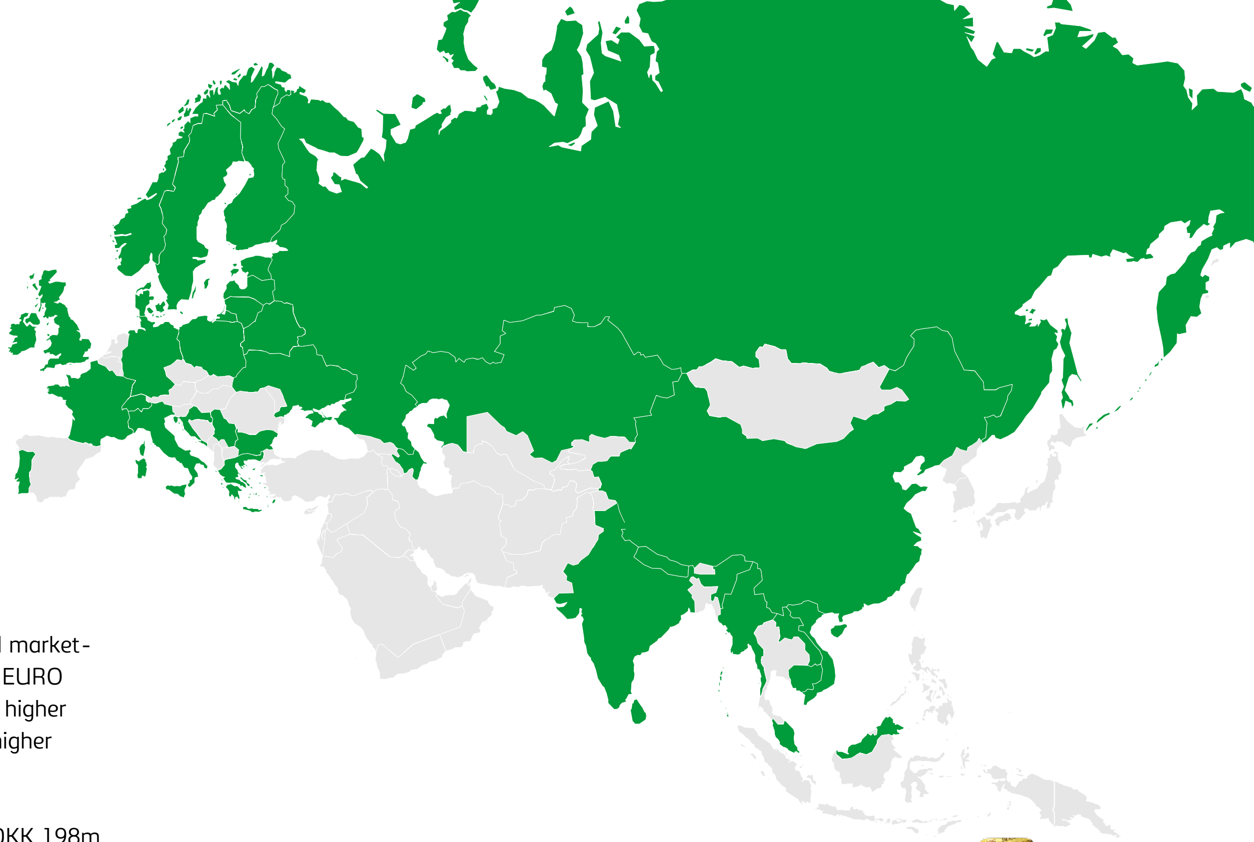
Thank you

I would like to take this opportunity to pay tribute to all my colleagues in the Carlsberg Group for their collaboration, dedication and enthusiasm during the past year.

In addition, I would like to thank the Supervisory Board for its endorsement, our consumers for enjoying our great products, our suppliers and customers for their cooperation, and our shareholders for their continued support.

Cees 't Hart
CEO

Earnings growth on track and strong cash flow



Income statement

Reported net revenue was DKK 62,614m (2015: DKK 65,354m), a decline of 4%. This was due to adverse currency developments in most markets, with a particularly significant impact from the Eastern European, Chinese, British and Norwegian currencies. In organic terms, net revenue grew by 2%, driven by a positive price/mix of 3%.

Cost of sales amounted to DKK 31,195m (2015: DKK 33,429m). Cost of sales per hl decreased by 5%. In organic terms, cost of sales per hl increased by approx. 1%. This was due to the negative transaction impact in Eastern Europe. Reported gross profit was DKK 31,419m (2015: DKK 31,925m). The reported gross margin improved by 140bp to 50.2% as a result of the positive price/mix and efficiency improvements.

Sales and distribution expenses amounted to DKK 18,476m (2015: DKK 19,158m), and administrative expenses amounted to DKK 5,220m (2015: DKK 4,909m). In total, these operating expenses declined by 2%, mainly due to currencies. Organically, they increased by 3%, primarily due to higher sales and marketing investments, including the UEFA EURO sponsorship, investments in SAIL'22, higher costs of incentive programmes and higher amortisation on IT.

Other operating activities, net, was DKK 198m, a decline of DKK 37m compared with 2015. Share of profit after tax in associates and joint ventures was DKK 324m, a decline of DKK 40m compared with 2015. The decline was mainly due to lower income in our business in Cambodia and Myanmar, partly offset by higher income in Carlsberg Byen.

Operating profit before special items was DKK 8,245m (2015: DKK 8,457m). The decline of 3% was due to a translation impact of -6% and a net acquisition impact of -2%. Organically, operating profit before special items increased by 5%, with all three regions delivering operating profit growth. The organic growth was higher than the expectation at the beginning of the year of low-single-digit and was due to faster achievement of Funding the Journey benefits and the positive impact from the warm

1 million hl

In 2016, Grimbergen – our international speciality brand – reached the 1 million hl milestone, growing 11% during the year. As part of SAIL'22, we will put more emphasis on Grimbergen in our markets to leverage its strong consumer resonance.

SAIL'22 **Build craft & speciality**

summer in Eastern Europe. The operating margin was 13.2% (2015: 12.9%).

Net special items (pre-tax) amounted to DKK 251m (DKK -8,659m in 2015). Special items were impacted by measures related to the Funding the Journey programme, including in particular gain on disposals of non-core assets, and restructuring measures and impairments in Western Europe and Asia. A specification of special items is included in section 3.1 of the consolidated financial statements.

Net financial items amounted to DKK -1,247m against DKK -1,531m in 2015. Net interest costs were DKK -879m compared to DKK -1,086m in 2015, driven by lower net debt. Other financial items, net, amounted to DKK -368m versus DKK -445m in 2015. The decline was mainly related to fair value adjustments partly offset by write-offs and interest expenses related to the lost tax case in Finland.

Tax totalled DKK -2,392m against DKK -849m in 2015, mainly impacted by a one-off expense related to the final ruling in the tax dispute in Finland. Consequently, the effective tax rate was 33%.

Non-controlling interests were DKK 371m (2015: DKK 344m). In both 2015 and 2016, non-controlling interests were impacted by the impairment of trademarks in Chongqing.

Adjusted net profit (adjusted for special items after tax) was DKK 3,881m compared to DKK 4,292m in 2015. The decline was due to the higher tax expense (cf. above), negative currency impact and disposals of non-core businesses during the year. The Carlsberg Group's share of net profit was DKK 4,486m against DKK -2,926m in 2015, when net profit was severely impacted by the high level of special items.

Statement of financial position

At 31 December 2016, the Carlsberg Group had total assets of DKK 126.9bn against DKK 124.9bn at 31 December 2015. Invested capital amounted to DKK 90.1bn (2015: DKK 90.1bn).

Group

		Change				Change
Pro rata (million hl)	**2015**	**Organic**	**Acq., net**	**FX**	**2016**	**Reported**
Beer	120.3	-3%	0%		116.9	-3%
Other beverages	21.5	4%	-2%		21.9	2%
Total volume	**141.8**	**-2%**	**0%**		**138.8**	**-2%**
DKK million						
Net revenue	65,354	2%	-1%	-5%	62,614	-4%
Operating profit bef. special items	8,457	5%	-2%	-6%	8,245	-3%
Operating margin (%)	12.9				13.2	30bp

Assets

As at 31 December 2016, total non-current assets amounted to DKK 109.9bn, an increase of DKK 2.1bn compared with 2015. Intangible assets were up DKK 3.8bn due to the appreciation of the rouble. This increase was offset by lower financial assets, which were mainly impacted by the tax receivable in Finland, which, subsequent to the court ruling, was expensed. Property, plant and equipment were DKK 25.8bn, slightly down compared with 2015 due to disposals and depreciation.

Inventories and trade receivables totalled DKK 9.4bn against DKK 9.5bn at 31 December 2015. Trade receivables were impacted by the exit from margin-dilutive contracts and currencies, particularly the British pound.

Other receivables of DKK 3.9bn were flat versus 31 December 2015. Cash and cash equivalents amounted to DKK 3.5bn, an increase of DKK 0.4bn due to the strong free cash flow.

Assets held for sale amounted to DKK 125m and related to assets in Western Europe and Eastern Europe.

Liabilities

Total equity as at 31 December 2016 totalled DKK 53.7bn, impacted by a significant increase in equity for shareholders in Carlsberg A/S of DKK 7.3bn. Of the total equity, DKK 50.8bn was attributed to shareholders in Carlsberg A/S and DKK 2.8bn to non-controlling interests.

The increase in equity attributed to shareholders in Carlsberg A/S was mainly due to foreign exchange gains of DKK 5.8bn, profit for the period of DKK 4.5bn, payment of dividends to shareholders of DKK -1.4bn and retirement benefit obligations of DKK -1.0bn.

Liabilities were DKK 73.3bn compared to DKK 77.7bn at 31 December 2015. The most notable change was the net decrease in long- and short-term borrowings of DKK -5.8bn versus 31 December 2015, positively impacted by the strong free cash flow. Other non-current liabilities were DKK 18.0bn, an increase of DKK 1.5bn compared with 2015, impacted by a shift between current and non-current liabilities and an increase in contingent considerations.

Trade payables increased by DKK 1.2bn to DKK 13.5bn as at 31 December 2016, impacted by a reclassification in Asia from other current liabilities to trade payables. Other current liabilities decreased by DKK 1.2bn to DKK 9.9bn.

Cash flow

Free cash flow amounted to DKK 8,616m versus DKK 7,522m in 2015, positively impacted by disposals of non-core businesses.

Cash flow from operating activities was DKK 9,329m against DKK 10,140m in 2015. The decline was primarily impacted by the development in other working capital, cf. next page.

Operating profit before depreciation, amortisation and impairment losses was DKK 13,006m (DKK 13,213m in 2015).

The change in trade working capital was DKK +1,021m (DKK +1,284m in 2015). The average trade working capital to net revenue improved further and was -9.5% for 2016 compared to -6.6% for 2015. The change in other working capital was DKK -1,126m (DKK +561m in 2015). The significant change compared with 2015 was due to an extraordinary payment into the UK pension fund.

Restructuring costs paid amounted to DKK -407m (DKK -586m in 2015). They were impacted by measures across the Group, including actions under Funding the Journey.

Net interest etc. paid amounted to DKK -1,003m (DKK -1,818m in 2015). The decline was mainly due to lower interest-bearing debt.

Corporation tax paid was DKK 1,752m, which was DKK 388m lower than in 2015. The decrease was mainly explained by phasing of tax payments between 2015 and 2016.

Cash flow from investing activities was DKK -713m against DKK -2,618m in 2015. Operational investments totalled DKK -3,554m (DKK -3,307m in 2015).

Total financial investments amounted to DKK +2,840m (DKK +117m in 2015), positively impacted by the disposals during the year.

Total other activities was DKK +1m against DKK +572m in 2015, when it was positively impacted by the sale of the remaining plot of land at the Tuborg site north of Copenhagen, Denmark.

Financing

At 31 December 2016, gross financial debt amounted to DKK 30.2bn and net interest-bearing debt to DKK 25.5bn. The difference of DKK 4.7bn comprised other interest-bearing assets of DKK 1.2bn and cash and cash equivalents of DKK 3.5bn.

The net interest-bearing debt to operating profit before depreciation and amortisation (EBITDA) ratio declined to 1.96x (2.34x in 2015).

Of the gross financial debt, 70% (DKK 21.1bn) was long term, i.e. with maturity more than one year from 31 December 2016. A EUR 1bn bond with a coupon rate of 3.375% will mature on 13 October 2017.

Of the net financial debt, 96% was denominated in EUR and DKK (after swaps) and 76% was at fixed interest (fixed-interest period exceeding one year). The interest rate risk is measured by the duration of the net financial debt, for which our target is between two and five years. In 2016, the duration was 3.7 years (3.8 years in 2015).

Segment reporting by half-year

DKK million	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016
Net revenue						
Western Europe	18,585	19,177	18,780	20,031	18,760	18,837
Eastern Europe	7,476	6,624	5,497	5,393	4,723	5,482
Asia	5,925	6,566	7,948	7,391	7,639	7,027
Not allocated	72	81	177	137	121	25
Beverages, total	**32,058**	**32,448**	**32,402**	**32,952**	**31,243**	**31,371**
Non-beverage	-	-	-	-	-	-
Total	**32,058**	**32,448**	**32,402**	**32,952**	**31,243**	**31,371**
Operating profit before special items						
Western Europe	2,311	3,159	2,155	3,170	2,275	3,083
Eastern Europe	1,510	1,452	830	1,078	751	1,081
Asia	1,035	1,160	1,331	1,468	1,328	1,474
Not allocated	-733	-549	-673	-753	-841	-850
Beverages, total	**4,123**	**5,222**	**3,643**	**4,963**	**3,513**	**4,788**
Non-beverage	-69	-46	-60	-89	-65	9
Total	**4,054**	**5,176**	**3,583**	**4,874**	**3,448**	**4,797**
Special items, net	-124	-1,229	-283	-8,376	406	-155
Financial expenses	-714	-477	-770	-761	-703	-544
Profit before tax	**3,216**	**3,470**	**2,530**	**-4,263**	**3,151**	**4,098**
Corporation tax	-804	-944	-714	-135	-1,040	-1,352
Consolidated profit	**2,412**	**2,526**	**1,816**	**-4,398**	**2,111**	**2,746**
Attributable to						
Non-controlling interests	269	255	321	23	244	127
Shareholders in Carlsberg A/S	2,143	2,271	1,495	-4,421	1,867	2,619

Five-year summary

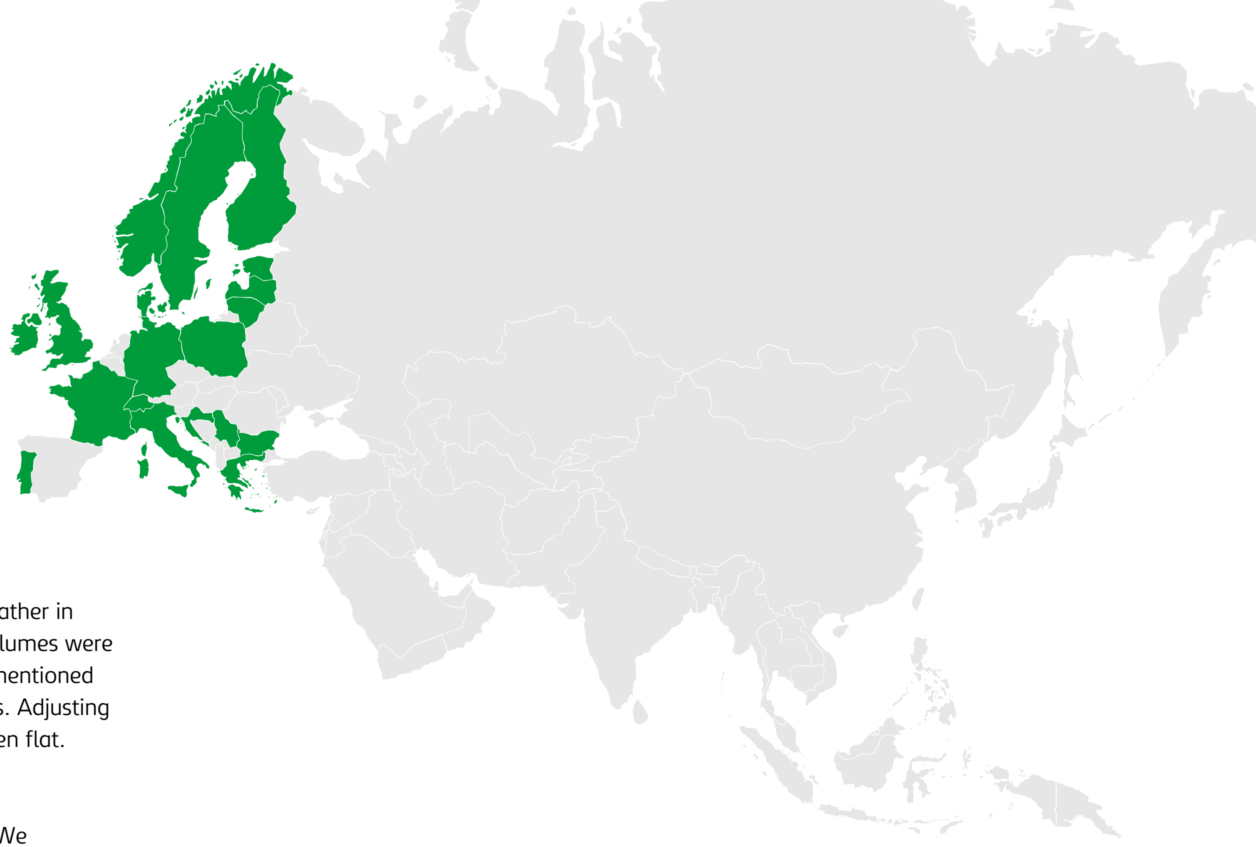
	2016	2015	2014	2013	2012
Sales volumes, pro rata (million hl)					
Beer	116.9	120.3	122.8	119.7	120.4
Other beverages	21.9	21.5	21.0	19.7	19.1
DKK million					
Income statement					
Net revenue	62,614	65,354	64,506	64,350	66,468
Gross profit	31,419	31,925	31,781	32,930	32,637
Operating profit before amortisation, depreciation and impairment losses	13,006	13,213	13,338	13,592	13,812
Operating profit before special items	8,245	8,457	9,230	9,723	9,793
Special items, net	251	-8,659	-1,353	-435	85
Financial items, net	-1,247	-1,531	-1,191	-1,506	-1,772
Profit before tax	7,249	-1,733	6,686	7,782	8,106
Corporation tax	-2,392	-849	-1,748	-1,833	-1,861
Consolidated profit	4,857	-2,582	4,938	5,949	6,245
Attributable to					
Non-controlling interests	371	344	524	478	638
Shareholders in Carlsberg A/S	4,486	-2,926	4,414	5,471	5,607
Shareholders in Carlsberg A/S, adjusted[1]	3,881	4,292	5,496	5,772	5,504
Statement of financial position					
Total assets	126,906	124,901	137,458	152,308	153,961
Invested capital	90,103	90,102	104,006	119,112	121,467
Invested capital excluding goodwill	37,239	39,832	51,143	61,946	67,553
Interest-bearing debt, net	25,503	30,945	36,567	34,610	32,480
Equity, shareholders in Carlsberg A/S	50,811	43,489	52,437	67,811	70,261
Statement of cash flows					
Cash flow from operating activities	9,329	10,140	7,405	8,142	9,871
Cash flow from investing activities	-713	-2,618	-6,735	-8,012	-3,974
Free cash flow	8,616	7,522	670	130	5,897

[1] Adjusted for special items after tax. 2015 figures adjusted for the non-controlling interests' share of special items after tax, primarily in Chongqing Brewery Group.

		2016	2015	2014	2013	2012
Investments						
Acquisition and disposal of property, plant and equipment and intangible assets, net		-3,596	-2,922	-5,647	-5,451	-2,736
Acquisition and disposal of entities, net		1,969	-33	-1,681	-2,314	-27
Financial ratios						
Operating margin	%	13.2	12.9	14.3	15.1	14.6
Return on invested capital (ROIC)[2]	%	9.2	8.1	8.0	8.1	8.0
Return on invested capital excluding goodwill (ROIC excl. goodwill)[2]	%	21.2	16.9	15.3	14.5	14.3
Equity ratio	%	40.0	34.8	38.3	45.2	45.6
Debt/equity ratio (financial gearing)	x	0.48	0.66	0.65	0.48	0.44
Debt/operating profit before depreciation and amortisation	x	1.96	2.34	2.74	2.55	2.35
Interest cover	x	6.61	5.53	7.75	6.46	5.53
Stock market ratios						
Earnings per share (EPS)	DKK	29.4	-19.2	28.9	35.9	36.8
Earnings per share, adjusted (EPS-A)[1]	DKK	25.4	28.1	36.0	37.8	36.1
Cash flow from operating activities per share (CFPS)	DKK	61.2	66.3	48.4	53.4	64.6
Free cash flow per share (FCFPS)	DKK	56.5	49.2	4.4	0.9	38.6
Dividend per share (proposed)	DKK	10.0	9.0	9.0	8.0	6.0
Payout ratio	%	34	nm	31	22	16
Payout ratio, adjusted[1]	%	39	32	25	21	17
Share price (B shares)	DKK	609.5	612.5	478.8	600.0	554.0
Number of shares (year-end, excl. treasury shares)	1,000	152,552	152,552	152,538	152,533	152,555
Number of shares (average, excl. treasury shares)	1,000	152,552	152,542	152,535	152,548	152,543

[1] Adjusted for special items after tax. 2015 figures adjusted for the non-controlling interests' share of special items after tax, primarily in Chongqing Brewery Group. [2] MAT.

Delivering margin improvement



Regional performance

Net revenue in Western Europe declined organically by 1% due to organic volume decline of 2% and price/mix of +2%.

In 2016, we adopted our new value management approach, which aims to optimise the Golden Triangle. As part of this, we sharpened our focus on profitability by brand, SKU and channel.

The positive price/mix was the result of the successful introduction of the Golden Triangle, including premiumisation efforts in most markets and withdrawal from margin-dilutive contracts in the UK, Finland and Poland, and was achieved in spite of strong growth in licence income in H2.

Operating profit grew organically by 3%. The operating margin increased by 50bp to 14.2%. The strong margin improvement was driven by Funding the Journey benefits, including the positive price/mix.

The Western European beer markets grew by an estimated 1%, partly due to easy comparables because of the bad weather in northern Europe in H1 2015. Our volumes were negatively impacted by the above-mentioned reduction in margin-dilutive volumes. Adjusting for this, our volumes would have been flat.

The Nordics

The Nordic markets grew by 2-3%. We increased our volumes in Norway, Denmark and Sweden, but our total Nordic volumes declined by 3% as a result of the withdrawal from the margin-dilutive supply contract in Finland. All markets delivered very solid price/mix improvements due to a combination of growth of craft & speciality beer, value management efforts and less low-priced volumes in Finland.

All four markets delivered operating profit improvement, with particularly strong improvement achieved in Norway and Finland.

Poland

The Polish market grew by an estimated 2%. The market remained highly competitive. Our volumes declined by approximately 12%, main-

1856...2016

E.C. Dahls Brewery was founded in Trondheim, Norway, in 1856. On 4 August 2016, we re-opened the brewery in collaboration with Brooklyn in line with our strategy to grow our craft beer business.

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

ly as a result of the decision to pull out of certain low-priced volumes at the beginning of 2016.

France

In France, our volumes grew by 1% in a market that grew by approximately 3%. Our volume growth was driven by the Carlsberg, Tourtel and Skøll brands, and by craft & speciality brands such as Grimbergen and Brooklyn.

We gained market share in the on-trade, while we lost share in the off-trade. The loss was mainly attributed to the mainstream Kronenbourg brand and 1664, as we did not engage in steep discount activities during the summer to the same extent as the competition.

UK

The UK market declined by an estimated 1%. Our UK volumes declined as expected, with subsequent loss in market share. However, our value focus resulted in favourable price/mix and operating margin improvement.

Several new commercial initiatives took place, including the inclusion of the Czech organic beer Celia, the draught craft beer Shed Head and, by the end of the year, the relaunch of Carlsberg Export. From 1 January 2017, we have added the Brooklyn Brewery brands to our portfolio.

As part of the restructuring process, it was announced in H2 that we will exit porterage distribution services by the end of the current contracts and outsource our secondary logistics operations.

Other markets

Most other markets in the region delivered top- and bottom-line growth for the year. We saw particularly good market share development in Bulgaria, Germany and Greece, and favourable profit development, with particularly strong improvements in these markets and Italy.

Western Europe

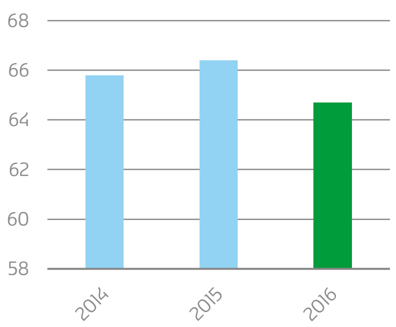
		Change				Change
Pro rata (million hl)	**2015**	**Organic**	**Acq., net**	**FX**	**2016**	**Reported**
Beer	50.2	-4%	0%		48.4	-4%
Other beverages	16.2	2%	0%		16.3	2%
Total volume	**66.4**	**-2%**	**0%**		**64.7**	**-2%**
DKK million						
Net revenue	38,811	-1%	0%	-2%	37,597	-3%
Operating profit bef. special items	5,325	3%	0%	-2%	5,358	1%
Operating margin (%)	13.7				14.2	50bp

Market characteristics

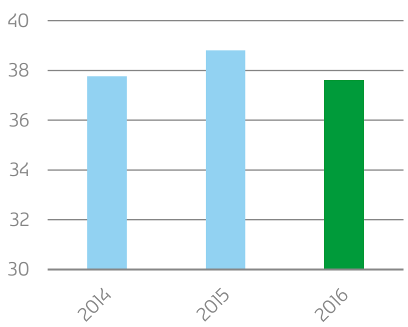
The Carlsberg Group is the second largest brewer in Western Europe. According to the independent research company Canadean, beer market volumes in the region amounted to approx. 259m hl in 2016.

Our presence in Western Europe is particularly strong in the central and northern part of the region, where we hold solid no. 1 and 2 positions in several markets.

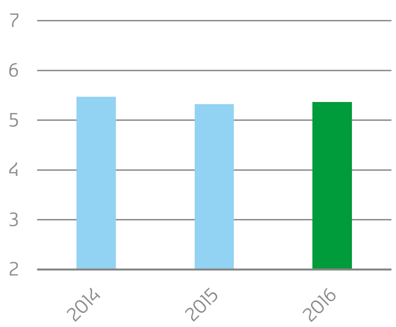
Total volume, pro rata (m hl)



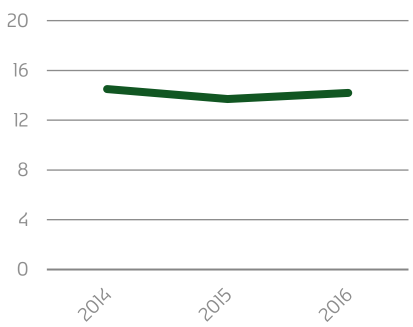
Net revenue (DKKbn)



Operating profit (DKKbn)



Operating margin (%)



Western Europe primarily comprises mature beer markets. While market volumes have tended to be flat or slightly declining, we are now seeing improving beer category dynamics as a result of innovations, increased interest in craft & speciality beers and non-alcoholic offerings.

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

SAIL'22 Actively shape NAB

Munkholm is by far the strongest player in the non-alcoholic segment in Norway, enjoying a market share of 47%. This beer, first launched in 1991, is popular with consumers due to its full-bodied real beer taste. That is why Munkholm's tagline is "Munkholm – brewed as a true beer". From 2012 to 2015, the brand achieved volume growth of 11.1% (CAGR).

Our markets in Western Europe

	Consumption characteristics		Our position		Our operations
Country	Per capita beer consumption (litres)	On-trade share of market, approx. (%)	Market position (no.)	Market share (%)	Breweries
Denmark	89	26	1	54	1
Sweden	47	19	1	35	1
Norway	58	21	1	55	2
Finland	83	14	2	31	1
France	31	27	2	28	1
Switzerland	54	40	1	41	1
UK	69	46	4	12	1
Poland	102	9	3	17	3
Germany	105	20	1[1]	17[1]	2
Italy	27	39	4	7	1
Portugal	46	56	1	47	1
The Baltics	59-87	4-8	1-2	26-41	3
South East Europe	35-78	14-54	2-3	16-27	5

[1] Northern Germany. Source: Canadean, Carlsberg estimates.

EASTERN EUROPE

Improving business results

Regional performance

Our Eastern European net revenue grew organically by 8%, driven by price/mix of +7% and organic total volume growth of 1%.

Reported net revenue declined by 6% due to a significant negative currency impact, as all currencies in the region depreciated.

The price/mix was driven by price increases in 2015 and 2016 as well as a weak mix in Q1 2015. Price/mix growth was less pronounced in H2 compared with H1 as we took less price increases in 2016 compared with 2015.

Operating profit grew organically by 12% and the reported operating margin improved by 50bp to 18.0%.

The improvement was driven by volume growth, Funding the Journey initiatives, delivering positive price/mix and strict cost control, and was also helped by easy comparables. Combined, these factors more than offset the negative transaction impact from USD/EUR-denominated input costs.

Overall, the Eastern European beer markets continue to be negatively impacted by the challenging macro environment, although large parts of the region benefited from very warm weather at the beginning of H2. Total volumes grew by 1% for the year.

Russia

The Russian beer market declined by an estimated 1-2% for the year. The market development during the second half of the year was helped by very warm weather in Q3.

Although some macro indicators started to show improvement in 2016, the market remains impacted by the ongoing macroeconomic challenges in the country.

Our Russian shipments grew by 1% for the year due to the easy comparables, warm weather in Q3 and market share gains in the second half of the year.

Our market share declined by 30bp for the year to 34.5% (source: Nielsen Retail Audit, Urban & Rural Russia). A key priority for 2016 was to strengthen our position in the modern trade

14%

Award-winning Baltika 0 is the no. 1 non-alcoholic beer in Russia and the best-selling non-alcoholic beer in the Carlsberg Group. In 2016, Baltika 0 grew by 14%.

SAIL'22 Transform our business in Russia

channel, which we achieved, while our market share was down in the declining traditional trade channel.

We saw good performance for the Carlsberg, Zhigulevskoe and Baltika 0 brands, while the Baltika 7 and Baltika Cooler brands declined.

Ukraine

The Ukrainian market continued to be difficult; it declined by an estimated 6-7%, impacted by the challenging macroeconomic environment.

Our business performed strongly, with a modest 2% organic volume decline, achieving market share growth and margin improvements.

Our market share improvement was driven by strong performance of our local power brand, Lvivske, and Carlsberg, as well as a successful launch of the Garage brand.

Market characteristics

The relative importance of Eastern Europe for the Group has decreased significantly in recent years. In 2016, Eastern Europe accounted for 18% of Group operating profit.

According to Canadean, Russia is the fifth largest beer market in the world, and total beer market volumes in the region amounted to approx. 109m hl in 2016.

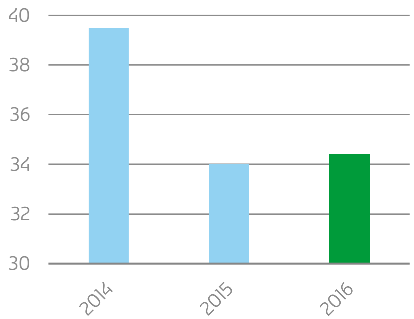
The Group's two main markets in the region are Russia, which accounts for around 75% of regional beer volumes, and Ukraine, which accounts for a little less than 17%.

The Russian beer market has been under significant pressure in the past eight years, more recently due to a challenged macroeconomy. In value terms, however, the market has generally seen positive growth rates.

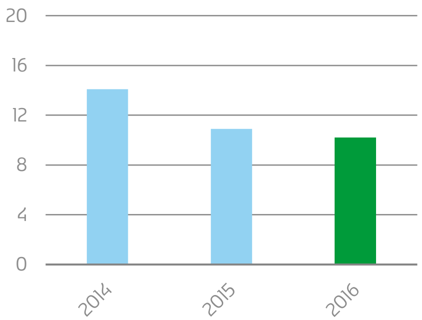
Eastern Europe

		Change				Change
Pro rata (million hl)	**2015**	**Organic**	**Acq., net**	**FX**	**2016**	**Reported**
Beer	32.3	0%	0%		32.4	0%
Other beverages	1.7	15%	0%		2.0	15%
Total volume	**34.0**	**1%**	**0%**		**34.4**	**1%**
DKK million						
Net revenue	10,890	8%	0%	-14%	10,205	-6%
Operating profit bef. special items	1,908	12%	0%	-16%	1,832	-4%
Operating margin (%)	17.5				18.0	50bp

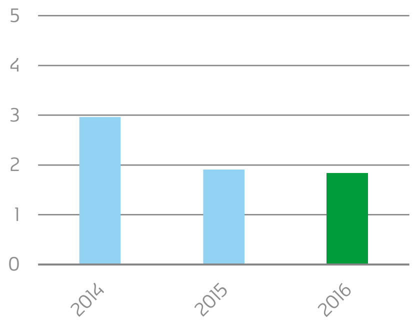
Total volume, pro rata (m hl)



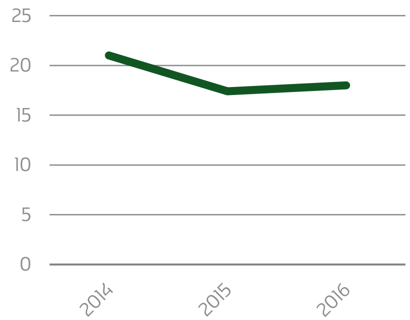
Net revenue (DKKbn)



Operating profit (DKKbn)



Operating margin (%)



Our markets in Eastern Europe

	Consumption characteristics			Our position	Our operations
Country	Per capita beer consumption (litres)	On-trade share of market, approx. (%)	Market position (no.)	Market share (%)	Breweries
Russia	47	11	1	35	8
Ukraine	40	12	2	31	3
Belarus	45	4	1	29	1
Kazakhstan	28	11	2	37	1
Azerbaijan	4	30	1	75	1

Source: Canadean, Carlsberg estimates.

The Carlsberg Group's share of the beer profit pool in Russia significantly exceeds our volume market share of 34.5%.

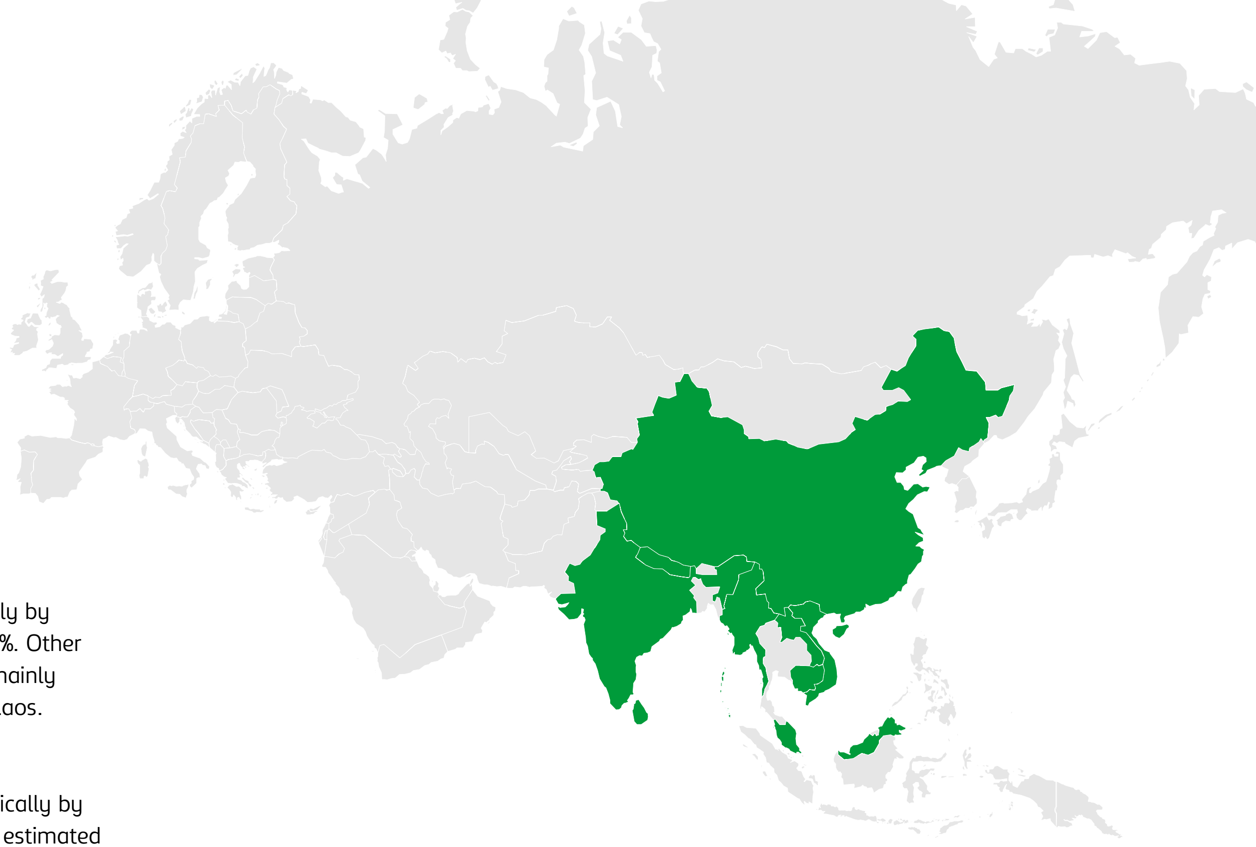
The Ukrainian beer market has also been in decline due to the severe macroeconomic slowdown.

Off-trade is the most important sales channel in the region. Traditional off-trade accounts for around 50% but is declining at a rapid pace and being overtaken by modern trade, as this channel offers more attractive and affordable pricing.

Lvivske is part of Ukraine's history and culture, and the beer has become a symbol of national pride. Lvivske is the oldest Ukrainian beer, dating back to 1715, when it was first brewed by monks. Today, Lvivske 1715 is still brewed according to the original 300-year-old recipe, which has been secretly passed down by word of mouth from generation to generation.

ASIA

Continuing the growth in Asia



Regional performance

Net revenue in Asia grew organically by 4%, with the price/mix of +6% more than offsetting the organic total volume decline of 2%. Excluding China, net revenue grew organically by 7%, while it was flat in China. Reported net revenue declined by 4% due to a negative currency impact, mainly from China, Malawi, Malaysia and India, as well as the disposal of Carlsberg Malawi in Q3.

The strong price/mix was a result of the growth of our premium brands as well as premiumisation efforts on our local power brands and the reduction of low-priced products in China. The Tuborg brand, which remains key in our premiumisation efforts in the region, grew by 15%. Since 2013, Tuborg volumes in Asia have more than tripled.

Organic operating profit grew by 6% and the reported operating margin improved by 90bp to 19.1%. The profit improvement was driven by Funding the Journey benefits, including positive price/mix, tight cost control, and site closures and disposals in China.

Our beer volumes declined organically by 3%. Excluding China, they grew by 2%. Other beverages grew organically by 9%, mainly driven by the non-beer business in Laos.

China

Our Chinese volumes declined organically by 6%, while the market declined by an estimated 4%. We gained market share in most of our key provinces, while the restructuring of our Chinese business and subsequent brewery closures resulted in substantial volume decline in the affected provinces.

During 2015 and 2016, our Chinese organisation went through a comprehensive restructuring and cost-saving programme, resulting in closures and disposals of a total of 17 sites by the end of 2016.

Our premium portfolio grew by 8%, with particularly strong growth for Tuborg and 1664 Blanc. The positive development of our premium brands and the reduction of low-price products in Eastern Assets led to a positive price/mix of 5%.

No. 1

Tuborg is the beer of choice among young Asian consumers. The brand is the no. 1 international brand in India and the no. 2 in China. In 2016, we expanded its geographic footprint to Vietnam, Cambodia and Laos.

The operating margin in China improved by more than 300bp due to premiumisation, tight cost control and the closure of sites.

Indochina

In Indochina, Laos again delivered solid top- and bottom-line growth. Water and soft drink growth in Cambodia was offset by share loss in the increasingly competitive beer market.

To continue the success of recent years with the Tuborg brand, it was launched in Laos, Cambodia and Vietnam. Early results are very encouraging in all three markets, with the brand quickly establishing leadership in the international premium segment in Cambodia and a strong position in Northern Vietnam.

India

Our Indian business continued to grow, delivering volume growth of 16% in spite of the alcohol ban in the state of Bihar as of April. The Indian beer market grew by an estimated 2%, and we strengthened our market position, reaching a 16% market share. Carlsberg Elephant grew significantly, while Tuborg continued its strong growth trajectory.

We currently have seven breweries in India and expect to open our eighth brewery, in the state of Karnataka, in 2017.

Profitability improved significantly as a result of volume growth and tight cost control.

Malaysia/Singapore and Nepal

Volumes in Malaysia were negatively impacted by the excise tax increase on 1 March. However, growth in our premium products, price increases and good cost control ensured solid financial performance.

In Singapore, we increased our market share as a result of our premiumisation efforts. Nepal delivered very strong performance due to market growth, market share gains and price increases. Moreover, we were cycling easy comparables because of the big earthquake in the country in 2015.

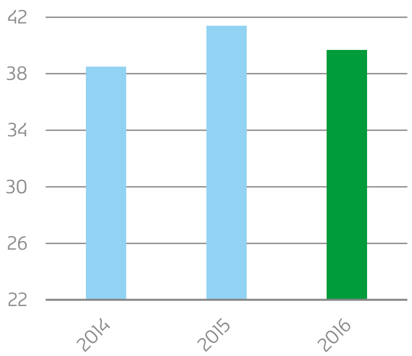
Asia

Pro rata (million hl)	2015	Change Organic	Change Acq., net	Change FX	2016	Change Reported
Beer	37.8	-3%	-2%		36.1	-5%
Other beverages	3.6	9%	-10%		3.6	-1%
Total volume, pro rata	**41.4**	**-2%**	**-2%**		**39.7**	**-4%**
DKK million						
Net revenue	15,339	4%	-3%	-5%	14,666	-4%
Operating profit bef. special items	2,799	6%	-2%	-4%	2,802	0%
Operating margin (%)	18.2				19.1	90bp

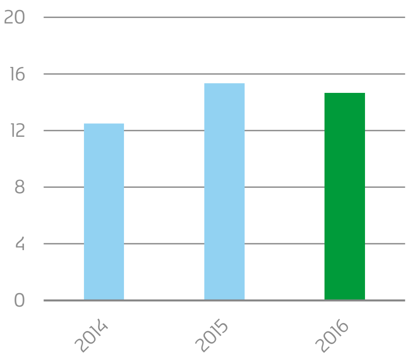
Market characteristics

The Carlsberg Group has an attractive footprint with solid market positions in Asia. According to Canadean, total beer market volumes in our Asian footprint amounted to approx. 576m hl in 2016, with China by far the largest beer market.

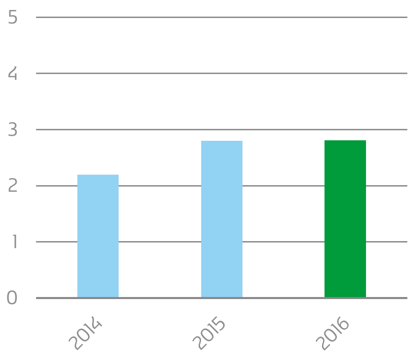
Total volume, pro rata (m hl)



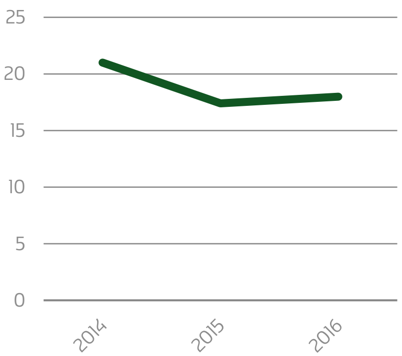
Net revenue (DKKbn)



Operating profit (DKKbn)



Operating margin (%)



Our markets in Asia

	Consumption characteristics			Our position	Our operations
Country	Per capita beer consumption (litres)	On-trade share of market, approx. (%)	Market position (no.)	Market share (%)	Breweries
China	27	49	1[1]	58[1]	27
Vietnam	34	43	4	10	2
Laos	45	57	1	96	2
Cambodia	41	12	1	45	1
Nepal	3	76	1	70	1
India	2	16	3	17	7[2]
Myanmar	8	55	4	3	1
Malaysia	6	70	2	37	1
Singapore	22	49	2	21	-
Hong Kong	24	29	2	27	-

[1] Western China. [2] Incl. brewery in Bihar. Source: Canadean, Carlsberg estimates.

The importance of Asia for the Group has increased significantly during the past decade. Over the years, the Group has expanded its presence in the region, both organically and through acquisitions, and today we have a very attractive regional footprint.

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

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

Huda Gold is a premium extension to the successful Huda brand, the market leader in Central Vietnam. Huda Gold was launched in 2013 in Danang, the third largest city in Vietnam. Since then, the Group has grown its market share in Danang from 3% to 20%. Having won four international quality awards, Huda Gold teamed up with Hoang Xuan Vinh, the first ever Vietnamese Olympic gold medal winner, to underline our dedication to excellence.

SAIL'22 Grow in Asia

EARNINGS EXPECTATIONS

Guiding for growth in operating profit and reduction in leverage

For 2017, the Group has two overall priorities: execution of Funding the Journey and execution of the SAIL'22 priorities.

Regional priorities

At a regional level, we have the following financial priorities:

- Improving margins and operating profit in Western Europe.
- Continuing top-line and earnings growth in Asia.
- Growing operating profit organically in Eastern Europe.

2017 expectations

Based on these priorities, for 2017 the Group expects to deliver:

- Mid-single-digit percentage organic operating profit growth.
- Financial leverage reduction.

Based on spot rates as at February 6, 2017 including a EUR/RUB rate of 63.2, the Group assumes a positive translation impact of around DKK +350m.

Other relevant assumptions

Financial expenses, excluding currency losses or gains, are expected to be DKK 1.0-1.1bn.

The tax rate is expected to be just below 30%.

Capital expenditures are expected to be approximately DKK 4bn.

Export

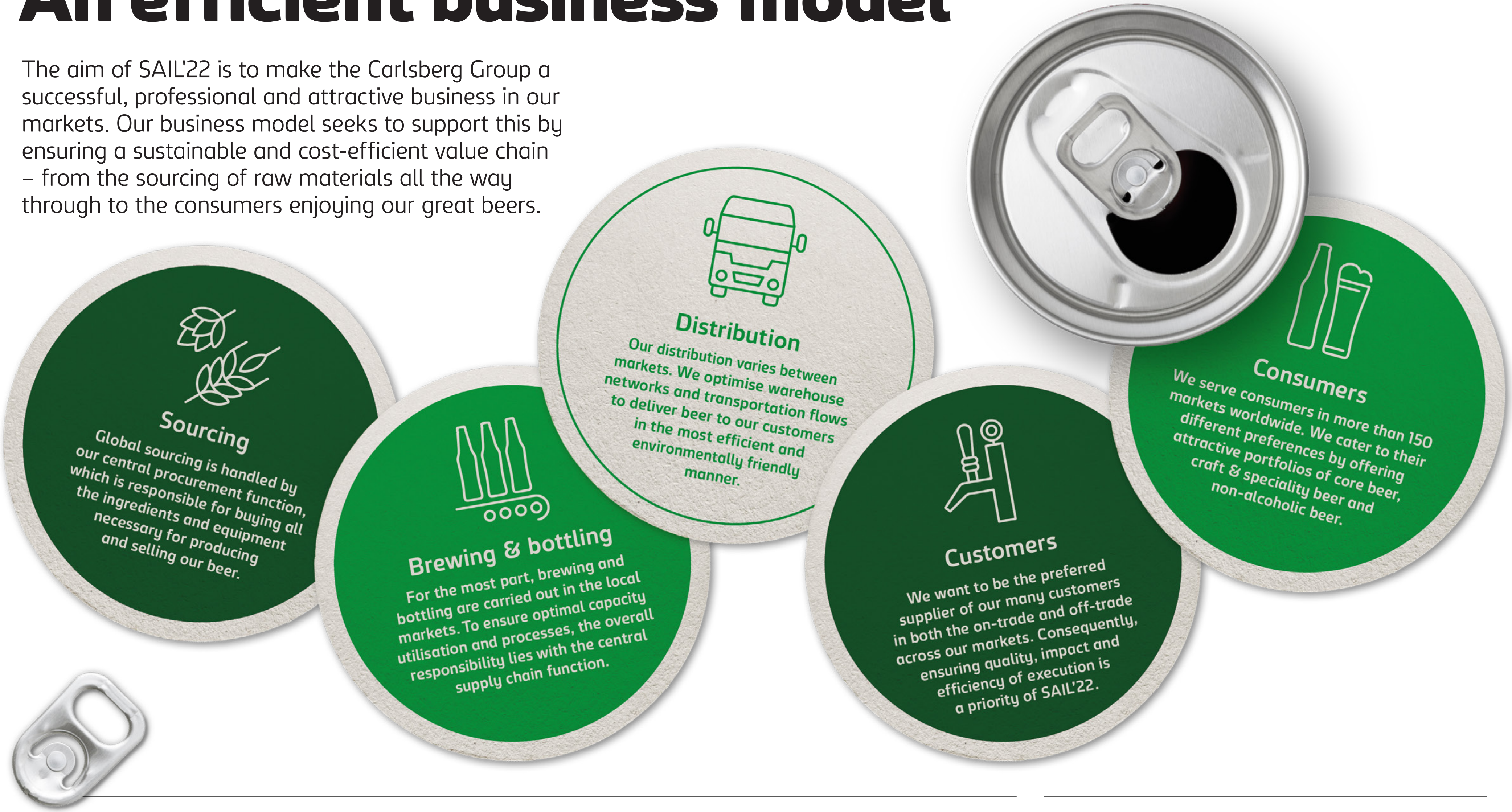
An important project for 2016 in our UK business was to prepare the revitalising of the Carlsberg brand. In early 2017, we will relaunch Carlsberg Export in a stylish new design to reflect the brand's Danish heritage and reinforce its premium credentials.

SAIL'22 **Strengthen the core**

BUSINESS MODEL

An efficient business model

The aim of SAIL'22 is to make the Carlsberg Group a successful, professional and attractive business in our markets. Our business model seeks to support this by ensuring a sustainable and cost-efficient value chain – from the sourcing of raw materials all the way through to the consumers enjoying our great beers.



R&D and innovation
Our R&D and innovation efforts support the priorities of SAIL'22, addressing opportunities and challenges in our business model with the aim of perfecting every aspect of brewing, packaging and dispensing technology (such as DraughtMaster™).

Responsible drinking
We promote responsible consumption of our products and seek to reduce harmful drinking in many ways, including through consumer campaigns and cooperation with retailers.

SAIL'22

Setting sail

Our new strategy, SAIL'22, was launched in March 2016 with the ambition to make the Carlsberg Group a successful, professional and attractive brewer in our markets: successful by delivering sustainable organic top- and bottom-line growth; professional by being the preferred supplier of our customers; and attractive by delivering value for shareholders, employees and society.

SAIL'22 was co-developed by the top leadership team in the Group in order to leverage the Company's vast knowledge base, support a team-based culture and secure a fast implementation.

Our strategic choices

The key strategic choices of SAIL'22 are grouped under the headings "Strengthen the core", "Position for growth" and "Create a winning culture". Achieving strong results within these choices will enable us to deliver enhanced value for our shareholders. You can read more about SAIL'22 on the following pages.

STRENGTHEN THE CORE

Leverage our strongholds

Excel in execution

Funding the Journey

POSITION FOR GROWTH

Win in growing categories

Target big cities

Grow in Asia

DELIVER VALUE FOR SHAREHOLDERS

Organic growth in operating profit

ROIC improvement

Optimal capital allocation

CREATE A WINNING CULTURE

SAIL'22

Strengthen the core

Leverage our strongholds

This priority encompasses two levers: revitalising core beer and transforming our business in Russia.

Revitalising core beer

Core beer – defined as our local power and international brands – accounts for 83% of beer net revenue. Revitalising core beer will leverage our strong beer brands and market positions, driving growth and improving margins.

> **A core strength of the Carlsberg Group is that we generate 74% of our volumes in our no. 1 and 2 positions in 24 markets across Europe and Asia.**

Important initiatives include revising our local portfolio strategies, and redirecting and refocusing our investments towards those key brands that deliver the core of our profit and have margin growth potential. As part of this, we will strengthen brand fundamentals and develop brand renovation plans.

Furthermore, we will improve the OBPPC (occasion, brand, pack, price and channel) processes to obtain the appropriate balance of brands and profitability across occasions by having the right packaging and price in the right channels to meet consumer needs and expectations.

Actions and initiatives in 2016

We began the development of a new commercial approach specifically focused on helping customers to grow the beer category by better meeting consumer needs. Moreover, an analysis of the allocation of marketing spend was carried out in order to ensure the right level of support for the right brands.

Furthermore, we initiated work on revitalising the Carlsberg brand and updating the visual identity of the Tuborg brand in order to keep these brands relevant for the future. The result of this work will come alive in 2017.

Transforming our business in Russia

In Russia, we have a strong no. 1 position, a unique brewery footprint and route-to-market set-up, and a distinctive portfolio of local, regional, national and international brands.

To transform our business in Russia, we will market the optimal range of our local, regional, national and international brands to meet changing consumer needs. We will improve our in-store visibility and enhance our position in the growing channels and segments.

Additionally, we will more fully leverage our supply chain and production network, and continuously work to reduce costs in all areas.

Actions and initiatives in 2016

We embarked on a new commercial agenda in 2016, including reallocation of our resources to a number of selected core brands and sales channels.

Furthermore, as in the wider Group, we implemented Funding the Journey initiatives in our Russian business.

Excel in execution

Quality, impact and efficiency of execution are vital if we are to be successful.

Leveraging our strongholds requires superior capabilities that allow us to excel in execution.

Excel in execution embraces a wide range of areas, such as: applying a consumer-occasion and benefit-driven portfolio approach; developing a consumer-driven R&D and innovation agenda; embedding high-quality point-of-sale capabilities and standards; managing complexity smartly; and step-changing within digital to connect with customers and consumers in an efficient manner.

Consumer insights and R&D

We are fortunate that R&D is in our DNA, and the vast knowledge of the Carlsberg Research Laboratory is an indisputable strength of our business.

We will regularly collect consumer insights in a consistent manner in order to gain a better understanding of consumer drinking occasions and identify growth opportunities.

SAIL'22

Additionally, these insights will play a key role in guiding our R&D efforts, where investments will be more focused on bigger bets and leveraging the potential of technologies.

Actions and initiatives in 2016

We recreated the original Carlsberg beer, based on yeast derived from a 130-year-old bottle, drawing international attention.

A systematic and recurrent survey of consumer perception of the quality of beer brands was implemented in a number of markets to ensure that our brands remain relevant. To further enhance our position in the on-trade, we will further roll out DraughtMaster™, our proprietary one-way keg system.

Point of sale

To excel at point of sale, we will further develop and implement our FIT (Focus-Implement-Track) model to ensure a single effective way of working across markets.

Actions and initiatives in 2016

Our FIT approach was put into use in all Western European markets. The central team carried out a FIT assessment of all the markets in question to determine areas for improvement. By the end of the year, the FIT approach had been implemented in India, and more Asian markets will follow in 2017.

Managing complexity

Managing complexity smartly is about identifying and removing or optimising SKUs that create unwanted inefficiencies throughout the supply chain. To accommodate this, we will embed new tools in our ways of working, leading to greater transparency and understanding of the relationship between complexity and cost.

Actions and initiatives in 2016

A number of tools were developed during the year with the aim of managing SKU complexity more smartly. These included a SKU performance tracker tool and a pain assessment tool.

Digital

Stepping up on digital has three focus areas: applying digital in the servicing of on-trade customers; managing our brands online to improve consumer engagement; and developing excellence in e-commerce.

Actions and initiatives in 2016

Stepping up on digital required the hiring of new capabilities, which happened during the second half of the year.

Funding the Journey

Funding the Journey brings together in a single programme a range of individual programmes designed to save costs or improve profit.

Funding the Journey was launched in late 2015 and encompasses four main areas: Value Management, Supply Chain Efficiency, Operating Expense Efficiency and Right-sizing of Businesses.

Funding the Journey will deliver net benefits of DKK 1.5-2.0bn by 2018. Half of the benefits will be reinvested in the business in support of the SAIL'22 priorities, while the other half will improve earnings. In 2016, Funding the Journey delivered benefits of approx. DKK 0.5bn. Funding the Journey is described in detail in the 2015 Annual Report.

Value management

To succeed with Value Management, we trained our people in the local markets to work with the concept and implement the mindset of the Golden Triangle. The Golden Triangle seeks to strike the right balance between market share, gross profit after logistics (GPaL) margin and operating profit. We initially applied the approach at market level and subsequently at SKU and customer level.

Supply Chain Efficiency

Within Supply Chain Efficiency, an important task during the year was the reduction of SKUs and complexity. In 2016, approx. 1,200 SKUs were eliminated. We will continue to further reduce SKU complexity.

Operating Expense Efficiency

Within Operating Expense Efficiency, white-collar staff were reduced by a total of 2,280. During the year, we transferred a significant amount of back-office functions to an external service provider, which resulted in a move of approx. 300 roles. In addition, we saw good progress towards the savings target for SG&A costs.

Right-sizing of Businesses

Within Right-sizing of Businesses, we disposed of a number of non-core assets during the year. These included Danish Malting Group, Carlsberg Malawi, Vung Tau brewery in Vietnam and the plant breeding company Sejet. In addition, we have closed or sold a total of 17 breweries in China.

SAIL'22

Position for growth

Win in growing categories

In the beer category, craft & speciality beers are increasingly taking share of throat, while non-alcoholic beer (NAB) is growing three times faster than the overall beer market.

Craft & speciality

The growth of craft & speciality is particularly prevalent in the mature markets of Western Europe, where the annual volume growth rate in the segment is expected to be around 15%. The profitability of craft & speciality significantly exceeds that of mainstream beer.

To exploit the craft & speciality opportunity, we will leverage our heritage and promote selected brands with the aim of delivering a clear and tight portfolio. This includes: authentic craft propositions, such as Jacobsen and the Nya Carnegie Brewery, in addition to our partner brand, Brooklyn; speciality brands, such as Grimbergen and 1664 Blanc; and craft-like line extensions of local brands, such as Koff IPA in Finland and Frydenlund Bayer in Norway.

> **Craft & speciality and NAB account for around 5% of our beer volumes today, but this figure is expected to double during the course of SAIL'22.**

To drive profitability, we will employ smart complexity to deliver craft quality at scale, manage COGS and increase category profitability. Moreover, we will increase marketing support for our brands.

Actions and initiatives in 2016

In 2016, our central team worked with the local teams to ensure successful launches of craft & speciality beers. We further developed a training programme, Art of Beer, which aims to turn local sales and marketing teams into beer experts, enabling local markets to focus on customers' conversations around beer. This programme will be rolled out across Western Europe.

NAB

Likewise, NAB is a category with very appealing prospects, as it is benefiting from the growing global health and wellness trend among consumers. NAB is a fast-growing category and offers excellent margin opportunities. We will leverage our unique insights and R&D capabilities to drive growth. We will actively shape the category by marketing a full portfolio of both line extensions and specialised brands, such as Nordic in Denmark and Tourtel in France.

Actions and initiatives in 2016

In order to drive the non-alcoholic priority, a dedicated team needed to be established. By the end of 2016, the recruitment of a head of non-alcoholic team was complete.

15%

1664 Blanc is a wheat beer that plays an important role in our craft & speciality portfolio as an imported speciality brand. It is popular with consumers in Europe and Asia, and revenue grew by 15% in 2016.

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

Target big cities

By 2050, it is expected that 70% of the world population will be living in big cities, where beer consumption exceeds the market average by 30%.

Of the 50 biggest cities of the future, the Carlsberg Group is currently present in 30.

In order to drive further growth, we will tap into the significant global urbanisation trend by applying a targeted approach to big cities.

> **By its very nature, the big city strategy has a longer time horizon than our other strategic priorities.**

Our big city strategy is twofold. Firstly, we will target big cities in countries outside our current geographic footprint in order to expand our global presence in a profitable way.

Secondly, we will aim to build profitable businesses in countries where we already operate but have gaps in key big cities.

We will apply a focused and high-value approach in terms of portfolio, channels and sequencing. In addition, we will employ an asset-light model and build on the experience, learnings and capabilities of our Export and License department.

Actions and initiatives in 2016

The team focusing on big cities became operational in August 2016, since when it has concentrated on carrying out analyses to determine the relevant cities for entry in 2017.

The analyses have taken into account consumer behaviour and needs, matching brands and portfolio, competitor analyses, urban life and characteristics. Supply chain and local partner models were also a focus.

In addition, work was carried out on developing new urban concepts to be piloted and tested in the first cities.

Grow in Asia

Asia accounts for almost 40% of global beer consumption, while in the Carlsberg Group it accounts for 28% of operating profit.

The latter figure has increased almost fivefold during the past decade and will remain a key growth driver for the Group. We are confident that we can extract further top- and bottom-line growth with our geographic footprint across the region.

Our Asia region comprises diverse markets, including the mature markets of Malaysia, Singapore and Hong Kong and the less developed beer markets of China, India, Vietnam, Laos and Nepal.

The Group is well placed to capture future volume and value growth in Asia and will ambitiously drive and support this priority by increasing the focus on our premium portfolio and further strengthening our no. 1 and 2 positions.

Specifically, we will further build our position in the large beer markets of China, India and Vietnam, which together account for approx. 10% of Group operating profit. This will be done through successful management of brand portfolios designed to meet a broad range of consumer benefits and price needs. Our international premium brands, in particular Tuborg, will play a key role. In India, we will also expand our current footprint through greenfield investments.

Actions and initiatives in 2016

Premiumisation of our portfolio continued. As the first SAIL'22 investment, we launched Tuborg in Vietnam, Cambodia and Laos with promising initial results.

For more details on our results in Asia, please refer to pages 20-22.

SAIL'22

Create a winning culture

Our winning culture has three priorities: foster team-based performance; contribute to a better society; and live by our Compass.

A critical enabler to achieve our SAIL'22 priorities is to create a winning culture.

To allow for a fast roll-out of our new winning culture and achieve buy-in from colleagues throughout the organisation, we conducted a number of train-the-trainer workshops during the second half of 2016 with the aim of enabling participants from across the Group to become change agents.

These change agents subsequently led workshops with leadership teams in their respective markets, with around 4,500 leaders at different levels of the organisation participating in 2016. A condensed form of the programme will reach all employees in the first months of 2017.

Team-based performance

Our winning culture must foster one-team behaviour and reward high-level performance.

To this end, we launched a new performance management system based on the triple A concept:

Alignment: We will drive a proactive alignment with the emphasis on one team with one aspiration.

Accountability: We will hold people accountable for their actions and areas of responsibility.

Action: We will ensure that decisions are implemented with speed and rigour.

By living the triple A concept, we will create a strong sense of ownership and accountability for delivering results, which will be further supported by a close alignment between management incentive schemes and financial objectives.

Actions and initiatives in 2016

As of the end of 2016, the triple A concept has been applied to all performance and potential assessment.

The implementation of the triple A concept into all people management tools has also been taking place, including people board discussions, 360 feedback of top 200 managers and interview guidelines for both external and internal candidates.

Contribute to a better society

Sustainability plays a growing role in our corporate strategy and is essential for achieving our goals and ambitions.

In 2016, we redefined our sustainability approach based on a rigorous materiality assess-

20%

Completed in June 2016, the Dali Brewery's rooftop solar panel installation provides renewable energy meeting up to 20% of Dali's electricity needs.

SAIL'22 **Contribute to a better society**

ment. The assessment highlighted the most important sustainability topics for our business and stakeholders, and led to the identification of four priority areas: energy & carbon, water, responsible drinking, and health & safety.

You can read more about the sustainability priority areas and our progress against current targets in our 2016 Sustainability Report, available at www.carlsberggroup.com/sustainability/reports.

While much is new, our efforts to make the business more sustainable also build on the legacy of our founder, J.C. Jacobsen. Adopting his visionary mindset, we plan, for example, to fund scientific research into better solutions to the problems of climate change and water scarcity.

Actions and initiatives in 2016

In 2016, we began working on defining new, more ambitious targets related to the management and reduction of our carbon footprint and water usage. We also prepared to revisit our approach to responsible drinking and establish stricter health & safety targets in order to significantly improve our performance in this area. The new targets will be made available online on www.carlsberggroup.com later in 2017.

Compass

Integrity, responsibility and honest, ethical business conduct are core values of the Carlsberg Group.

We believe that our winning culture can only be successful if supported and maintained by high ethical standards.

> **“Our Compass serves to guide employees across the Group in their daily work.**

Our standards include strict compliance with company policies and applicable laws, rules and regulations, including but not limited to anti-corruption and anti-bribery laws, trade sanctions and export control laws as well as competition laws.

Actions and initiatives in 2016

A new Code of Ethics and Conduct (CoEC) addressing the most relevant ethical work-related issues was launched in Q4. To make the CoEC come alive and embed it across the organisation, an e-learning tool and a Compass game were developed.

A policy house, encompassing general company policies and functional policies, is in the process of being finalised. Employees will always have easy access to the policy house, which will facilitate awareness of and compliance with all Carlsberg Group policies.

Finally, in support of the Group's whistleblower set-up we have signed up for a new “speak up” helpline, which went live in January 2017 (also presented on page 41). The helpline can be used to anonymously report breaches of the CoEC and other policies.

27

Our employees must know what we consider right and wrong. Our new Code of Ethics and Conduct has been translated into 27 languages and is a user-friendly resource that helps our people to determine appropriate actions and behaviour.

SAIL'22 **Compass**

SAIL'22

How we measure success

STRENGTHEN THE CORE

Leverage our strongholds

We will measure our success in revitalising core beer by our ability to grow the gross brand contribution (GBC) from core beer. The base year will be 2016. Our success in Russia will be measured by our ability to deliver organic growth in operating profit.

Excel in execution

Excel in execution includes a number of actions and capability-building initiatives. Excelling in execution must lead to continued improvement of the Golden Triangle, showing our ability to balance and grow GPaL margin, operating profit and market share.

Funding the Journey

By bringing all profit improvement initiatives together in a single programme, we ensure a sharp focus and impactful delivery. Net benefits from Funding the Journey will amount to DKK 1.5-2.0bn, with full impact in 2018. In 2016, we realised approx. DKK 0.5bn.

POSITION FOR GROWTH

Win in growing categories

Our craft & speciality beer and non-alcoholic beer accounted for 10% of net revenue in 2016. The profitability of these brands significantly exceeds the core beer average and our target is to continuously increase their share of net revenue.

Target big cities

Succeeding with this priority will expand our geographic footprint and enable us to generate incremental premium business. Significant contribution is not expected until the end of the strategy period, but from 2018 we will report net revenue growth from big cities.

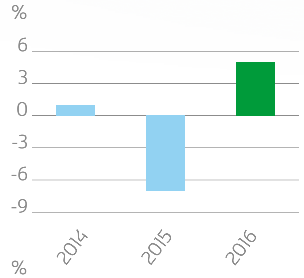
Grow in Asia

The importance of our Asian business for the Group has increased over the years, and in 2016 it accounted for 24% of net revenue and 28% of operating profit. We aim to continue the growth trajectory and deliver organic growth in net revenue and operating profit.

DELIVER VALUE FOR SHAREHOLDERS

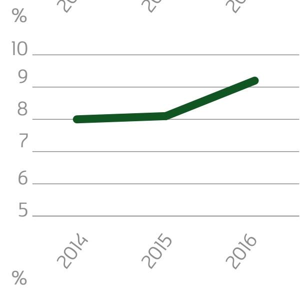
Organic growth in operating pro it

Consistent growth in organic operating profit is testament to our ability to deliver top-line growth and margin improvement. In 2016, organic growth in operating profit was 5%. Reported numbers were impacted by adverse currencies.



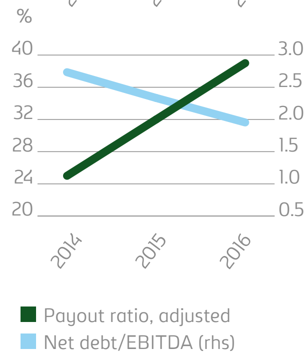
ROIC improvement

In order to drive a positive development in shareholder returns, we will improve the return on invested capital by improving earnings and reducing invested capital. ROIC was 9.2% in 2016, positively impacted by organic earnings growth and reduced fixed assets.



Optimal capital allocation

Investing in profitable growth is our first priority, as this will secure long-term value creation for the Group. Subsequently, we will reduce leverage to below 2.0x, after which we will return more cash to shareholders. We are targeting a payout ratio of 50%. In 2016, it was 39%.



CREATE A WINNING CULTURE

We measure our progress towards creating a winning culture through the annual MyVoice score. In addition, we will define targets for each of our sustainability focus areas.

RISK MANAGEMENT

Managing risks in the best possible way

Risk management governance structure

The Supervisory Board is ultimately responsible for risk management and receives regular updates on the risk pattern and risk-mitigating activities. The Audit Committee monitors the effectiveness of the Group's risk management processes.

Monitoring is mainly performed in connection with the half-year reviews, although the Audit Committee receives quarterly reports on certain risks, such as compliance, legal and regulatory risks.

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

The Executive Committee (ExCom) is responsible for reviewing the overall risk exposure associated with the Group's activities. Risks are assessed according to a two-dimensional heatmap rating system that estimates the impact of the risk on operating profit or brand/image and the likelihood of the risk materialising.

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

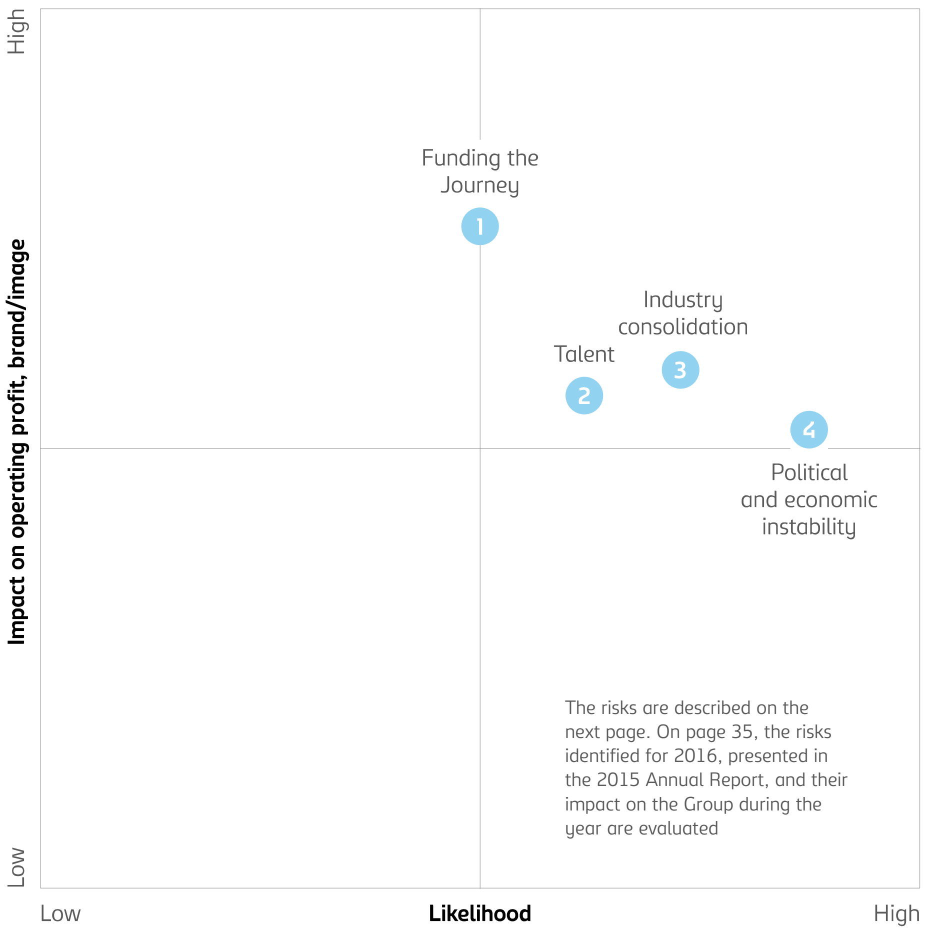
Local entities and Group functions are also responsible for the identification, evaluation, qualification, recording and reporting to management of business risks at local level. Local-level risk assessment follows the same principles and methodology as Group-level risk assessment.

The responsibility for the local review lies with the risk officer, typically the local head of finance, in order to ensure that risk management is incorporated into management meetings, business reviews and key decision-making. Following the risk identification, local risk owners are appointed and given responsibility for mitigating the risks through a programme of risk management activities.

A formal procedure is in place for ongoing identification, assessment and reporting during the year of any new risks that are determined to have a material impact upon the business.

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

High risks identified for 2017



HIGH RISKS 2017

Four areas identified as high risks for 2017

Funding the Journey

Description
Funding the Journey was classified as a high risk for 2016. Although we had achieved approx. DKK 0.5bn of the total net benefits by the end of 2016, Funding the Journey is also viewed as a high risk for 2017 as it remains a key initial success parameter of SAIL'22 and will provide funding for strategic choices.

Possible impact
Failure to successfully implement the Funding the Journey initiatives could result in under-delivery of the expected net benefits of DKK 1.5-2.0bn, impacting on our ability to invest in the SAIL'22 choices and improve operating profit.

Mitigation
The CFO is ultimately in charge of Funding the Journey. A dedicated team will continue to closely monitor and track Funding the Journey initiatives across the Group to ensure the realisation of benefits. Monthly follow-up is carried out by ExCom and quarterly follow-up by the Supervisory Board, enabling fast reaction if needed.

Talent

Description
Although the risk associated with attracting, developing and retaining the appropriately qualified personnel has diminished compared with 2016, talent remains a high risk for 2017. The risk includes shortage of skilled staff to fill current and future positions, and lower-than-required quality of staff in key positions.

Possible impact
Lack of qualified people could be critical for the Group's ability to compete in its markets, pursue the strategic choices of SAIL'22 and grow our business in an effective and profitable way.

Mitigation
We will strengthen our development centres and implement a structured selection process for level 1-3 managers across the Group. Furthermore, we will develop a plan for implementing career paths, starting with selected functions, to further build a solid succession pipeline and talent pool. Finally, we will carry out structured interviews with talents to mitigate the retention risk and develop the talents.

Industry consolidation

Description
Consolidation within the beer industry continues, creating bigger players with increased scale. In addition, consolidation is also taking place among our customers and suppliers.

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

Mitigation
SAIL'22 aims to position the Group in such a way that we are able to act upon and mitigate the impact of industry consolidation. This includes continued investment in our core beer brands and improved performance of our core beer business as well as the pursuit of growth opportunities. In addition, we will seek to further develop our partnerships with suppliers and create alternative sourcing solutions.

Political and economic instability

Description
Adverse economic conditions may result in reduced consumer demand, while major social or political changes may disrupt sales and operations.

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

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

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

HIGH RISKS 2016

Mitigating actions related to the four high risk areas for 2016

Funding the Journey

A very important activity throughout the Group in 2016 was the execution of Funding the Journey, which is described on page 27. Delivery of the expected benefits from Funding the Journey will provide funding for necessary investment in the SAIL'22 priorities, as well as improving Group earnings.

In order to ensure this delivery, a plan was established for implementing Funding the Journey and realising its benefits, enabling close follow-up and prompt action in the event of any deviation from the programme.

Funding the Journey was initially headed up by Chris Warmoth, EVP Group Strategy. After joining the Carlsberg Group as new CFO, Heine Dalsgaard took over this responsibility.

Funding the Journey is well on track, delivering approx. DKK 0.5bn of the expected total net benefits of DKK 1.5-2.0bn in 2016, but has also been classified as a high risk for 2017.

Attracting and retaining talent

Attracting, developing and retaining the appropriately qualified personnel was considered a key area of risk for 2016. The specific risks included shortage of skilled staff to fill current and future positions, and lower-than-required quality of staff in key positions.

In order to mitigate these risks, a number of actions were taken during the year. These included the establishment of a talent development centre and structured development plans, as well as the development of plans and processes for implementing career paths in order to build a solid succession pipeline and talent pools.

Moreover, from 2017 we will carry out structured interviews with talents to mitigate retention risk and develop talents.

Attracting and retaining talents continues to be viewed as a high risk for 2017.

Financial flexibility

The Carlsberg Group currently has a BBB credit rating with outlook Stable with Fitch and a Baa2 credit rating with outlook Stable with Moody's.

The Group is committed to retaining an investment-grade credit rating, which it considers essential for controlling funding costs and terms & conditions, and for securing availability and depth of markets.

Fuelled by Funding the Journey, organic earnings grew by 5% in 2016, while free cash flow was DKK 8.6bn, positively impacted by disposals of non-core businesses. Consequently, at the end of the year, net debt/EBITDA was 1.96x.

In November 2016, Moody's changed its outlook for the Group to Stable from Negative.

Footprint and industry consolidation

The geographic exposure of the Carlsberg Group may lead to deteriorating profits. Additionally, financial constraints may preclude the Group from participating in industry consolidation opportunities.

To mitigate this risk, the Group focused on strengthening the profitability and return on investment of its current business. The new strategy, SAIL'22, including Funding the Journey (see pages 25-32), thus aims to secure sustainable value growth through both profitable top-line growth and cost efficiencies.

By the end of 2016, the Group had improved its financial position in terms of both organic earnings and leverage.

Industry consolidation continues to be categorised as a high risk for 2017.

CORPORATE GOVERNANCE

Supporting good corporate governance

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

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

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

Recommendations on corporate governance

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

With respect to the recommendation that the Articles of Association should stipulate a retirement age for members of the Supervisory Board, Carlsberg A/S' Supervisory Board finds that Board members should be assessed based on their competences rather than their age. For this reason, the Supervisory Board proposed at the Annual General Meeting in March 2016 that the maximum age limit be removed from the Articles. The General Meeting approved the proposal. The age of each Supervisory Board member is disclosed on pages 48-50.

With respect to the recommendation to publish quarterly reports, the Company changed its reporting format in 2016 so that the Q1 and Q3 financial statements were converted into trading statements following a change in the applicable disclosure regulation. The trading statements include volume and net revenue data, along with comments on sales performance in the quarter. The Supervisory Board finds that half-year reporting is more appropriate due to the seasonality of its business and that the Group historically has seen high volatility in quarterly earnings and margins as a result of phasing of costs. The Supervisory Board considers the high volatility as potentially misleading for the understanding of the underlying Group performance, for which reason it found it more appropriate to change to half-yearly reporting.

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

The Annual General Meeting

The 2016 Annual General Meeting (AGM) took place on 17 March. The minutes of the meeting are available on www.carlsberggroup.com. The AGM adopted two changes to the Articles of Association in 2016: 1. Waiving of the maximum age limit for members of the Supervisory Board, whereby article 27(4), including any references to the same, was consequently deleted from the Articles of Association; and 2. Abolition of the issue of shares to bearer in order to comply with Danish regulation.

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

Download our statutory report on corporate governance

www.carlsberggroup.com/Company/Governance/Pages/UKrecommendations.aspx

Carlsberg's governance structure

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

The Supervisory Board hires and supervises the Executive Board, which consists of the CEO and CFO, who are not members of the Supervisory Board. The Group also has a wider Executive Committee (ExCom), which, in addition to the two Executive Board members, consists of a wider group of Executive Vice Presidents, portrayed on page 51. While the Executive Board members are formally registered as executive directors of the Company, the ExCom collectively prepares and implements the Company's strategic plans.

The composition of the Supervisory Board

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

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

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

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

SAIL'22 Grow in Asia

Tuborg was launched in China in 2012. Since 2013, the brand has sponsored 15-20 annual Greenfest and Strawberry music festivals. On average, around 20,000-30,000 people attend each festival. In addition, millions of people are influenced through social media and traditional media coverage. These music festivals strengthen the Tuborg brand image of being young, trendy and edgy. In 2016, Tuborg grew by 12% in China and cemented its position as the second largest international brand in the country.

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

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

These skills are described in the Specification of Competences, available on www.carlsberggroup.com. The Nomination Committee and the Supervisory Board take the description of the required skills into consideration when recommending new candidates for the Supervisory Board.

None of the members of the Supervisory Board are or have been involved in the executive management of the Group.

Information on the Supervisory Board members, including their competences, is shown on pages 48-50. Detailed CVs can be found on www.carlsberggroup.com.

Diversity

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

- With regard to international experience, the objective is that 50% or more of the Supervisory Board members elected by the General Meeting should have substantial international experience from managing large corporations or institutions. The current composition of the Supervisory Board fulfils this objective. Furthermore, with a representation of more than 20 nationalities, the international experience of the Carlsberg leadership team is significant.
- The proportion of the underrepresented gender (currently women) on the Supervisory Board should reach at least 40% of the members elected by the General Meeting no later than 2017. This objective has not yet been met as three out of 10 Supervisory Board members elected by the General Meeting are women.

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

In 2016, these actions included the following:

- As part of the Group Recruitment Policy, recruitment firms were asked to present at least one qualified female candidate when the Group recruits for senior management positions.
- At least one third of the participants in the Group's leadership programme should be women. This target was met in 2016, as 30% of the leadership programme nominees were women.
- Our leadership development centres support individual development towards senior leadership positions. In 2016, one third of the participants were women.

The work of the Supervisory Board

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

The Chairman and Deputy Chairman of the Supervisory Board constitute the Chairmanship. The specific duties of the Chairman – and in his absence the Deputy Chairman – are set out in the Rules of Procedure. In 2016, the Chairmanship and the Executive Board held six meetings. The Supervisory Board of Carlsberg A/S held six meetings as well as a full-day

Supervisory Board work in 2016

Strategy

- Discussed, reviewed and approved the new strategy, SAIL'22, and monitored the implementation of it throughout the year.
- Followed and discussed the development of strategies and plans within the various strategic priorities of SAIL'22, including in particular "Revitalise core beer" (review of the plans for the Group's major brands) and "Transform our business in Russia" (discussing commercial plans and other initiatives with the Executive Board and ExCom, in particular the Executive Vice President for Eastern Europe).
- Monitored the continued roll-out of the Funding the Journey initiative aiming to deliver net benefits of DKK 1.5-2bn.
- Conducted ongoing review of and debate on M&A, R&D, innovation, branding and other strategic projects, and their role in the Group strategy.
- Reviewed and approved the Group's capital structure and funding.

People, succession planning and talent management

- Reviewed succession planning for the executive management.
- Discussed the composition of and succession planning for the Supervisory Board and its committees internally and with an external recruitment firm.
- Attended presentations by executive vice presidents, country managing directors and function vice presidents, and debated with them their areas of responsibility, thus further familiarising the Supervisory Board with the Group's key people, markets and functions.
- Reviewed and debated HR strategy, in particular the triple A (alignment, accountability, action) system forming part of the SAIL'22 priority to foster team-based performance.
- Discussed organisational restructuring, management and development of the internal talent pool, and general succession planning.
- Discussed and approved the bonus structures in the Group's incentive programme to ensure that it supports and is aligned with SAIL'22.

Compliance and core values

- Discussed and reviewed the development of the Compass initiative, which is part of SAIL'22 and aims to clarify and reinforce the Carlsberg Group's identity and culture, internally and externally, ensuring the proper positive behaviours and high integrity that the Group wishes to promote.
- Discussed the Group's sustainability strategy and initiatives forming part of the SAIL'22 ambition for the Group to contribute to a better society.
- Reviewed and discussed plans to improve and develop the Health & Safety programme.

Governance and risk management

- Reviewed the outcome of the Board evaluation process 2015, including follow-up on all suggestions.
- Reviewed and debated the Group Internal Audit reports and the working processes around them to ensure efficiency and good governance, and monitored the new VP Group Internal Audit's restructuring of the Group Internal Audit function (through the Audit Committee).
- Monitored the development of a new policy set-up that consolidates existing policies and closes gaps by introducing new policies where needed, with the purpose of ensuring effective enforcement of Group policies.
- Held separate sessions with the head of Group Internal Audit, head of Group Finance and head of Group Accounting, without the presence of the executive directors, to ensure that these functions have the appropriate support and resources, and to allow them to raise potential concerns (through the Audit Committee).
- Discussed relevant specific issues and ways of working with the external auditor (through the Audit Committee), without the presence of executives and management.
- Approved the initiation of an audit tender process for the purpose of recommending an external auditor for election at the 2017 Annual General Meeting.

strategy seminar with subsequent follow-up discussions regarding the new seven-year strategy, SAIL'22.

The Executive Board always attends the Supervisory Board meetings and, in order to improve transparency and ensure accurate execution of the Board decisions, the members of ExCom are also invited to attend and share their opinions. This gives the Supervisory Board better insight into the business.

In addition, the Supervisory Board and ExCom have evening meetings prior to each Supervisory Board meeting at which key people from the Group present a market or other relevant topics. In 2016, these included various topics relating to the new strategy, SAIL'22, such as Tuborg and Carlsberg brand strategy, winning behaviours and "Purpose", and UEFA EURO 2016™.

Supervisory Board Meetings

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

[1] Elected by the General Meeting. [2] Independent. [3] Employee-elected.
● Attended meeting. ○ Did not attend meeting.

Supervisory Board evaluation process

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

During the evaluation process in 2016, the Supervisory Board members generally expressed that they were very content with the structure and function of the Supervisory Board and, in particular, with the detailed meeting planning, the amount and quality of meeting material, and the presentation of issues by the Executive Board and the subsequent open discussions at the Supervisory Board meetings.

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

Board committees

The Audit Committee

In 2016, the Audit Committee consisted of three members. The Audit Committee is appointed for one year at a time. All members of the Committee qualify as being independent of the Company and all possess the relevant financial expertise.

The Audit Committee works according to Terms of Reference and a detailed annual meeting plan, both of which are reviewed and approved by the Supervisory Board prior to the beginning of each financial year. The Supervisory Board approved the Audit Committee meeting plan for 2017 and the current Terms of Reference at the Supervisory Board meeting in December 2016. The Terms of Reference are available on the Company's website.

In 2016, the Audit Committee had, in addition to its statutory duties, particular focus on:

- Ensuring a satisfactory control environment with due processes in place, especially with a view to the Group's outsourcing of tasks and definition of roles and access rights in relation to controls and approval processes as well as identifying gaps in automated controls and manual bridging of the same.
- Restructuring and strengthening the Group Internal Audit function globally.
- Monitoring Funding the Journey target setting and the audit of these targets.
- Reviewing and considering tax structures.
- Approving a new policy for use of auditors and following up on the implementation of two new policies on, firstly, Governance of Group Companies and, secondly, Charts of Authority and Signing Rules.
- Overseeing the onboarding of the new CFO and head of Group Internal Audit.
- Monitoring the audit tender process initiated by the Supervisory Board in 2016 with the purpose of recommending an external audit firm for appointment at the 2017 Annual General Meeting.

The Nomination Committee

In 2016, the Nomination Committee consisted of three members. The Nomination Committee is appointed for one year at a time. The Chairman of the Committee does not qualify as being independent, while the other two members do.

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

In 2016, the Committee had particular focus on:

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

Audit Committee meetings

Committee member	Committee meetings attended
Donna Cordner (Chairwoman)	✓✓✓✓✓✓
Richard Burrows	✓✓✓✓✓✓
Lars Rebien Sørensen	✓✓✓✓✓✗
Flemming Besenbacher[1]	✓✓✓✓✓✓

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

Nomination Committee meetings

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

✓ Attended meeting. ✗ Did not attend meeting.

The Remuneration Committee

The work of the Remuneration Committee is described in the Remuneration report on pages 42-47.

Auditing

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

In 2016, the Supervisory Board initiated a an audit tender process with the purpose of recommending an external audit firm for appointment at the 2017 Annual General Meeting.

Internal control and risk management related to the financial reporting process

Overall control environment

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

The Group has a number of policies and procedures in key areas of financial reporting, including the Finance Manual, the Controller Manual, the Chart of Authority, the Risk Management Policy, the Financial Risk Management Policy, the Information Security 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 internal control and risk management systems are designed to mitigate rather than eliminate the risks identified in the financial reporting process. Internal controls related to the financial reporting process are established to detect, mitigate and correct material misstatements in the consolidated financial statements.

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

Risk assessment

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

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

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

Group's financial control framework reporting covers relevant Group companies and functions to the level where high-risk areas are at least 80% covered and medium-risk areas at least 60%. Low-risk areas are not covered.

Control activities
The Group has implemented a formalised financial reporting process for the strategy process, budget process, quarterly estimates and monthly reporting on actual performance. The accounting information reported by all Group companies is reviewed both by controllers with regional or functional in-depth knowledge of the individual companies/functions and by technical accounting specialists. In addition, significant Group companies have controllers with extensive commercial and/or supply chain knowledge and insight.

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

The outsourcing of key processes and procedures during 2016 impacted the control environment and the quality with which processes and controls were performed during the implementation phase. This was still ongoing at the end of the year.

The first part of the implementation will be completed during the first half of 2017 and will be followed by further activities. The Group puts extensive compensating procedures and controls in place to ensure timely reporting of the required quality for internal and external financial reporting purposes.

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

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

Group Internal Audit

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

A new head of Group Internal Audit was onboarded in 2016. He reports to the CFO and Chairman of the Audit Committee. The Audit Committee must approve the appointment and potential dismissal of the head of Group Internal Audit as well as changes to his terms.

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

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

Speaking up

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

The Speak Up programme allows concerns to be brought to the attention of Group Compliance anonymously and via multiple channels. The Compliance Officer is responsible for reviewing all reported Speak Up matters and the reporting thereof to the Audit Committee at least every quarter. In 2016, 55 concerns submitted through the Speak Up system facilitated by an external provider or otherwise brought to the attention of the CCO were reviewed.

As of 2017, a sophisticated and more user-friendly Speak Up system will go live. Furthermore, the newly established Integrity Committee, chaired by the CFO, will oversee the follow-up of major Speak Up investigations.

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

REMUNERATION

Remuneration to ensure alignment with shareholders

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

The current Remuneration Policy was developed four years ago, and minor changes were implemented in 2015.

In 2016, the Remuneration Committee reviewed the Remuneration Policy for the Executive Board. While it is not proposing any change to the structure of pay, the Committee proposes to simplify the calculation of long-term incentive awards by changing from a fair-value-based to a face-value-based maximum long-term incentive award level and will propose to the shareholders at the 2017 Annual General Meeting that the Remuneration Policy be amended accordingly.

Remuneration of the Executive Board

Remuneration Policy

The main elements of the executive directors' remuneration arrangements are summarised in the table on page 44 and explained in more detail in the following paragraphs.

Our approach to remuneration

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

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

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

The Company's full Remuneration Policy for the Supervisory Board and Executive Board, and guidelines for incentive programmes as approved at the Annual General Meeting on 17 March 2016, are available on the Company's website.

Main activities in 2016

During 2016, the main activities of the Remuneration Committee were:

- Determining levels of long-term incentive awards for 2016.
- Considering shareholders' feedback from the 2016 Annual General Meeting.
- Reviewing the Remuneration Policy for the Executive Board and agreeing changes to the policy.
- Considering the achievement of performance criteria for the annual bonus plan for 2015.
- Reviewing fixed salary levels, bonus targets and levels of long-term incentive awards for 2017.
- Evaluating the remuneration of the Supervisory Board.

2017 objectives

- Monitoring the workings and outcomes of the revised remuneration structure for 2017 to support the Group's strategy.
- Reviewing the performance share programme for 2018 and beyond.

The Committee's responsibilities

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

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

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

Fixed salary

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

In 2016, the Committee and the Supervisory Board decided not to increase the executive directors' fixed salaries in 2017, in light of the fact that they were both recently hired.

Annual bonus

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

For 2017, the potential maximum bonus will remain at 100% of fixed salary, with 60% of fixed salary payable for on-target performance.

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

For 2017, the annual bonus comprises two elements. The first element, accounting for 80% of the bonus, is based on three measures: operating profit, return on invested capital (ROIC) and free cash flow.

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

Long-term incentive arrangements

As of 2017, the long-term incentive arrangements for the executive directors will consist of performance shares only.

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

The use of face-value-based evaluation of the value of the performance shares is subject to the approval of the shareholders at the 2017 Annual General Meeting. The previous evaluation based on fair value (i.e. an estimate of the expected present value of an award) is 200% of fixed salary.

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

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

The performance share award will be subject to three performance conditions measured over three years: total shareholder return, earnings per share, and a balanced scorecard of financial and non-financial strategic measures.

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

Remuneration Committee meetings

Committee member	Committee meetings attended
Richard Burrows (Chairman)	
Lars Rebien Sørensen	
Kees van der Graaf	
Elisabeth Fleuriot	
Flemming Besenbacher[1]	

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

Remuneration Policy

Element of pay	Objective	Award level	Performance criteria	Performance period
Fixed salary	Attract and retain high-performing individuals by reflecting market value of role and executive's skills and experience. Reward day-to-day performance. Set at a level to prevent over-reliance on variable pay.	Takes into account the market rate for similar roles in international comparator companies as well as executive's skills and experience.	No performance criteria per se, but the performance of the individual is taken into account when fixed salary levels are reviewed.	N/A
Benefits	Operate a competitive benefits suite to aid recruitment and retention.	Perquisites and other benefits corresponding to market practices.	N/A	N/A
Pension	Executives make their own provision for retirement.	N/A	N/A	N/A
Annual bonus plan	Drive and reward delivery of short-term business objectives.	Maximum bonus opportunity is 100% of fixed salary. Bonus opportunity at target is 60% of fixed salary.	Operating profit, return on invested capital, free cash flow, strategic measures.	N/A
Long-term incentive plan	Drive and reward delivery of longer-term business objectives. Maximise alignment with shareholder value.	Subject to approval by the AGM of the revised Remuneration Policy, the maximum level of long-term incentive awards is 300% of fixed salary based on the face value of the award at the grant date. If the AGM resolves to maintain the Remuneration Policy unchanged, the maximum level is 200% of fixed salary, based on the fair value of the award at the grant date.	• Relative total shareholder return (TSR). • Growth in adjusted EPS. • Scorecard strategic measures.	3 years with 3-year vesting.

Performance share award – performance criteria for 2017

Measure	Description	Performance condition and period	Weighting
Relative total shareholder return (TSR)	TSR measures the total return to investors. The Group's TSR performance will be measured relative to a comparator group of 16 companies[1].	• Measured over 3 years from grant date. • 25% of TSR element vests if the Group's TSR performance is at median of peer group's[1]. • 100% vests for upper-quartile performance. • Straight-line vesting between median and upper quartile.	30%
Adjusted EPS growth	Adjusted EPS growth targets measure the Group's underlying financial success.	• Measured over 3 financial years. • 25% of the adjusted EPS element vests for 3% p.a. growth. • 100% vests for 8% p.a. growth. • Straight-line vesting between 3% p.a. and 8% p.a.	40%
Strategic measures	A scorecard of measures that assesses the Group's progress against financial and non-financial strategic priorities.	• Measured over 3 financial years.	30%

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

Reclaiming variable pay

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

Share ownership guidelines

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

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

Executive directors' service contracts

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

Remuneration of the Executive Board in 2016

Fixed salary

The actual fixed salary paid to Cees 't Hart in 2016 was DKK 12.0m. The annual fixed salary for Heine Dalsgaard is DKK 7.3m; in 2016, Heine Dalsgaard was paid an amount of DKK 4.2m as the pro-rated amount for his period of service with the Carlsberg Group in 2016.

SAIL'22 Leverage our strongholds

Switzerland is an important market in our Western Europe region and our local brewery, Feldschlösschen, holds a strong no. 1 position. At the end of April 2016, Feldschlösschen opened its doors to celebrate the brewery's 140th anniversary and the Day of Swiss Beer. More than 10,000 guests visited the brewery, which hosted a number of events. One highlight was the Brewery Way, where employees explained each step of the beer-making process. Special attention was also given to Feldschlösschen's initiatives within responsible drinking and sustainability.

Annual bonus

For the financial year 2016, 83.2% of the maximum bonus, being 100% of fixed salary, was payable for performance in 2016 for the CEO. The bonus payable amounts to DKK 10.0m for Cees 't Hart.

A bonus of DKK 7.3m is payable to Heine Dalsgaard in respect of the 2016 financial year. This equates to a target bonus of 100% of maximum for the full year 2016.

Payments for remuneration forfeited on leaving previous employer

The CFO will be paid an amount of DKK 15m to compensate him for remuneration forfeited on leaving his previous employer. Half of the amount, DKK 7.5m, was paid in 2016. The second half of the payment, DKK 7.5m, will be paid in 2017, subject to the CFO not having given notice of resignation during the first 12 months of his employment.

Long-term incentive awards

Granted in 2016

In the financial year 2016, the CEO and CFO were granted long-term incentive awards that, at the time of award, had a fair value of 196% and 200% of fixed full-year salary respectively. The composition of these awards is shown in the table on page 46.

Shareholdings

The number of shares and share options in Carlsberg A/S held by Cees 't Hart and Heine Dalsgaard and the movements during 2016 are shown in the table on page 46. The table includes the holdings of the related parties of the CEO and CFO.

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

Remuneration of executive directors and key management personnel

	Cees 't Hart		Heine Dalsgaard	Key management personnel	
DKK million	2016	2015	2016	2016	2015
Fixed salary	12.0	7.0	4.2	35.7	38.0
Cash bonus	10.0	4.2	7.3	11.2	11.4
Special bonus[1]	-	5.8	11.9[2]	-	-
Severance payments	-	-	-	29.5	4.0
Non-monetary benefits	1.3	0.5	0.2	5.7	4.5
Funding the Journey cash plan	-	-	-	20.7	-
Share-based payments	12.8	2.5	1.9	5.2	6.0
Total	**36.1**	**20.0**	**25.5**	**108.0**	**63.9**

[1] Special bonus covering remuneration waived from previous employer.
[2] DKK 7.5m paid in 2016. DKK 4.4m accrued for special bonus to be paid in 2017.

Share ownership guidelines

	Share ownership guideline as % of fixed salary	Actual % held at 31 Dec. 2016	Fair value of unvested options and performance shares as % of fixed salary (prior to deduction for tax and incidental costs)
Cees 't Hart	150%	20%	321%
Heine Dalsgaard	120%	63%	186%

Executive directors' holding of Carlsberg A/S shares

		Number				DKK million
		1 Jan. 2016	Additions	Sold	31 Dec. 2016	Market value
Cees 't Hart	B shares	4,000	-	-	4,000	2.44
Heine Dalsgaard	B shares	-	7,515	-	7,515	4.58

Executive directors' granted share options and performance shares

		Number				DKK million
Grant year	Exercise year	1 Jan. 2016	Granted	31 Dec. 2016	For exercise 31 Dec.	Fair value 31 Dec.
Share options						
Cees 't Hart						
2015	2018-2023	97,334	-	97,334	-	15
2016	2019-2024	-	17,650	17,650	-	2
Total		**97,334**	**17,650**	**114,984**	**-**	**17**
Performance shares						
Cees 't Hart						
2016-2018	2019	-	14,709	14,709	-	8
Total		**-**	**14,709**	**14,709**	**-**	**8**
Heine Dalsgaard					-	
2016-2018	2019	-	10,370	10,370	-	5
Total		**-**	**10,370**	**10,370**	**-**	**5**
Funding the Journey performance shares						
Cees 't Hart						
2016-2018	2019	-	23,415	23,415	-	14
Total		**-**	**23,415**	**23,415**	**-**	**14**
Heine Dalsgaard						
2016-2018	2019	-	13,827	13,827	-	8
Total		**-**	**13,827**	**13,827**	**-**	**8**
Executive directors, total		**97,334**	**79,971**	**177,305**	**-**	**52**

Remuneration of the Supervisory Board

Remuneration Policy
The remuneration of the Supervisory Board for 2016 was approved by the Annual General Meeting in March 2016.

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

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

Members of the Supervisory Board are not included in share incentive programmes, retirement benefit plans or other schemes. No agreements have been entered into concerning termination benefits, and no such payments were made in 2016.

Remuneration of the Supervisory Board in 2016
The fees for members of the Supervisory Board for the financial year 2016 are set out in the table below. The number of shares in Carlsberg A/S held by Supervisory Board members, including holdings of related parties, at the beginning of the financial year and movements to 31 December 2016 are also shown below.

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

Supervisory Board remuneration principles in 2016

	(DKK thousand) Base fee	(as % of base fee) Additional fee
All Supervisory Board members	400	
Chairman of Supervisory Board		250%
Deputy Chairman of Supervisory Board		50%
Chairwoman of Audit Committee		113%
Chairmen of Remuneration Committee and Nomination Committee		50%
Member of Board Committee (per Committee)		38%

Remuneration of the Supervisory Board

DKK million	2016	2015
Flemming Besenbacher (Chairman of the Supervisory Board and the Nomination Committee)	1.40	1.40
Lars Rebien Sørensen (Deputy Chairman)	1.06	0.84
Hans Andersen	0.40	0.40
Carl Bache	0.40	0.40
Richard Burrows (Chairman of the Remuneration Committee)	0.75	0.75
Donna Cordner (Chairwoman of the Audit Committee)	0.85	0.85
Eva Vilstrup Decker	0.40	0.40
Elisabeth Fleuriot	0.55	0.55
Kees van der Graaf	0.70	0.70
Finn Lok	0.40	0.40
Erik Lund	0.40	0.07
Søren-Peter Fuchs Olesen	0.40	0.40
Peter Petersen	0.40	0.40
Elena Pachkova	-	0.15
Nina Smith	0.40	0.40
Lars Stemmerik	0.40	0.40
Jess Søderberg	-	0.25
Total	**8.91**	**8.76**

Supervisory Board members' holdings of Carlsberg A/S shares

		Number				DKK million
		1 Jan. 2016	Additions	Sold	31 Dec. 2016	Market value
Flemming Besenbacher	B shares	1,850	-	-	1,850	1.13
Lars Rebien Sørensen	B shares	-	-	-	-	-
Hans Andersen	B shares	1	-	-	1	0.00
Carl Bache	B shares	100	-	-	100	0.06
Richard Burrows	B shares	2,040	-	-	2,040	1.24
Donna Cordner	B shares	-	-	-	-	-
Eva Vilstrup Decker	B shares	68	-	-	68	0.04
Elisabeth Fleuriot	B shares	-	-	-	-	-
Kees van der Graaf	B shares	950	-	-	950	0.58
Finn Lok	B shares	-	-	-	-	-
Erik Lund	B shares	54	-	-	54	0.03
Søren-Peter Fuchs Olesen	B shares	652	-	-	652	0.40
Peter Petersen	B shares	-	-	-	-	-
Nina Smith	B shares	392	-	-	392	0.24
Lars Stemmerik	B shares	-	-	-	-	-
Total		**6,107**	**-**	**-**	**6,107**	**3.72**

Supervisory Board

Flemming Besenbacher
Chairman (since 2012)

Nationality: Danish
Year of birth: 1952
Appointed (until): 2005 (2017)

Board function
Non-executive, non-independent director.

Board committees
Nomination Committee (Chairman).

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

Non-executive functions
Member of the boards of the Danish Innovation Fund, Unisense, CfL, UNLEASH and the Danish government's advisory boards for circular economy and digital growth.

Lars Rebien Sørensen
Deputy Chairman (since 2015)

Nationality: Danish
Year of birth: 1954
Appointed (until): 2015 (2017)

Board function
Non-executive, independent director.

Board committees
Audit Committee, Remuneration Committee, Nomination Committee.

Professional position
Non-executive board director.

Non-executive functions
Member of the board of Thermo Fisher Scientific Inc.

Hans Andersen

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

Board function
Employee representative.

Board committees
None.

Professional position
Brewery worker, Carlsberg Supply Company Danmark A/S.

Non-executive functions
None.

Carl Bache

Nationality: Danish
Year of birth: 1953
Appointed (until): 2014 (2017)

Board function
Non-executive, non-independent director.

Board committees
None.

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

Non-executive functions
Member of the Board of Directors of the Carlsberg Foundation and of the board of a publishing firm.

Richard Burrows

Nationality: Irish
Year of birth: 1946
Appointed (until): 2009 (2017)

Board function
Non-executive, independent director.

Board committees
Audit Committee, Remuneration Committee (Chairman).

Professional position
Non-executive board director.

Non-executive functions
Chairman of the board of British American Tobacco and Craven House Capital and a non-executive director of the board of Rentokil Initial plc.

The Supervisory Board members' full CVs, including skills and competences, are available on www.carlsberggroup.com.

Supervisory Board

Donna Cordner

Nationality: American
Year of birth: 1956
Appointed (until): 2012 (2017)

Board function
Non-executive, independent director.

Board committees
Audit Committee (Chairwoman).

Professional position
Managing partner of OKM Capital.

Non-executive functions
Member of the Supervisory Board of Lia Diagnostics.

Eva Vilstrup Decker

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

Board function
Employee representative.

Board committees
None.

Professional position
Director, Carlsberg Breweries A/S.

Non-executive functions
None.

Elisabeth Fleuriot

Nationality: French
Year of birth: 1956
Appointed (until): 2012 (2017)

Board function
Non-executive, independent director.

Board committees
Remuneration Committee.

Professional position
CEO of Thai Union Europe.

Non-executive functions
Member of the Supervisory Board of Stora Enso Oyj.

Kees van der Graaf

Nationality: Dutch
Year of birth: 1950
Appointed (until): 2009 (2017)

Board function
Non-executive, independent director.

Board committees
Remuneration Committee, Nomination Committee.

Professional position
Non-executive board director.

Non-executive functions
Chairman of the Supervisory Boards of GrandVision NV and FSHD Unlimited. Member of the Supervisory Board of EnPro Industries Inc.

Finn Lok

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

Board function
Employee representative.

Board committees
None.

Professional position
Ph.D., Senior Scientist, Carlsberg A/S.

Non-executive functions
None.

The Supervisory Board members' full CVs, including skills and competences, are available on www.carlsbergroup.com.

Supervisory Board

Erik Lund

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

Board function
Employee representative.

Board committees
None.

Professional position
Head Brewer, Carlsberg A/S.

Non-executive functions
None.

Søren-Peter Fuchs Olesen

Nationality: Danish
Year of birth: 1955
Appointed (until): 2012 (2017)

Board function
Non-executive, non-independent director.

Board committees
None.

Professional position
Professor, D.M.Sc; Director of the Danish Arrhythmia Research Centre.

Non-executive functions
Member of the Board of Directors of the Carlsberg Foundation.

Peter Petersen

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

Board function
Employee representative.

Board committees
None.

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

Non-executive functions
None.

Nina Smith

Nationality: Danish
Year of birth: 1955
Appointed (until): 2013 (2017)

Board function
Non-executive, non-independent director.

Board committees
None.

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

Non-executive functions
Member of the Board of Directors of the Carlsberg Foundation and Deputy Chairman of the Supervisory Board of Nykredit Realkredit A/S and Nykredit Holding.

Lars Stemmerik

Nationality: Danish
Year of birth: 1956
Appointed (until): 2010 (2017)

Board function
Non-executive, non-independent director.

Board committees
None.

Professional position
Professor, D.Sc; non-executive director.

Non-executive functions
Member of the Board of Directors of the Carlsberg Foundation.

The Supervisory Board members' full CVs, including skills and competences, are available on www.carlsberggroup.com.

Executive Committee (ExCom)

Cees 't Hart
CEO since 2015.

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

Heine Dalsgaard
CFO since 2016.

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, a leading global pump manufacturer. Heine's previous experience includes various senior management and financial positions at companies such as Carpetland, Hewlett Packard and Arthur Andersen.

Chris Warmoth
Executive VP, Corporate Strategy since 2016.

Chris joined Carlsberg as Senior Vice President, Asia in 2014. He came from H.J. Heinz, where he held various senior management positions in Continental and Eastern Europe and the Far East with his last position being Executive VP for Asia Pacific, Middle East and Africa. Prior to joining Heinz, Chris worked for The Coca-Cola Company and P&G.

Michiel Herkemij
Executive VP, Western Europe since 2016.

Michiel joined Carlsberg in October 2015, serving as Interim CEO of Carlsberg UK. Prior to joining Carlsberg, he held senior management positions across Europe, Asia, Africa and the Americas in fast moving consumer goods companies such as Douwe Egberts, Heineken, Friesland Foods and British American Tobacco.

Jacek Pastuszka
Executive VP, Eastern Europe since 2015.

Jacek has been Managing Director of Baltika Breweries since 2015. He joined Carlsberg in 2009 as CEO of Carlsberg Polska. From 2011 to 2014, he was CEO of Carlsberg's Norwegian subsidiary. Prior to joining Carlsberg, Jacek was CEO of AIG in Poland. He has also held senior management positions in P&G both in Poland and internationally, and in Danone Dairy in Poland and the Baltic States.

Graham Fewkes
Executive VP, Asia since 2015.

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

Philip A. Hodges
Executive VP, Group Supply Chain since 2017.

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

Claudia Schlossberger
Executive VP, Group HR since 2012.

Claudia joined Carlsberg in 2012. She was previously Chief HR Officer with the Metro Group and Metro Cash & Carry. Prior to that, she held various senior HR leadership positions across Daimler Benz, where she started in marketing and sales in 1982, having worked in Russia and India.

Until 31 December 2016, Peter Ernsting was Executive Vice President, Supply Chain. Until 31 March 2016, Jørn Tolstrup Rohde was Senior Vice President, Western Europe.

SHAREHOLDER INFORMATION

Aiming to ensure a fair and efficient share price

Carlsberg A/S is listed on Nasdaq Copenhagen. The Company has around 41,400 registered shareholders.

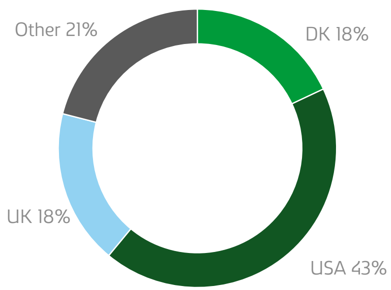
The Company has two share classes: Carlsberg A and Carlsberg B. Each A share carries 20 votes, while each B share carries two votes and is entitled to a preferential dividend. The B share is included in the Nasdaq OMX Nordic Large Cap and OMXC20 blue-chip indices.

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

Major shareholders

At 31 December 2016, the Company's largest shareholder was the Carlsberg Foundation with 30% of the capital and 75% of the votes. In accordance with section 29 of the Danish Securities Trading Act, Massachusetts Financial Services Company has notified Carlsberg that it too owns more than 5% of the share capital.

Shareholder geographic split



Investor relations

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

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

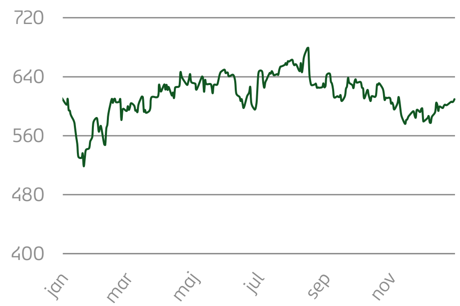
Company website

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

A total of 39 analysts have coverage of the Company. Their names, recommendations and consensus estimates can be found on the website.

Share price 2016

(DKK per share, Carlsberg B)



Share information

Share class	A	B	Total
Number of shares	33,699,252	118,857,554	152,556,806
Carlsberg Foundation	33,020,540	13,243,432	46,263,972
Votes per share	20	2	
Par value	DKK 20	DKK 20	
Share price, year-end	607.0	609.5	
Proposed dividend per share	DKK 10.0	DKK 10.0	

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements

Income statement

DKK million	Section	2016	2015
Revenue		86,957	91,012
Excise duties on beer and soft drinks etc.		-24,343	-25,658
Net revenue	1.2	**62,614**	**65,354**
Cost of sales	1.3.1	-31,195	-33,429
Gross profit		**31,419**	**31,925**
Sales and distribution expenses	1.3.3	-18,476	-19,158
Administrative expenses		-5,220	-4,909
Other operating activities, net	1.3.4	198	235
Share of profit after tax of associates and joint ventures	5.4	324	364
Operating profit before special items		**8,245**	**8,457**
Special items, net	3.1	251	-8,659
Financial income	4.1	919	490
Financial expenses	4.1	-2,166	-2,021
Profit before tax		**7,249**	**-1,733**
Corporation tax	6.1	-2,392	-849
Consolidated profit		**4,857**	**-2,582**
Attributable to			
Non-controlling interests	5.3	371	344
Shareholders in Carlsberg A/S		4,486	-2,926

DKK			
Earnings per share	8.1		
Basic earnings per share of DKK 20		29.4	-19.2
Diluted earnings per share of DKK 20		29.4	-19.2

Statement of comprehensive income

DKK million	Section	2016	2015
Consolidated profit		**4,857**	**-2,582**
Other comprehensive income			
Retirement benefit obligations	7.4	-957	-334
Share of other comprehensive income in associates and joint ventures	5.4	3	-2
Corporation tax	6.1	55	84
Items that will not be reclassified to the income statement		**-899**	**-252**
Foreign exchange adjustments of foreign entities	4.1	5,843	-3,824
Value adjustments of hedging instruments	4.1	141	-437
Corporation tax	6.1	-34	76
Items that may be reclassified to the income statement		**5,950**	**-4,185**
Other comprehensive income		**5,051**	**-4,437**
Total comprehensive income		**9,908**	**-7,019**
Attributable to			
Non-controlling interests		393	604
Shareholders in Carlsberg A/S		9,515	-7,623

Statement of financial position

DKK million	Section	31 Dec. 2016	31 Dec. 2015
ASSETS			
Non-current assets			
Intangible assets	2.3, 2.4	76,736	72,920
Property, plant and equipment	2.3, 2.4	25,810	26,678
Investments in associates and joint ventures	5.4	4,701	4,676
Receivables	1.6	1,071	1,854
Deferred tax assets	6.2	1,610	1,697
Total non-current assets		**109,928**	**107,825**
Current assets			
Inventories	1.3.1	3,963	3,817
Trade receivables	1.6	5,485	5,729
Tax receivables		278	324
Other receivables	1.6	2,488	2,532
Prepayments		1,137	1,074
Cash and cash equivalents	4.4.2	3,502	3,131
Total current assets		**16,853**	**16,607**
Assets held for sale	5.5	125	469
Total assets		**126,906**	**124,901**

DKK million	Section	31 Dec. 2016	31 Dec. 2015
EQUITY AND LIABILITIES			
Equity			
Share capital	4.3.2	3,051	3,051
Reserves		-29,501	-35,447
Retained earnings		77,261	75,885
Equity, shareholders in Carlsberg A/S		**50,811**	**43,489**
Non-controlling interests		2,839	3,742
Total equity		**53,650**	**47,231**
Non-current liabilities			
Borrowings	4.2, 4.4	21,137	31,479
Retirement benefit obligations and similar obligations	7.4	4,878	5,235
Deferred tax liabilities	6.2	6,250	5,924
Provisions	3.2	3,642	3,374
Other liabilities		3,199	1,899
Total non-current liabilities		**39,106**	**47,911**
Current liabilities			
Borrowings	4.2, 4.4	9,067	4,549
Trade payables		13,497	12,260
Deposits on returnable packaging	1.3.2	1,681	1,819
Provisions	3.2	722	648
Corporation tax		935	601
Other liabilities etc.		8,233	9,794
Total current liabilities		**34,135**	**29,671**
Liabilities associated with assets held for sale	5.5	15	88
Total liabilities		**73,256**	**77,670**
Total equity and liabilities		**126,906**	**124,901**

Statement of changes in equity

DKK million	Shareholders in Carlsberg A/S							
2016	**Share capital**	**Currency translation**	**Hedging reserves**	**Total reserves**	**Retained earnings**	**Equity, shareholders in Carlsberg A/S**	**Non-controlling interests**	**Total equity**
Equity at 1 January	**3,051**	**-34,910**	**-537**	**-35,447**	**75,885**	**43,489**	**3,742**	**47,231**
Consolidated profit	**-**	**-**	**-**	**-**	**4,486**	**4,486**	**371**	**4,857**
Other comprehensive income								
Foreign exchange adjustments of foreign entities	-	5,835	-	5,835	-	5,835	8	5,843
Value adjustments of hedging instruments	-	12	129	141	-	141	-	141
Retirement benefit obligations	-	-	-	-	-971	-971	14	-957
Share of other comprehensive income in associates and joint ventures	-	-	-	-	3	3	-	3
Corporation tax	-	-17	-13	-30	51	21	-	21
Other comprehensive income	**-**	**5,830**	**116**	**5,946**	**-917**	**5,029**	**22**	**5,051**
Total comprehensive income for the year	**-**	**5,830**	**116**	**5,946**	**3,569**	**9,515**	**393**	**9,908**
Capital increase	-	-	-	-	-	-	1	1
Acquisition/disposal of treasury shares	-	-	-	-	-1	-1	-	-1
Settlement of share-based payments	-	-	-	-	-64	-64	-	-64
Share-based payments	-	-	-	-	52	52	-	52
Dividends paid to shareholders	-	-	-	-	-1,373	-1,373	-617	-1,990
Acquisition of non-controlling interests	-	-	-	-	-807	-807	-597	-1,404
Disposal of entities	-	-	-	-	-	-	-83	-83
Total changes in equity	**-**	**5,830**	**116**	**5,946**	**1,376**	**7,322**	**-903**	**6,419**
Equity at 31 December	**3,051**	**-29,080**	**-421**	**-29,501**	**77,261**	**50,811**	**2,839**	**53,650**

The proposed dividend of DKK 10.00 per share, in total DKK 1,526m (2015: DKK 9.00 per share, in total DKK 1,373m), is included in retained earnings at 31 December 2016.

Dividends paid out in 2016 for 2015 amount to DKK 1,373m (paid out in 2015 for 2014: DKK 1,373m), which is DKK 9.00 per share (2015: DKK 9.00 per share). Dividends paid out to shareholders of Carlsberg A/S do not impact taxable income in Carlsberg A/S.

Statement of changes in equity

DKK million	Shareholders in Carlsberg A/S							
2015	**Share capital**	**Currency translation**	**Hedging reserves**	**Total reserves**	**Retained earnings**	**Equity, shareholders in Carlsberg A/S**	**Non-controlling interests**	**Total equity**
Equity at 1 January	**3,051**	**-30,498**	**-508**	**-31,006**	**80,392**	**52,437**	**3,560**	**55,997**
Consolidated profit	**-**	**-**	**-**	**-**	**-2,926**	**-2,926**	**344**	**-2,582**
Other comprehensive income								
Foreign exchange adjustments of foreign entities	-	-4,080	-	-4,080	-	-4,080	256	-3,824
Value adjustments of hedging instruments	-	-416	-21	-437	-	-437	-	-437
Retirement benefit obligations	-	-	-	-	-338	-338	4	-334
Share of other comprehensive income in associates and joint ventures	-	-	-	-	-2	-2	-	-2
Corporation tax	-	84	-8	76	84	160	-	160
Other comprehensive income	**-**	**-4,412**	**-29**	**-4,441**	**-256**	**-4,697**	**260**	**-4,437**
Total comprehensive income for the year	**-**	**-4,412**	**-29**	**-4,441**	**-3,182**	**-7,623**	**604**	**-7,019**
Acquisition/disposal of treasury shares	-	-	-	-	6	6	-	6
Settlement of share-based payments	-	-	-	-	-138	-138	-	-138
Share-based payments	-	-	-	-	75	75	-	75
Dividends paid to shareholders	-	-	-	-	-1,373	-1,373	-513	-1,886
Acquisition of non-controlling interests	-	-	-	-	105	105	91	196
Total changes in equity	**-**	**-4,412**	**-29**	**-4,441**	**-4,507**	**-8,948**	**182**	**-8,766**
Equity at 31 December	**3,051**	**-34,910**	**-537**	**-35,447**	**75,885**	**43,489**	**3,742**	**47,231**

Statement of cash flows

DKK million	Section	2016	2015
Operating profit before special items		8,245	8,457
Adjustment for depreciation and amortisation		4,742	4,674
Adjustment for impairment losses[1]		19	82
Operating profit before depreciation, amortisation and impairment losses		**13,006**	**13,213**
Adjustment for other non-cash items	1.5.1	-410	-374
Change in trade working capital	1.5.1	1,021	1,284
Change in other working capital	1.5.1	-1,126	561
Restructuring costs paid		-407	-586
Interest etc. received		190	232
Interest etc. paid		-1,193	-2,050
Corporation tax paid		-1,752	-2,140
Cash flow from operating activities		**9,329**	**10,140**
Acquisition of property, plant and equipment and intangible assets		-3,820	-4,069
Disposal of property, plant and equipment and intangible assets		223	575
Change in on-trade loans	1.5.1	43	187
Total operational investments		**-3,554**	**-3,307**
Free operating cash flow		**5,775**	**6,833**
Acquisition and disposal of subsidiaries, net	5.2	1,969	-33
Acquisition and disposal of associates and joint ventures, net	5.2	716	9
Acquisition and disposal of financial assets, net		5	29
Change in financial receivables	1.5.1	-78	-193
Dividends received		228	305
Total financial investments		**2,840**	**117**
Other investments in property, plant and equipment		-20	-81
Disposal of other property, plant and equipment		21	653
Total other activities[2]		**1**	**572**
Cash flow from investing activities		**-713**	**-2,618**
Free cash flow		**8,616**	**7,522**
Shareholders in Carlsberg A/S	4.3.2	-1,438	-1,505
Non-controlling interests	4.3.2	-1,015	-513
External financing	4.4.1	-6,752	-4,557
Cash flow from financing activities		**-9,205**	**-6,575**
Net cash flow		**-589**	**947**
Cash and cash equivalents at 1 January[3]		3,020	2,178
Foreign exchange adjustment of cash and cash equivalents		-83	-105
Cash and cash equivalents at 31 December[3]	4.4.2	**2,348**	**3,020**

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

SECTION 1

Operating activities

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

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

62.6bn

Net revenue (DKK)

Organic net revenue growth of 2%. Reported net revenue declined by 4%, primarily due to foreign exchange effects during the year.

8.2bn

Operating profit (DKK)

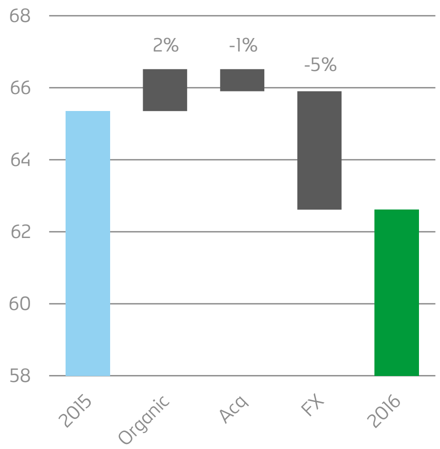
All three regions contributed to overall organic operating profit growth of 5%, but the effect was more than offset by foreign exchange effects during the year.

8.6bn

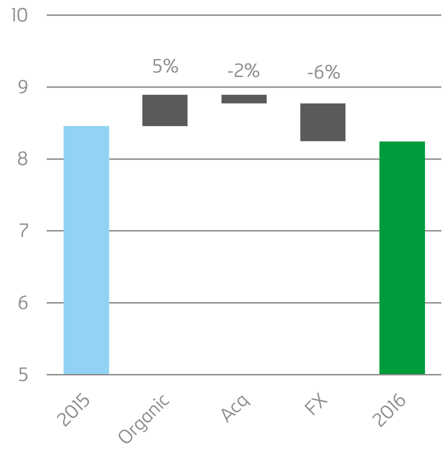
Free cash flow (DKK)

Impacted mainly by a higher cash flow from financial investments.

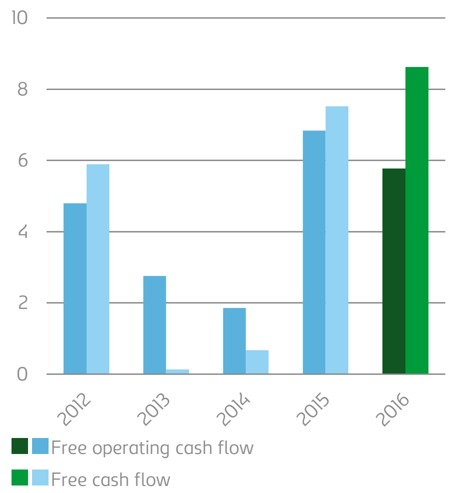
Net revenue growth (%)



Operating profit growth (%)



Free cash flow (DKKbn)



SECTION 1.1

Business developments

Pro rata (million hl)	2015	Change Organic	Change Acq., net	Change FX	2016	Change Reported
Beer	120.3	-3%	0%		116.9	-3%
Other beverages	21.5	4%	-2%		21.9	2%
Total volume	**141.8**	**-2%**	**0%**		**138.8**	**-2%**
DKK million						
Net revenue	65,354	2%	-1%	-5%	62,614	-4%
Operating profit before special items	8,457	5%	-2%	-6%	8,245	-3%
Operating margin (%)	12.9				13.2	30bp

Beer volumes declined organically by 3%, impacted by brewery closures in China and the termination of margin-dilutive contracts in Western Europe. Other beverages grew organically by 4%, driven by growth in the Nordics and Asia. Total volumes declined by 2% both organically and in reported terms, due to the disposal of entities in our Asian region.

In organic terms, net revenue grew by 2% driven by a positive price/mix of 3%. The Group delivered positive price/mix results in all three regions with particularly strong performance in Asia and Eastern Europe. Reported net revenue declined by 4% because of adverse currency developments in most markets, with a particularly significant impact from the Eastern European, Chinese, British and Norwegian currencies.

Cost of goods sold per hl grew organically by approximately 1% as a result of higher material costs due to a negative currency impact in Eastern Europe. In reported terms, cost of goods sold per hl decreased by 5%.

The reported gross margin improved by 140bp to 50.2% as a result of the positive price/mix and efficiency improvements.

Operating expenses grew organically by 3%, mainly due to higher sales and marketing investments, including the UEFA EURO sponsorship, investments in SAIL'22, higher amortisation on IT as well as higher costs of incentive programmes.

Operating profit increased organically by 5%. All three regions delivered operating profit growth, with Eastern Europe performing particularly well. Reported operating profit was DKK 8,245m. The reported operating profit declined by 3% due to a currency impact of -6% and a net acquisition impact of -2%. The operating margin improved by 30bp to 13.2% in reported terms.

The Carlsberg Group's share of reported net profit was DKK 4,486m (2015: DKK -2,926m, significantly impacted by special items of DKK -8,659m) and earnings per share was DKK 29.4. Adjusted net profit (adjusted for special items after tax) was DKK 3,881m (2015: DKK 4,292m).

In 2016, net profit was positively impacted by the organic growth in operating profit, special items of DKK +251m and a decrease in net financial items of DKK -284m to DKK-1,247m, while an increase in the effective tax rate to 33% had a negative impact. The increase in corporation tax primarily related to a lost tax case in Finland in 2016. The related tax expense is of a non-recurring nature and had no impact on cash flow in the year.

Free cash flow was DKK 8.6bn. The increase of DKK 1.1bn compared with last year was mainly due to a higher cash flow from financial investments (DKK +2.8bn) as a result of disposal of entities.

Accounting policies

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

SECTION 1.2

Revenue and segmentation of operations

Not allocated net revenue, DKK 146m (2015: DKK 314m), consisted of DKK 27,005m (2015: DKK 29,096m) net revenue from other companies and activities and DKK -26,859m (2015: DKK -28,782m) from eliminations of sales between these other companies and the geographical segments.

Not allocated operating profit before special items, DKK -1,691m (2015: DKK -1,426m), consisted of DKK -1,500m (2015: DKK -1,430m) from other companies and activities and DKK -191m (2015: DKK 4m) from eliminations.

Geographical allocation of net revenue

DKK million	2016	2015
Denmark (Carlsberg A/S' domicile)	4,445	4,491
Russia	7,755	8,116
China	7,668	8,143
Other countries	42,746	44,604
Total	**62,614**	**65,354**

The DKK value of revenue in Russia and China in 2016 was impacted by adverse currency developments.

Intra-segment revenue

DKK million	2016	2015
Western Europe	212	189
Eastern Europe	40	73

Segmentation of income statement

DKK million

2016	Western Europe	Eastern Europe	Asia	Not allocated	Beverages, total	Non-beverage	Carlsberg Group, total
Total net revenue	**37,597**	**10,205**	**14,666**	**146**	**62,614**	**-**	**62,614**
Total cost	-32,380	-8,383	-12,008	-1,821	-54,592	-101	-54,693
Share of profit after tax of associates and joint ventures	141	10	144	-16	279	45	324
Operating profit before special items	**5,358**	**1,832**	**2,802**	**-1,691**	**8,301**	**-56**	**8,245**
Special items, net					263	-12	251
Financial items, net					-1,237	-10	-1,247
Profit before tax					**7,327**	**-78**	**7,249**
Corporation tax					-2,402	10	-2,392
Consolidated profit					**4,925**	**-68**	**4,857**
Operating margin	14.2%	18.0%	19.1%		13.3%		13.2%

2015	Western Europe	Eastern Europe	Asia	Not allocated	Beverages, total	Non-beverage	Carlsberg Group, total
Total net revenue	**38,811**	**10,890**	**15,339**	**314**	**65,354**	**-**	**65,354**
Total cost	-33,575	-8,986	-12,848	-1,742	-57,151	-110	-57,261
Share of profit after tax of associates and joint ventures	89	4	308	2	403	-39	364
Operating profit before special items	**5,325**	**1,908**	**2,799**	**-1,426**	**8,606**	**-149**	**8,457**
Special items, net					-8,455	-204	-8,659
Financial items, net					-1,513	-18	-1,531
Profit before tax					**-1,362**	**-371**	**-1,733**
Corporation tax					-917	68	-849
Consolidated profit					**-2,279**	**-303**	**-2,582**
Operating margin	13.7%	17.5%	18.2%		13.2%		12.9%

SECTION 1.2 (CONTINUED)

Revenue and segmentation of operations

Accounting estimates and judgements

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

Locally imposed duties and fees are classified as either sales-related duties, which are deducted from revenue, or as fees related to the input/use of goods in production, transportation, distribution etc., which are therefore recognised as an expense in the relevant line item.

Customer discounts are recognised in the same period as the sales to which they relate and deducted from revenue.

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

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

Accounting policies

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

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

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

Revenue is measured including excise duties on beer and soft drinks and excluding discounts, VAT and other duties.

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

Discounts comprise off-invoice discounts, volume- and activity-related discounts, including specific promotion prices offered, and other discounts. On-trade loans to customers are also classified as discounts.

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

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

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

On-trade loans are described in section 1.6.

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

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

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

Not allocated comprises income and expenses related to Group functions. The allocation will be changed from 2017 as described in Impact from changes in accounting policies for 2017 in section 9.3.

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

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

SECTION 1.3

Operating expenses, inventories and deposit liabilities

1.3.1 Cost of sales and inventories

Cost of sales decreased by 7% due to continued production efficiency improvements, the brewery closures in Asia and the minor decline in sales volume of 2%. Organically, cost of goods sold per hl grew by approximately 1% as a result of higher material costs due to the negative transaction impact, primarily from USD/EUR-denominated input costs in Eastern Europe. In reported terms, cost of goods sold per hl decreased by 5%.

Inventories increased by 4% compared with 2015. Raw materials and consumables remained stable, as the effect of higher stocks of packaging materials in Russia was offset by lower stocks of raw materials across the Group.

The cost of finished goods increased by 11%, primarily due to the currency impact from the appreciation of the Russian rouble.

SECTION 1.3 (CONTINUED)

Operating expenses, inventories and deposit liabilities

Raw and packaging material risks

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

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

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

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

In 2016, the majority of the aluminium price risk was hedged for Western Europe and Eastern Europe. The same has been done for 2017. The total volume of aluminium purchased via financial instruments was 66,284 tonnes at the end of 2016 (2015: 77,200 tonnes). Based on this volume, and assuming 100% efficiency, a 10% increase (decrease) in aluminium prices would impact equity positively (negatively) by DKK 79m (2015: DKK 80m). The fair values of the financial instruments are specified in section 4.8.

Cost of sales

DKK million	2016	2015
Cost of materials	16,178	17,558
Direct staff costs	1,364	1,469
Machinery costs	873	955
Amortisation, depreciation and impairment losses	3,267	3,088
Indirect production overheads	3,448	3,727
Purchased finished goods and other costs	6,065	6,632
Total	**31,195**	**33,429**

Inventories

DKK million	2016	2015
Raw materials and consumables	1,716	1,743
Work in progress	282	299
Finished goods	1,965	1,775
Total	**3,963**	**3,817**

It is Group policy to fix the prices of at least 70% of malt purchases for a given year no later than at the end of the third quarter of the previous year. The main part of the exposure for the Group for 2016 was therefore hedged through fixed-price purchase agreements entered into during 2015. Likewise, the majority of the exposure for 2017 was hedged during 2016. The percentage that is hedged or price-fixed is higher for Western Europe than for Eastern Europe.

Accounting estimates and judgements

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

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

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

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

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

Accounting policies

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

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

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

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

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

SECTION 1.3 (CONTINUED)

Operating expenses, inventories and deposit liabilities

1.3.2 Deposit liabilities on returnable packaging

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

The deposit liabilities amounted to DKK 1,681m (2015: DKK 1,819m), while the value of returnable packaging materials amounted to DKK 2,288m (2015: DKK 2,473m). The deposit liabilities and value of returnable packaging materials declined during 2016 as a consequence of the brewery closures in China. The capitalised value of returnable packaging materials exceeds the deposit liability because each of the returnable packaging items circulates a number of times in the market and the deposit value in some markets is legally set lower than the cost of the returnable packaging.

Accounting estimates and judgements

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

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

Accounting policies

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

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

1.3.3 Sales and distribution expenses

Sales and distribution expenses declined by 4% but grew organically by 1%. The organic increase is mainly due to higher sales and brand marketing expenses, including the UEFA EURO sponsorship and investments in SAIL '22, which were offset by lower distribution and trade marketing expenses. The reported figure was positively impacted by the foreign currency translation.

Sales and distribution expenses

DKK million	2016	2015
Marketing expenses	6,211	6,342
Sales expenses	5,525	5,553
Distribution expenses	6,740	7,263
Total	**18,476**	**19,158**

Accounting policies

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

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

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

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

1.3.4 Other operating activities, net

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

Other operating activities, net

DKK million	2016	2015
Gains and losses on disposal of property, plant and equipment and intangible assets	-34	34
On-trade loans, net	96	62
Real estate, net	-9	-11
Research centres, net	-104	-15
Other, net	249	165
Total	**198**	**235**

Accounting policies

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

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

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

SECTION 1.4

Foreign exchange risk related to earnings

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

Transaction risks on purchases and sales

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

Western Europe

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

Eastern Europe

The Group has chosen not to hedge the transaction risk in Eastern Europe due to the excessive cost of hedging these currencies over a longer period of time. Baltika Breweries has expenses in both USD and EUR, and appreciation of RUB vis-à-vis these currencies has a positive impact on operating profit, while depreciation has a negative impact. The volatility of RUB will continue to affect operating profit measured in both DKK and RUB.

Asia

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

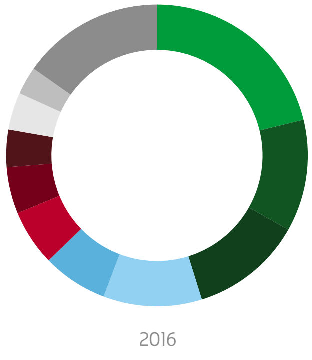
Translation risk

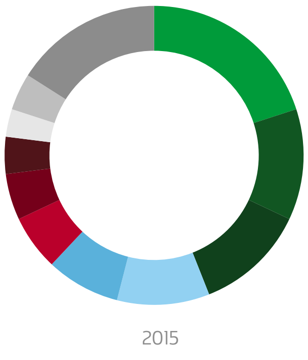
The Group is exposed to risk from translation of foreign entities into the Group's functional currency, DKK. Despite a decrease in the net revenue generated on the Russian market, the Group's single largest volatility-weighted exposure continued to be the exposure to RUB. However, Asian currencies, such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

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

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.

Net revenue by currency (% of net revenue)





Impact on operating profit

Developments in exchange rates between DKK and the functional currencies of foreign entities had a negative impact on the operating profit from all three regions measured in DKK. Eastern Europe experienced the sharpest decline of -16%, as all the currencies in the region depreciated over the year. At Group level the impact was limited to -6%, as Western Europe and Asia saw declines of only -2% and -4% respectively.

Entity	Functional currency	Change in average FX rate 2015 to 2016
Entities in the eurozone	EUR	-0.20%
Baltika Breweries	RUB	-10.90%
Entities in China	CNY	-5.60%
Carlsberg UK	GBP	-11.60%
Feldschlösschen	CHF	-2.60%
Ringnes	NOK	-3.90%
Carlsberg Sverige	SEK	-1.40%
Lao Brewery	LAK	-0.10%
Carlsberg Polska	PLN	-4.60%

SECTION 1.5

Cash flow from operating activities

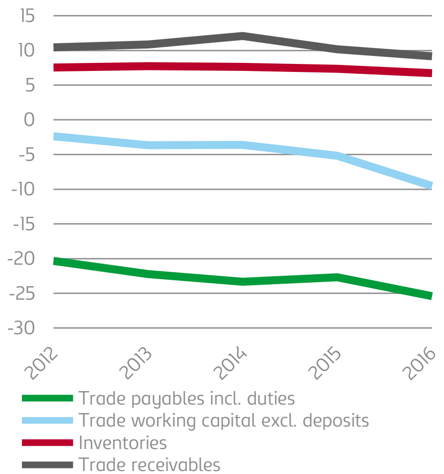
Cash flow from operating activities decreased by DKK 811m to DKK 9,329m. The significant change compared with 2015 was due to an extraordinary payment into the Group's pension fund in the UK, partially offset by lower cash outflow from financial items and tax. Operating profit before depreciation, amortisation and impairment losses was DKK 207m lower in 2016 than 2015.

Average trade working capital as a percentage of net revenue was -9.5% (MAT), an improvement of 290bp compared with 2015 (adjusted for reclassification of other payables in Asia), and was positively impacted by our continued efforts to optimise trade working capital.

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

Free cash flow increased to DKK 8,616m (2015: DKK 7,522m), and was impacted by a higher cash flow from financial investments as a result of the disposal of Danish Malting Group, Carlsberg Malawi, Carlsberg Vietnam Breweries - Vung Tau, a number of entities in China, including Xinjiang Hops, and other associates. Please refer to section 5 for a detailed description of disposal of entities.

Trade working capital
(% of net revenue)



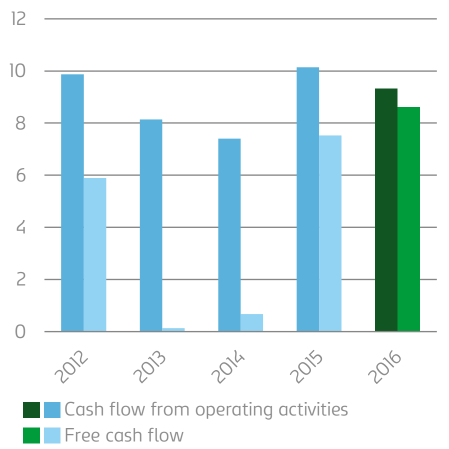
Accounting policies

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

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

Cash and cash equivalents comprise cash, less bank overdrafts, and 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.

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



1.5.1 Other specifications of cash flow from operating activities

DKK million	2016	2015
Other non-cash items		
Share of profit after tax of associates and joint ventures	-324	-364
Gain on disposal of property, plant and equipment and intangible assets, net	34	-34
Special items etc.	-120	24
Total	**-410**	**-374**
Trade working capital		
Inventories	-83	250
Trade receivables	201	834
Trade payables, duties payable and deposit liabilities	903	200
Total	**1,021**	**1,284**
Other working capital		
Other receivables	202	-234
Other payables	-719	760
Retirement benefit obligations and other liabilities related to operating profit before special items	-714	205
Adjusted for unrealised foreign exchange gains/losses	105	-170
Total	**-1,126**	**561**
On-trade loans		
Loans provided	-676	-679
Repayments	481	511
Amortisation of on-trade loans	238	355
Total	**43**	**187**
Financial receivables		
Loans and other receivables	-95	-214
Other financial receivables	17	21
Total	**-78**	**-193**

SECTION 1.6

Trade receivables and on-trade loans

Receivables included in the statement of financial position

DKK million	2016	2015
Trade receivables	5,485	5,729
Other receivables	2,488	2,532
Total current receivables	**7,973**	**8,261**
Non-current receivables	1,071	1,854
Total	**9,044**	**10,115**

The Group's non-current receivables consist mainly of on-trade loans. Non-current receivables fall due more than one year from the end of the reporting period, with DKK 180m (2015: DKK 179m) falling due more than five years from the end of the reporting period.

Receivables by origin

DKK million	2016	2015
Sale of goods and services	5,022	5,196
On-trade loans	1,370	1,452
Other receivables	2,652	3,467
Total	**9,044**	**10,115**

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 end of the reporting year.

On-trade loans

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

On-trade loans recognised in other operating activities, net

DKK million	2016	2015
Interest and amortisation of on-trade loans	81	89
Losses and write-downs on on-trade loans	15	-27
On-trade loans, net	**96**	**62**

The average effective interest rate on loans to the on-trade was 4.8% (2015:4.9%).

Accounting estimates and judgements

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

1.6.1 Credit risk

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

The Group does not generally renegotiate the terms of trade receivables with the individual customer, and trade receivables are not changed to on-trade loans. However, if a negotiation does take place, the outstanding balance is included in the sensitivity analysis based on the original payment terms. No significant trade receivables or on-trade loans were renegotiated in 2016 or 2015.

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

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

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

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

Exposure to credit risk

In 2016, 88% (2015: 88%) of the total receivables were neither impaired nor past due. An additional write-down for bad debt losses was made in 2016 to cover the current economic situation in Eastern Europe.

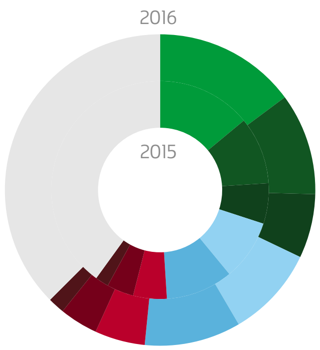
Translated into DKK, the proportionate share of the Group's total receivables in Russia increased from 12% at year-end 2015 to 14% at year-end 2016, mainly due to exchange rate effects. The change in the remaining countries was not significant.

The impairment losses at 31 December 2016 related to several minor customers that have – in different ways – indicated that they do not expect to be able to pay their outstanding balances, mainly due to adverse economic developments.

SECTION 1.6 (CONTINUED)

Trade receivables and on-trade loans

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



Russia 14%
UK 10%
France 6%
Switzerland 9%
Germany 10%
Poland 5%
Sweden 4%
China 2%
Other 40%

Accounting estimates and judgements

In assessing credit risk, management analyses the need for write-downs for bad debt losses due to customers' inability to pay.

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

The financial uncertainty associated with write-downs for bad debt losses is usually considered to be limited. However, if the ability to pay deteriorates in the future, further write-downs may be necessary.

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

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

Accounting policies

Receivables are measured at amortised cost less impairment losses.

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

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

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

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

Development in impairment losses on receivables

DKK million 2016	Trade receivables	On-trade loans	Other receivables	Total	2015 Total
Impairment at 1 January	-610	-266	-167	-1,043	-962
Impairment losses recognised	-245	-34	-11	-290	-274
Realised impairment losses	82	21	5	108	123
Reversed impairment losses	20	49	30	99	74
Disposal of entities/transfers	19	-28	123	114	-4
Impairment at 31 December	**-734**	**-258**	**-20**	**-1,012**	**-1,043**

Ageing of receivables and on-trade loans

DKK million 2016	Net carrying amount at 31 Dec.	Neither impaired nor past due	Past due less than 30 days	Past due between 30 and 90 days	Past due more than 90 days
Sale of goods and services	5,022	4,340	274	136	272
On-trade loans	1,370	1,302	5	7	56
Other receivables	2,652	2,338	106	197	11
Total	**9,044**	**7,980**	**385**	**340**	**339**
Total 2015	**10,115**	**8,917**	**365**	**430**	**403**

SECTION 2

Asset base and returns

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

ROIC is calculated as operating profit before special items as a percentage of average invested capital, including goodwill.

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

-867m

Impairment (DKK)

Further impairment of brands primarily in the Chongqing Brewery Group, due to accelerated premiumisation in China in combination with the continued restructuring and disposal of entities in Chongqing and Eastern Assets.

3.8bn

CapEx (DKK)

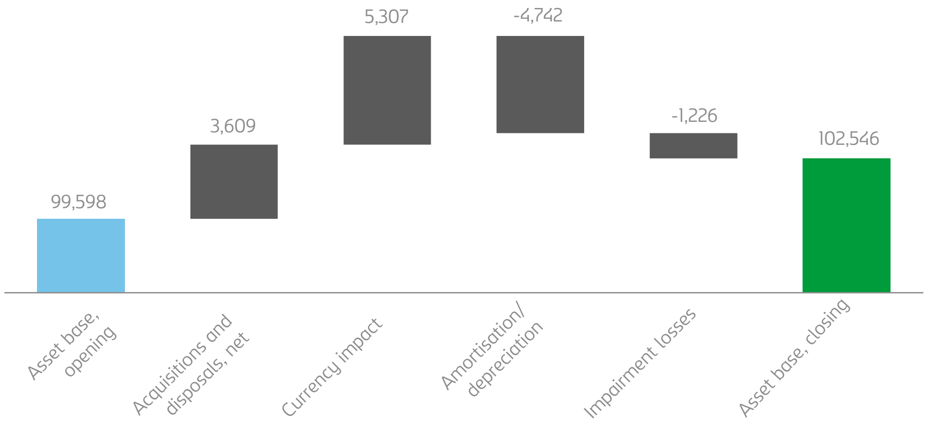
Down by DKK 0.3bn due to lower investments, mainly in Asia, following the higher-than-normal capacity expansions in recent years. CapEx/amortisation and depreciation was 81%.

9.2%

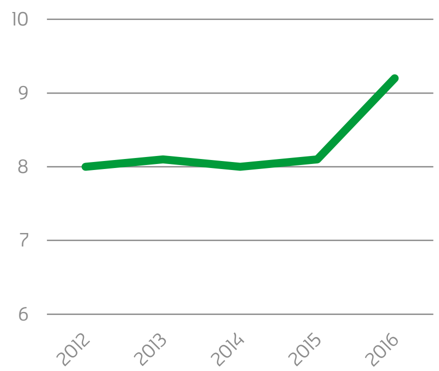
ROIC

Increased by 110bp and continues to be a key focus area for the Group.

Asset base (DKKm)



Return on invested capital (ROIC)
(%)



SECTION 2.1

Return on invested capital

Return on invested capital (ROIC) increased by 110bp to 9.2% (2015: 8.1%). ROIC excluding goodwill increased by 430bp to 21.2% (2015: 16.9%).

The increase in ROIC was caused by the decrease in average invested capital as a result of CapEx being lower than depreciation, a reduction in trade working capital and the impairment losses recognised in 2015. As the impairment losses were recognised in the autumn of 2015, they did not have full impact on the average invested capital for 2015, but had full-year effect in 2016. However, this was partially offset by the decrease in operating profit. Adjusted for impairments in 2015, ROIC increased by 60bp.

During 2016, goodwill increased, primarily due to foreign exchange impact, cf. section 2.4.

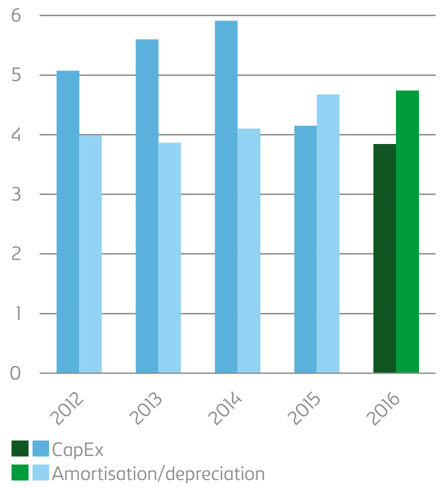
CapEx decreased by DKK 0.3bn due to lower investments, mainly in Asia, following the higher-than-normal capacity expansions in recent years.

CapEx/amortisation and depreciation was 81% (2015: 87%).

Invested capital

DKK million	2016	2015
Total assets	126,906	124,901
Less		
Deferred tax assets	-1,610	-1,697
Loans to associates and joint ventures (current)	-246	-252
Interest receivables, fair value of hedging instruments and financial receivables	-664	-762
Cash and cash equivalents	-3,502	-3,131
Assets included	**120,884**	**119,059**
Trade payables	-13,497	-12,260
Deposits on returnable packaging	-1,681	-1,819
Provisions, excluding restructurings	-3,703	-3,534
Corporation tax	-935	-601
Deferred income	-941	-1,051
Finance lease liabilities, included in borrowings	-25	-31
Other liabilities, excluding deferred income, interest payable and fair value of hedging instruments	-9,999	-9,661
Liabilities offset	**-30,781**	**-28,957**
Invested capital	**90,103**	**90,102**
Goodwill	-52,864	-50,270
Invested capital excluding goodwill	**37,239**	**39,832**
Invested capital, average	**89,579**	**103,982**

CapEx and amortisation/depreciation (DKKbn)



SECTION 2.2

Segmentation of assets

The Group's assets are segmented on the basis of geographical regions in accordance with the management reporting for 2016, cf. section 1.2.

Total assets and invested capital increased in Eastern Europe, primarily attributable to changes in foreign exchange rates.

Total assets in Russia increased by DKK 8.5bn as at 31 December 2016 compared with the DKK value had they been translated at the exchange rates applied at year-end 2015.

Total assets and invested capital in Asia were affected by the impairment of the Bihar brewery in India, and the disposals of Carlsberg Vietnam Breweries - Vung Tau and Carlsberg Malawi. The continued restructuring of the Chinese activities – mainly in Chongqing and Eastern Assets – resulting in the disposal of nine subsidiaries comprising brewing and malting activities, also contributed to the development.

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

The change in total assets not allocated was the result of increased intercompany funding of entities in the regions, and write-down of certain receivables.

Geographical allocation of non-current assets

DKK million	2016	2015
Denmark (Carlsberg A/S' domicile)	4,461	5,159
Russia	32,298	26,183
China	15,725	17,692
Other countries	54,763	55,240
Total	**107,247**	**104,274**

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

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

Segmentation of assets etc.

DKK million

2016	Western Europe	Eastern Europe	Asia	Not allocated	Beverages, total	Non-beverage	Carlsberg Group, total
Total assets	62,348	51,686	33,588	-20,503	127,119	-213	126,906
Invested capital, cf. section 2.1	34,541	34,859	21,594	-1,396	89,598	505	90,103
Invested capital excluding goodwill, cf. section 2.1	13,748	17,878	6,504	-1,396	36,734	505	37,239
Acquisition of property, plant and equipment and intangible assets	1,690	454	1,244	426	3,814	26	3,840
Amortisation and depreciation	1,747	737	1,352	898	4,734	8	4,742
Impairment losses	11	53	1,162	-	1,226	-	1,226
Return on invested capital (ROIC)	14.9%	6.0%	12.5%	-	9.3%	-	9.2%
Return on invested capital excluding goodwill (ROIC excl. goodwill)	34.9%	12.0%	37.8%	-	21.7%	-	21.2%
2015							
Total assets	60,975	41,544	36,572	-14,384	124,707	194	124,901
Invested capital, cf. section 2.1	35,285	29,138	23,901	1,468	89,792	310	90,102
Invested capital excluding goodwill, cf. section 2.1	14,666	14,972	8,416	1,468	39,522	310	39,832
Acquisition of property, plant and equipment and intangible assets	1,242	449	1,781	589	4,061	89	4,150
Amortisation and depreciation	1,709	892	1,376	689	4,666	8	4,674
Impairment losses	60	4,399	3,560	-	8,019	153	8,172
Return on invested capital (ROIC)	14.4%	5.0%	10.4%	-	8.3%	-	8.1%
Return on invested capital excluding goodwill (ROIC excl. goodwill)	32.8%	8.8%	28.2%	-	17.4%	-	16.9%

SECTION 2.3

Impairment

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

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

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

Impairment of goodwill, brands and other non-current assets

DKK million	2016	2015
Goodwill		
Eastern Assets, China	-	1,766
Brands and other intangible assets		
Baltika brand, Baltika Breweries, Russia	-	4,000
Brands and land use rights, Eastern Assets, China	-	435
Brands and land use rights, Chongqing Brewery Group, China	846	440
Other brands	67	75
Other intangible assets	7	-
Total	**920**	**6,716**
Property, plant and equipment		
Plant, machinery and equipment, Bihar, India	160	-
Plant, machinery and equipment, Eastern Assets, China	-	631
Plant, machinery and equipment, Chongqing Brewery Group, China	148	148
Breweries and brewery equipment, Baltika Breweries, Russia	-15	283
Plant, machinery and equipment, Xinjiang Wusu Group, China	2	82
Machinery and equipment, Carlsberg UK	10	43
Real estate, Denmark	-	153
Other	1	116
Total	**306**	**1,456**
Total impairment losses	**1,226**	**8,172**
Of which recognised in special items, cf. section 3.1	1,207	8,090

2.3.1 Impairment

In 2016, the impairment tests of goodwill and brands with indefinite useful life were prepared at the end of the reporting period. Based on the tests performed, the Group recognised impairment losses on brands amounting to DKK 867m.

During the year, impairment losses relating to other intangible assets and property, plant and equipment, amounting to DKK 359m, were recognised as a result of restructurings and other events. Total impairment losses recognised in 2016 amounted to DKK 1,226m (2015: DKK 8,172m).

Chongqing Brewery Group (China)

In 2016, Chongqing Brewery Group experienced a significant decline in the volume from its local mainstream brands. The decline was primarily the result of a general decline in Chinese beer volumes, accelerated premiumisation to the benefit of Tuborg, and closure and disposal of non-essential breweries.

The lower growth led to a reassessment of the expected future growth of the local brands, resulting in the recoverable amount being below the carrying amount. The brands were therefore written down by DKK 800m, to the lower recoverable amount.

The write-down was the second in two years. The first followed the review of expected future growth that took place in the autumn of 2015 and resulted in the brands being written down by DKK 400m. However, the assessment at the time was that the premiumisation of the market and the internal restructurings would happen at a slower pace.

The recoverable amount of the brands was determined based on their value in use. A discount rate of 8.9% was used in the calculation (2015: 8.8%). The brands had a carrying amount after impairment of DKK 959m as at 31 December 2016 (2015: DKK 1,820m).

During 2016, six breweries were disposed of or closed resulting in write-downs of land use rights as well as plant, machinery and equipment to their recoverable amounts. In total, impairment losses of DKK 194m (2015: DKK 188m) were recognised in special items.

Baltika Breweries (Russia)

The Russian beer market has experienced a continuous decline in recent years, caused by very challenging macroeconomic conditions. In 2016, the market continued to decline but at a slower pace, as projected in 2015.

The Baltika brand performed in line with the growth projections made when the expected future growth for the brand was reassessed in the autumn of 2015, which led to the write-down of the brand by DKK 4,000m in 2015.

However, for the other local brand written down in 2015 (DKK 75m), the development in 2016 was below expectations. The growth expectations were therefore reassessed again, resulting in the brand's remaining carrying amount of DKK 67m being written down.

SECTION 2.3 (CONTINUED)

Impairment

The recoverable amount of the brand was determined based on a value in use calculation. A discount rate of 9.8% was used in the calculation (2015: 9.9%).

In 2015, impairment of breweries, DKK 283m, related to two breweries that were permanently closed in January 2015 and additional closure of production lines for the purpose of right-sizing the business to match expected future capacity requirements.

Eastern Assets (China)
In 2015, a thorough evaluation of the Eastern Assets business, including consideration of further improvement initiatives and unsuccessful attempts to dispose of some of the breweries, indicated a continuation of operating losses for the foreseeable future. Because of the expected future operating losses, the recoverable amount of the business was negative, and non-current assets, including goodwill, were fully impaired, in total DKK 2,832m. Since the business is still operating, working capital items etc. were not impaired.

Other impairments
The impairment of machinery and equipment in Carlsberg UK of DKK 10m was the result of the ongoing restructuring of the UK operations. In 2016, the decision was made to exit porterage distribution services by the end of the current contracts and to outsource the secondary logistics operations. In 2015, impairments of machinery and equipment of DKK 43m related to the delisting at a major retailer, which led to overcapacity and thereby underabsorption of costs in the production. Consequently, it was decided to right-size capacity by closing production lines.

The impairment of property, plant and equipment in Carlsberg India of DKK 160m was the consequence of the implementation of a state-wide ban on the production and sale of alcohol in Bihar, cf. section 3.1.

In 2015, the Group completed a disposal of real estate and decided to postpone and reconsider a planned construction project, resulting in an impairment loss of DKK 153m.

Other impairments of property, plant and equipment are a consequence of restructuring and process optimisation in Western Europe, Eastern Europe and Asia.

Significant amounts of goodwill and brands
Goodwill and brands with indefinite useful life related to Baltika Breweries, Kronenbourg, Chongqing Brewery Group and the acquisition of the 40% non-controlling interest in Carlsberg Breweries A/S in 2004 each account for 10% or more of the total carrying amount of goodwill and brands with an indefinite useful life at the end of the reporting period.

Accounting estimates and judgements

Identification of cash-generating units
The Group's management structure reflects the geographical segments, cf. section 1.2, and decisions are carried out by the regional managements responsible for performance, operating investments and growth initiatives in their respective regions.

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

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

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

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

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

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

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

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

The following brands have been considered significant compared with the total carrying amount of brands with indefinite useful life:

- Baltika brand
- International brands
- Chongqing Brewery Group brands (only for 2015)

International brands is a group of brands recognised in connection with the Orkla transaction in 2004 and allocated to Western Europe. The amount is not allocated to individual brands.

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

Property, plant and equipment
Property, plant and equipment are tested for impairment when indications of impairment exist. Management performs an annual assessment of the assets' future application, for example in relation to changes in production structure, restructurings or closing of breweries. The impairment test is based on the higher of fair value less cost to sell, if such a value can be established, and value in use. Value in use is assessed

SECTION 2.3 (CONTINUED)

Impairment

based on budget and target plan cash flows generated by the CGU. The assessment is based on the lowest CGU affected by the changes that indicate impairment. The discount rate is a WACC that reflects the risk-free interest rate with the addition of a risk premium associated with the particular asset.

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

Accounting policies

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

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

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

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

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

2.3.2 Impairment test of goodwill

The carrying amount of goodwill allocated to groups of CGUs

DKK million	2016	2015
Western Europe	20,793	20,620
Eastern Europe	16,981	14,166
China, Malaysia and Singapore	10,001	10,324
Indochina	4,482	4,552
Significant groups of CGUs	**52,257**	**49,662**
Other, Asia	607	608
Total	**52,864**	**50,270**

In 2016 and 2015, significant groups of CGUs represented 99% of the total carrying amount.

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

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

Key assumptions

2016	Forecast period growth	Terminal period growth	Pre-tax discount rate
Western Europe	7%	0.3%	1.1%
Eastern Europe	4%	3.7%	7.0%
China, Malaysia and Singapore	4%	1.0%	3.7%
Indochina	4%	0.8%	7.8%

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

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

The Group's focus for Western Europe is to improve margins, primarily by delivering on Funding the Journey, including value management, supply chain efficiencies and operating cost management.

The significant average growth in cash flow of 7% in the forecast period is the result of the benefits expected from the Funding the Journey savings programme and a low comparison basis.

Eastern Europe
The Group's two main markets in the region are Russia, accounting for around 75% of regional beer volumes, and Ukraine, accounting for a little less than 20%. The Russian beer market has been under significant pressure over the past eight years, in recent years due to a challenged macroeconomy and unavoidable substantial price increases, partly due to local excise duty increases and generally due to high inflation. In value terms, however, the market has generally seen positive growth rates.

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

SECTION 2.3 (CONTINUED)

Impairment

Off-trade is the most important sales channel in the region. Traditional off-trade is declining at a rapid pace and being overtaken by modern trade, which offers more attractive and affordable pricing.

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

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

The average growth in cash flow of 4% in the forecast period is projected in nominal terms and therefore does not translate into cash flow at the same growth rate in the Group's presentation currency, DKK.

Asia

The importance of Asia for the Group has increased significantly during the past decade. Over the years, the Group has expanded its presence in the region, both organically and through acquisitions, and today we have a very attractive regional footprint.

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

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

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

The average growth in cash flow of 4% in the forecast period in Asia includes the expected impact of restructurings already implemented. The growth is projected in nominal terms and therefore does not translate into cash flow at the same growth rate in the Group's presentation currency, DKK.

Accounting estimates and judgements

Goodwill

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

Key assumptions

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

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

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

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

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

The key assumptions on which management bases its cash flow projections are:

- Volumes
- Sales prices
- Input costs
- Operating investments
- Terminal period growth

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

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

Volumes

Projections are based partly on past experience and partly on external market data, and take into consideration planned commercial initiatives, including spend on marketing and sponsorships, and the expected impact of such initiatives on consumer demand. The projections are, if relevant, adjusted for the expected changes in 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, macroeconomics etc., are also taken into consideration for medium- and long-term projections.

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

SECTION 2.3 (CONTINUED)

Impairment

to volume projections and therefore do not impact the long-term projections.

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

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

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

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

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

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

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

2.3.3 Impairment test of brands

Brands with indefinite useful life

DKK million	2016	2015
Baltika brand	12,136	9,772
International brands	3,000	3,000
Chongqing Brewery Group brands	959	1,820
Significant brands	**16,095**	**14,592**
Other brands		
Western Europe	3,628	3,401
Eastern Europe	943	713
Asia	600	594
Total	**21,266**	**19,300**

In 2016 and 2015, significant brands represented 76% of the total carrying amount of brands with indefinite useful life.

Other brands comprise a total of 16 brands that are not considered individually material compared with the total carrying amount.

Projections of cash flow

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

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 has based its cash flow projection include the royalty rate, the expected useful life, revenue growth and a theoretical tax amortisation benefit.

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

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

Revenue growth
At the time of acquisition of any individual brand, a revenue growth curve is forecasted based on a long-term strategic view of the risk and opportunities relevant to the brand. The curve is forecasted 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 brand, the revenue growth in individual years may be above, equal to or below the forecasted inflation level in the markets where the brand is present.

Key assumptions

2016	Average revenue growth	Terminal period growth	Pre-tax discount rate	Post-tax discount rate
Baltika brand	5%	4.0%	9.8%	8.7%
International brands	1%	2.0%	5.0%	4.2%
Chongqing Brewery Group brands	-2%	2.0%	8.9%	7.0%

SECTION 2.3 (CONTINUED)

Impairment

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

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

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

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

Royalty rates

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

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

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

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

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

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

In the decade preceding 2012, the average long-term real interest rate in Russia was negative, as a result of which inflation exceeded the nominal interest rate. The rate has now turned positive and is expected to remain positive in the future. 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 the impairment tests, a long-term real interest rate of 1.5% has been applied as the long-term growth expectation, since this rate approximates the maximum rate in the range previously expected by key international financial institutions.

In connection with the annual impairment testing, it is verified whether recent developments in interest rates and inflation continue to support the assumption of a real interest rate of 1.5%.

Late in 2016, the Bank of Russia commented on its expectations for the short-term real interest rate. It expects a positive future real interest rate, which it estimates at around 2.5-3.0% in the short term. Due to the current monetary situation in Russia, the short-term interest rate is higher than the long-term interest rate and therefore not directly comparable with the real interest rate applied by the Group. The Group did not observe any market reactions to the comments made.

The Group did not receive any updated forecasts of long-term interest rates and inflation at the end of 2016. At the same time, no indications in the markets were observed that would contradict the expectation of a long-term real interest rate of 1.5%.

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

2.3.4 Sensitivity tests

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

The risk-free interest rates observable for Western Europe remained relatively low at the end of 2016. The sensitivity tests calculate the impact of higher interest rates and allow for a double-digit increase in risk-free interest rates.

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

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 BBH 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.

SECTION 2.3 (CONTINUED)

Impairment

Following the impairment losses recognised in 2015 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.

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 very impractical. Instead sensitivity testing is performed for the overall revenue growth rate, both in the forecast period and the terminal period.

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

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

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

Baltika brand
The Baltika brand was written down to its recoverable amount in 2015, and therefore the recoverable amount at the end of 2016 remained very close to the carrying amount. As a result, any negative change in the key assumptions would lead to further impairment.

Changes in the market dynamics in Russia can have a significant negative impact on the recoverable amount. Macroeconomic recovery could lead to further premiumisation, which could drive consumers towards international brands.

Any increase in the real interest rate from the current 1.5%, either because of a higher interest rate or lower inflation, will also significantly reduce the recoverable amount. Such a change could, for example, be driven by accelerated economic growth.

A 1 percentage point increase in the interest rate would result in a reduction in the recoverable amount of DKK 2.0bn, and a 1 percentage point decrease in the terminal growth rate would result in a reduction in the recoverable amount of DKK 0.8bn.

Chongqing Brewery Group brands
The Chongqing Brewery Group brands were written down to their recoverable amount at the end of 2016, and the recoverable amount is therefore equal to the carrying amount. As a result, any negative change in the key assumptions would lead to further impairment.

The brands are sensitive to developments in the mainstream segment in China, where pressure from premium and upper-mainstream – in which the brands are not represented – could lead to a further drop in market share and thereby a further reduction of the recoverable amount.

Similarly a change in consumer trends towards the discount segment could have a negative impact on the recoverable amount.

A 1 percentage point increase in the interest rate would result in a reduction in the recoverable amount of DKK 0.2bn, and a 1 percentage point decrease in the terminal growth rate would result in a reduction in the recoverable amount of DKK 0.1bn.

Sensitivity test

DKK bn	Average forecast growth rate	Terminal period growth rate	Risk-free interest rate
Δ	-1 %-point	-1 %-point	1 %-point
Baltika brand	-1.3	-0.8	-2.0
Chongqing Brewery Group brands	-0.2	-0.1	-0.2

SECTION 2.4

Intangible assets and property, plant and equipment

DKK million	Intangible assets				Property, plant and equipment			
2016	**Goodwill**	**Brands**	**Other intangible assets**	**Total**	**Land and buildings**	**Plant and machinery**	**Fixtures and fittings, other plant and equipment**	**Total**
Cost								
Cost at 1 January	52,122	25,002	5,994	83,118	17,298	27,811	13,715	58,824
Acquisition of entities	255	355	-	610	7	49	5	61
Additions	-	-	312	312	215	1,840	1,473	3,528
Disposal of entities	-124	-3	-350	-477	-441	-608	-270	-1,319
Disposals	-	-	-171	-171	-248	-899	-1,156	-2,303
Transfers	-	-	-27	-27	95	-430	362	27
Foreign exchange adjustments etc.	2,394	3,453	-	5,847	355	522	177	1,054
Cost at 31 December	**54,647**	**28,807**	**5,758**	**89,212**	**17,281**	**28,285**	**14,306**	**59,872**
Amortisation, depreciation and impairment losses								
Amortisation, depreciation and impairment losses at 1 January	1,852	5,300	3,046	10,198	7,268	16,116	8,762	32,146
Disposal of entities	-	-3	-258	-261	-325	-416	-161	-902
Disposals	-	-	-121	-121	-202	-771	-1,111	-2,084
Amortisation and depreciation	-	28	794	822	522	1,438	1,960	3,920
Impairment losses	-	867	53	920	148	131	27	306
Transfers	-	-	-2	-2	10	-20	12	2
Foreign exchange adjustments etc.	-69	969	20	920	138	444	92	674
Amortisation, depreciation and impairment losses at 31 December	**1,783**	**7,161**	**3,532**	**12,476**	**7,559**	**16,922**	**9,581**	**34,062**
Carrying amount at 31 December	**52,864**	**21,646**	**2,226**	**76,736**	**9,722**	**11,363**	**4,725**	**25,810**
Carrying amount of assets pledged as security for borrowings	-	-	-	-	420	-	-	420

Additions to goodwill are described in section 5.1.

SECTION 2.4 (CONTINUED)

Intangible assets and property, plant and equipment

DKK million	Intangible assets				Property, plant and equipment			
2015	**Goodwill**	**Brands**	**Other intangible assets**	**Total**	**Land and buildings**	**Plant and machinery**	**Fixtures and fittings, other plant and equipment**	**Total**
Cost								
Cost at 1 January	52,937	27,153	5,545	85,635	17,033	28,792	12,909	58,734
Acquisition of entities	238	100	2	340	153	90	54	297
Additions	-	1	458	459	400	1,632	1,659	3,691
Disposal of entities	-9	-	-64	-73	-1	-295	-19	-315
Disposals	-	-	-58	-58	-486	-639	-1,749	-2,874
Transfers	-	-	30	30	376	-1,220	1,113	269
Foreign exchange adjustments etc.	-1,044	-2,252	81	-3,215	-177	-549	-252	-978
Cost at 31 December	**52,122**	**25,002**	**5,994**	**83,118**	**17,298**	**27,811**	**13,715**	**58,824**
Amortisation, depreciation and impairment losses								
Amortisation, depreciation and impairment losses at 1 January	74	1,045	2,107	3,226	6,351	15,185	8,025	29,561
Disposal of entities	-	-	-1	-1	-	-1	-7	-8
Disposals	-	-	-58	-58	-172	-605	-1,667	-2,444
Amortisation and depreciation	-	30	607	637	578	1,497	1,962	4,037
Impairment losses	1,766	4,571	379	6,716	551	802	103	1,456
Transfers	-	-	-	-	-4	-314	451	133
Foreign exchange adjustments etc.	12	-346	12	-322	-36	-448	-105	-589
Amortisation, depreciation and impairment losses at 31 December	**1,852**	**5,300**	**3,046**	**10,198**	**7,268**	**16,116**	**8,762**	**32,146**
Carrying amount at 31 December	**50,270**	**19,702**	**2,948**	**72,920**	**10,030**	**11,695**	**4,953**	**26,678**
Carrying amount of assets pledged as security for borrowings	-	-	-	-	412	838	-	1,250

Additions to goodwill are described in section 5.1.

SECTION 2.4 (CONTINUED)

Intangible assets and property, plant and equipment

Intangible assets under development amounted to DKK 245m (2015: DKK 258m) and are included in other intangible assets. Property, plant and equipment under construction amounted to DKK 1,386m (2015: DKK 1,092m) and are included in plant and machinery.

Other intangible assets include software, land use rights and beer delivery rights. The carrying amount of software amounted to DKK 1,275m (2015: DKK 1,798m).

Fixtures and fittings, other plant and equipment include rolling equipment, such as cars and trucks, draught beer equipment, coolers, returnable packaging and office equipment.

Leases

Operating lease liabilities totalled DKK 1,334m (2015: DKK 1,506m), with DKK 450m (2015: DKK 442m) falling due within one year. Operating leases primarily relate to properties, IT equipment and transport equipment (cars, trucks and forklifts). These leases contain no special purchase rights etc.

Assets held under finance leases with a total carrying amount of DKK 28m (2015: DKK 34m) have been pledged as security for lease liabilities totalling DKK 26m (2015: DKK 31m).

Amortisation, depreciation and impairment losses

	Intangible assets		Property, plant and equipment	
DKK million	**2016**	**2015**	**2016**	**2015**
Cost of sales	321	63	2,946	3,025
Sales and distribution expenses	228	49	810	819
Administrative expenses	280	525	176	275
Special items	913	6,716	294	1,374
Total	**1,742**	**7,353**	**4,226**	**5,493**

Gain/loss on disposal of assets

DKK million	2016	2015
Gain on disposal of property, plant and equipment and intangible assets, including those held for sale, within beverage activities	104	100
Loss on disposal of property, plant and equipment and intangible assets within beverage activities	-138	-66
Total	**-34**	**34**

Service agreements

The Group has entered into service contracts of various lengths in respect of sales, logistics and IT. Costs related to the contracts are recognised as the services are received.

Capital commitments

The Group has entered into various capital commitments that will not take effect until after the reporting date and have therefore not been recognised in the consolidated financial statements. Capital commitments amounted to DKK 166m (2015: DKK 58m).

Accounting estimates and judgements

Useful lives and residual value of intangible assets with finite useful life and property, plant and equipment

Useful life and residual value are initially assessed both in acquisitions and in business combinations, cf. section 5. The value of the brands acquired and their expected useful life are assessed based on the brands' market position, expected long-term developments in the relevant markets and the brands' profitability.

Management assesses brands and property, plant and equipment for changes in useful life. If an indication of a reduction in the value or useful life exists, the asset is tested for impairment and is written down if necessary, or the amortisation/depreciation period is reassessed and if necessary adjusted in line with the asset's changed useful life.

Reassessment of the expected future use is made in connection with changes in production structure, restructuring and brewery closures. This may result in the expected future use and residual values not being realised, which will require reassessment of useful life and residual value as well as recognition of impairment losses or losses on disposal of non-current assets.

When changing the amortisation or depreciation period due to a change in the useful life, the effect on amortisation/depreciation is recognised prospectively as a change in accounting estimates.

Lease and service agreements

The Group has entered into a number of leases and service contracts. When entering into these agreements, management considers the substance of the service being rendered in order to classify the agreement as either a lease or a service contract. In making this judgement, particular importance is attached to whether fulfilment of the agreement depends on the use of specific assets. The Group assesses whether contracts are onerous by determining only the direct variable costs and not the costs that relate to the business as a whole.

For leases, an assessment is made as to whether the lease is a finance lease or an operating lease. The Group has mainly entered into operating leases for standardised assets with a short duration relative to the life of the assets, and accordingly the leases are classified as operating leases.

Leases are classified as finance leases if they transfer substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases.

Accounting estimates and judgements related to impairment are described in section 2.3.

SECTION 2.4 (CONTINUED)

Intangible assets and property, plant and equipment

Accounting policies

Cost

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

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

Research costs are recognised in the income statement as they are incurred. Development costs are recognised as intangible assets if the costs are expected to generate future economic benefits.

For assets acquired in business combinations, including brands and property, plant and equipment, cost at initial recognition is determined by estimating the fair value of the individual assets in the purchase price allocation.

Goodwill is only acquired in business combinations and is measured in the purchase price allocation. Goodwill is not amortised.

CO_2 emission rights are measured at cost at the date of allocation (i.e. normally DKK 0), while acquired rights are measured at cost. A liability is recognised (at fair value) only if actual emissions of CO_2 exceed allocated levels based on the holding of rights.

The present value of estimated liabilities related to dismantling and removing an asset and restoring the site on which the asset is located is added to the cost of self-constructed assets if the liabilities are provided for.

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

The cost of assets held under finance leases is stated at the lower of fair value of the assets and the present value of the future minimum lease payments. For the calculation of the net present value, the interest rate implicit in the lease or an approximation thereof is used as the discount rate.

Subsequent costs, for example in connection with replacement of components of property, plant and equipment, are recognised in the carrying amount of the asset if it is probable that the costs will result in future economic benefits for the Group. The replaced components are derecognised from the statement of financial position and recognised as an expense in the income statement. Costs incurred for ordinary repairs and maintenance are recognised in the income statement as incurred.

Useful life, amortisation and depreciation

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.

The basis of depreciation is calculated on the basis of the cost less the residual value and impairment losses.

The expected useful life for the various items is as follows:

Brands with finite useful life	Normally 20 years
Software etc.	Normally 3-5 years. Group-wide systems developed as an integrated part of a major business development programme: 5-7 years
Delivery rights	Depending on contract; if no contract term has been agreed, normally not exceeding 5 years
Customer agreements/ relationships	Depending on contract with the customer; if no contract exists, normally not exceeding 20 years
CO_2 rights	Depending on production period

Buildings	20-40 years
Technical installations	15 years
Brewery equipment	15 years
Filling and bottling equipment	8-15 years
Technical installations in warehouses	8 years
On-trade and distribution equipment	5 years
Fixtures and fittings, other plant and equipment	5-8 years
Returnable packaging	3-10 years
Hardware	3-5 years
Land	Not depreciated

Amortisation and depreciation are recognised in the income statement under cost of sales, sales and distribution expenses, and administrative expenses to the extent that they are not included in the cost of self-constructed assets.

Impairment losses

Impairment losses of a non-recurring nature are recognised in the income statement under special items.

Operating leases

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

Government grants and other funding

Grants and funding received for the acquisition of assets and development projects are recognised in the statement of financial position by deducting the grant from the carrying amount of the asset. The grant is recognised in the income statement over the life of the asset as a reduced depreciation charge.

SECTION 3

Special items and provisions

2.4bn

Special items, income (DKK)

Impacted by gain on disposal of entities.

-2.1bn

Special items, expenses (DKK)

Significantly impacted by measures taken under the Funding the Journey programme that led to impairment and restructuring charges.

SECTION 3.1

Special items

Measures taken under the Funding the Journey programme continued to impact special items, including the disposal of non-core assets and restructuring initiatives and impairments, primarily in Western Europe and Asia.

The Group recognised a gain on the disposal of the subsidiaries Danish Malting Group, Carlsberg Malawi, Carlsberg Vietnam Breweries - Vung Tau, and a number of entities in China. Additionally, the Group disposed of a number of associates, including Xinjiang Hops and Sejet Planteforædling, a Danish plant breeding company. Please refer to section 5 for a detailed description of disposal of entities.

The accelerated premiumisation in China in combination with the continued restructuring and disposal of entities in Chongqing and Eastern Assets impacted the expectations for the **Chongqing Brewery Group brands** and led to further impairments of DKK 800m in 2016. Additionally, a **minor brand in Baltika Breweries** was impaired. The impairments in 2015 also related to Baltika Breweries and

Special items

DKK million	2016	2015
Special items, income		
Gain on disposal of entities and activities, and adjustments to gains in prior years	2,078	22
Reversal of impairments in prior years	207	-
Gain on disposal of property, plant and equipment impaired in prior years	26	166
Reversal of provision recognised in a purchase price allocation in prior years	80	-
Total	**2,391**	**188**
Special items, expenses		
Impairment, restructuring and termination benefits	-1,203	-4,189
Impairment of brands, Baltika Breweries and Chongqing Brewery Group	-867	-4,475
Disposal and impairment of real estate, including adjustments to gains in prior years	-70	-153
Costs related to acquisition and loss on disposal of entities	-	-30
Total	**-2,140**	**-8,847**
Special items, net	**251**	**-8,659**
If special items had been recognised in operating profit before special items, they would have been included in the following items:		
Cost of sales	-1,058	-5,837
Sales and distribution expenses	-334	-717
Administrative expenses	-100	-351
Other operating income	2,078	188
Other operating expenses	-335	-176
	251	**-6,893**
Impairment of goodwill	-	-1,766
Special items, net	**251**	**-8,659**

SECTION 3.1 (CONTINUED)

Special items

Chongqing Brewery Group. Please refer to section 2.3.3 for a detailed description of impairment of brands.

In 2016 and 2015, the Group recognised restructuring costs and related impairment losses in **Chongqing Brewery Group** and **Eastern Assets**, China, totalling DKK -299m (2015: DKK -3,152m). These related to a general restructuring of the business and closure of a total of 11 breweries. In 2016, the Group recognised a gain on disposal of Chinese breweries totalling DKK 1,036m.

Reversal of impairments in prior periods related to Carlsberg Uzbekistan, which was disposed of in January 2017, and other assets where the estimated recoverable amount increased due to changes in expected future use of the assets.

In April 2016, the local state government imposed a ban on production and sale of alcohol in the Indian state of Bihar. The brewery in **Bihar** has not been operational since the ban, and as it was not possible to create a viable, alternate business plan, the ban resulted in impairment of property, plant and equipment and inventories totalling DKK -199m.

The Group is **optimising and standardising business processes across Western Europe**. The cost in 2016 mainly comprised restructuring and impairment related to the Group's logistics activities and back-office functions. The optimisation and standardisation project is running in a number of entities, including Kronenbourg and local supply companies. The optimisation of the back-office functions included the transfer of over 300 roles from the Group's captive in Europe to an external service provider in India.

Restructurings, termination benefits and other impairment losses

DKK million	2016	2015
Eastern Assets, China	-22	-2,882
Chongqing Brewery Group, China	-277	-270
Carlsberg UK, including onerous contract and terminated licence agreement	-395	-98
Bihar, India	-199	-
Carlsberg Deutschland	-152	-
Optimisation and standardisation in Western Europe	-103	-132
Baltika Breweries, Russia	-	-344
Xinjiang Wusu Group, China	-18	-92
Other, net	5	-45
Group-wide organisational efficiency programme	-3	-233
Retirement of members of the Executive Committee	-39	-93
Total	**-1,203**	**-4,189**

In 2016, **Carlsberg Deutschland** commenced the construction of a new brewery in Hamburg. The current brewery has been sold and will be transferred to the buyer when the operations have been moved to the new brewery. The gain on disposal will be recognised when the asset is transferred. The restructuring cost in 2016 mainly comprised termination benefits to employees made redundant.

Impairment and restructuring of **Carlsberg UK** relates to the continued restructuring of the business, mainly for the purpose of exiting porterage distribution services by the end of the current contracts in addition to outsourcing secondary logistics operations as announced in June 2016. The net costs in both 2016 and 2015 include provision for an onerous contract and additionally, in 2015, compensation received for the termination of a third-party brand contract. Furthermore, the net cost includes a provision in relation to the tragic fatal accident at the Northampton Brewery in November 2016.

Retirement of members of the Executive Committee includes severance payments and the cost of share-based payments related to the retirement of former Senior Vice President Western Europe Jørn Tolstrup Rohde and former Executive Vice President Group Supply Chain Peter Ernsting. The cost of share-based payments related to grants made prior to retirement that vest after the date of retirement. In 2015, the expenses related to the retirement of former President & CEO Jørgen Buhl Rasmussen and former Deputy CEO & CFO Jørn P. Jensen.

Accounting estimates and judgements

The use of special items entails management judgement in the separation from other items in the income statement. Management carefully considers such items in order to ensure the correct distinction between operating activities and restructuring of the Group initiated to enhance the Group's future earnings potential and efficiency.

Management reassesses the useful life and residual value of non-current assets used in an entity undergoing restructuring. The extent and amount of onerous contracts as well as employee and other obligations arising in connection with a restructuring are also estimated. Management initially assesses the entire restructuring project and recognises all present costs of the project, but the project is also assessed on an ongoing basis with additional costs possibly occurring during the lifetime of the project.

Accounting policies

Special items include significant income and expenses of a special nature in terms of the Group's revenue-generating operating activities that cannot be attributed directly to the Group's ordinary operating activities. Such income and expenses include the cost of extensive restructuring of processes and fundamental structural adjustments, as well as any gains or losses arising from disposal of assets that have a material effect over a given period.

Special items also include significant non-recurring items, including termination benefits related to retirement of members of the Executive Committee, impairment of goodwill (including goodwill allocated to associates and joint ventures) and brands, gains and losses on the disposal of activities and associates, revaluation of the shareholding in an entity held immediately before a step acquisition of that entity, and transaction costs in a business combination.

Special items are shown separately from the Group's ordinary operations, as this gives a truer and fairer view of the Group's operating profit.

SECTION 3.2

Provisions

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

In 2016, restructuring provisions of DKK 661m related primarily to Carlsberg UK, Carlsberg Deutschland and local supply companies, as described in section 3.1.

Other provisions of DKK 3,151m related primarily to profit sharing in France, employee obligations other than retirement benefits, and ongoing disputes, lawsuits etc.

Accounting estimates and judgements

In connection with large restructurings, management assesses the timing of the costs to be incurred, which influences the classification as current or non-current liabilities. Provision for losses on onerous contracts is based on agreed terms with the other party and expected fulfilment of the contract, based on the current estimate of volumes and use of raw materials etc. Warranty provisions are based on the substance of the agreements entered into, including the guarantees issued covering customers in the on-trade.

Management assesses provisions, contingent assets and contingent liabilities as well as the likely outcome of pending or probable lawsuits etc. on an ongoing basis. The outcome depends on future events, which are by nature uncertain. In assessing the likely outcome of lawsuits and tax disputes etc., management bases its assessment on external legal assistance and established precedents.

Provisions

DKK million	Restructurings	Onerous contracts	Other	Total
Provisions at 1 January 2016	488	387	3,147	4,022
Additional provisions recognised	431	257	583	1,271
Disposal of entities	-	-	-67	-67
Used during the year	-220	-5	-228	-453
Reversal of unused provisions	-26	-80	-196	-302
Transfers	9	8	-11	6
Discounting	9	13	69	91
Foreign exchange adjustments etc.	-30	-28	-146	-204
Provisions at 31 December 2016	**661**	**552**	**3,151**	**4,364**
Recognised in the statement of financial position				
Non-current provisions	452	505	2,685	3,642
Current provisions	209	47	466	722
Total	**661**	**552**	**3,151**	**4,364**

Accounting policies

Provisions, including warranty provisions, are recognised when, as a result of events arising before or at the end of the reporting period, the Group has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Provisions are discounted if the effect is material to the measurement of the liability. The Group's average borrowing rate is used as the discount rate.

Restructuring costs are recognised under liabilities when a detailed, formal restructuring plan has been announced to those affected no later than at the end of the reporting period. On acquisition of entities, restructuring provisions in the acquiree are only included in the opening balance when the acquiree has a restructuring liability at the acquisition date.

A provision for onerous contracts is recognised when the benefits expected to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

When the Group has a legal obligation to dismantle or remove an asset or restore the site on which the asset is located, a provision is recognised corresponding to the present value of expected future costs.

SECTION 3.3

Contingent liabilities

In 2014, the Federal Cartel Office in Germany issued a decision against Carlsberg Deutschland and imposed a fine of EUR 62m for alleged infringement of the competition rules in 2007. Management does not agree with the conclusions or findings of the Federal Cartel Office and, accordingly, Carlsberg Deutschland has appealed the decision to the relevant German court. The imposed fine has therefore not been provided for in the financial statements.

The Group is party to certain other lawsuits, disputes etc. of various scopes. It is management's opinion that, apart from items recognised in the statement of financial position or disclosed in the consolidated financial statements, the outcome of these lawsuits, disputes etc. will not have a material effect on the Group's financial position.

No significant lawsuits, disputes etc. were provided for in 2016 or 2015.

The Group has issued guarantees for loans etc. raised by third parties (non-consolidated entities) of DKK 431m (2015: DKK 493m). Guarantees issued for loans raised by associates and joint ventures are described in section 5.5.

Certain guarantees etc. are issued in connection with disposal of entities and activities etc. Apart from items recognised in the statement of financial position or disclosed in the consolidated financial statements, these guarantees etc. will not have a material effect on the Group's financial position.

Contractual commitments and lease and service agreements are described in section 2.4.

SECTION 4

Financing costs, capital structure and equity

Equity and debt are used to finance investments in assets and operations.

Access to funding from a variety of sources secures future operating income.

Available credit resources are used as a measure of immediate access to funding.

-1,247m

Net financial items (DKK)

Up from DKK -1,531m in 2015.

25.5bn

Net interest-bearing debt (DKK)

Decreased by DKK 5,442m during 2016.

13.5bn

Available credit resources (DKK)

Down from DKK 14.6bn in 2015.

3.0%

Average funding cost (%)

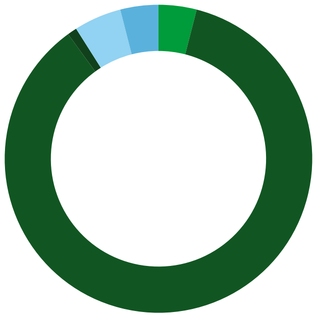
Up from 2.9% in 2015.

1.96x

Debt to operating profit before depreciation, amortisation and impairment losses

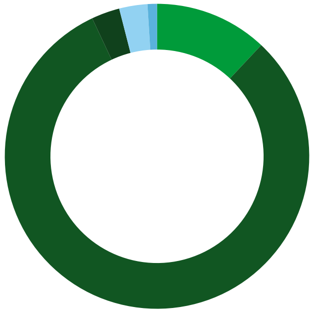
An improvement from 2.34x in 2015.

Distribution of gross financial debt – 2016 – Allocation (%)



- Non-current bank borrowing 4%
- Issued bonds 86%
- Non-current mortgages 1%
- Current bank borrowing 5%
- Other current and non-current borrowing 4%

Distribution of gross financial debt – 2015 – Allocation (%)



- Non-current bank borrowing 12%
- Issued bonds 81%
- Non-current mortgages 3%
- Current bank borrowing 3%
- Other current and non-current borrowing 1%

SECTION 4.1

Financial income and expenses

Financial items, net, improved by DKK 284m, primarily due to a gain of DKK 416m, net, on foreign exchange and fair value adjustments of financial instruments (2015: loss of DKK 110m) and lower net interest expenses, mainly due to repayment of debt. Other financial expenses include write-downs of certain financial receivables and interest related to the lost tax case in Finland.

The currency translation of foreign entities in other comprehensive income at the end of the reporting period, DKK 5,580m, primarily related to the appreciation of RUB at the end of the year, which had an impact of DKK 6,258m. This effect was partly offset by the depreciation of CNY, UAH and PLN.

The impact from the changes in GBP around and following the Brexit referendum had a minor positive effect on other comprehensive income.

Accounting policies

Realised and unrealised gains and losses on derivative financial instruments that are not designated as hedging arrangements and the ineffective portion of those designated as hedging arrangements are included in financial income and expenses.

Interest, losses and write-downs relating to on-trade loans, which are measured at amortised cost, are included as income and expenses in other operating activities, cf. section 1.3.4, as such loans are treated as a prepaid discount to the customer.

Financial items recognised in the income statement

DKK million	2016	2015
Financial income		
Interest income	152	173
Fair value adjustments of financial instruments, net, cf. section 4.8	564	68
Expected return on plan assets, defined benefit plans	173	204
Other financial income	30	45
Total	**919**	**490**
Financial expenses		
Interest expenses	-1,034	-1,266
Capitalised financial expenses	3	7
Foreign exchange losses, net	-148	-178
Interest cost on obligations, defined benefit plans	-296	-349
Other financial expenses	-691	-235
Total	**-2,166**	**-2,021**
Financial items, net, recognised in the income statement	**-1,247**	**-1,531**

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

Financial items recognised in other comprehensive income

DKK million	2016	2015
Foreign exchange adjustments of foreign entities		
Foreign currency translation of foreign entities	5,580	-3,812
Recycling of cumulative translation differences of entities acquired in step acquisitions or disposed of	263	-12
Total	**5,843**	**-3,824**
Value adjustments of hedging instruments		
Change in fair value of effective portion of cash flow hedges	93	-343
Change in fair value of cash flow hedges transferred to the income statement	36	322
Change in fair value of net investment hedges	12	-416
Total	**141**	**-437**
Financial items, net, recognised in other comprehensive income	**5,984**	**-4,261**

Of the net change in fair value of cash flow hedges transferred to the income statement, DKK 110m (2015: DKK 184m) is included in net revenue and cost of sales and DKK -74m (2015: DKK 138m) is included in financial items.

SECTION 4.2

Net interest-bearing debt

Net interest-bearing debt to operating profit before depreciation, amortisation and impairment losses is the Group's measure of its financial leverage.

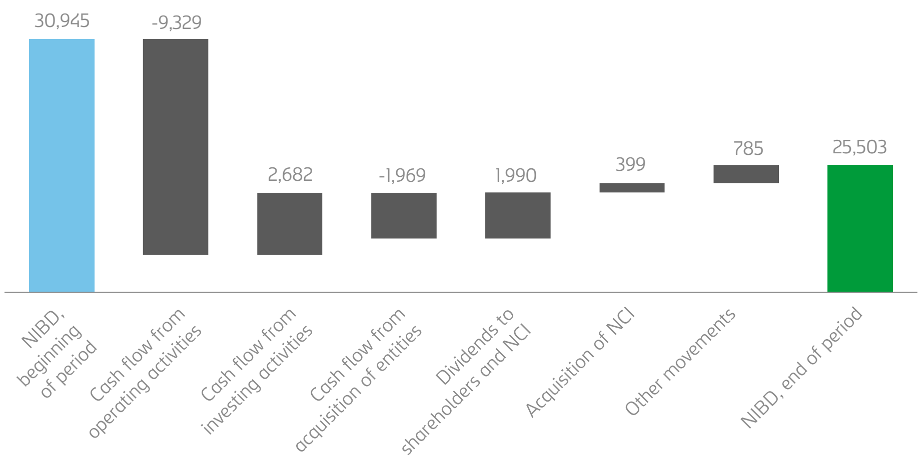
Of the gross financial debt at year-end, 70% (DKK 21.1bn) was long-term, i.e. with maturity of more than one year.

Current borrowings are relatively high due to a EUR 1bn bond maturing in October 2017.

Net interest-bearing debt

DKK million	2016	2015
Non-current borrowings	21,137	31,479
Current borrowings	9,067	4,549
Gross financial debt	**30,204**	**36,028**
Cash and cash equivalents	-3,502	-3,131
Net financial debt	**26,702**	**32,897**
Loans to associates, interest-bearing portion	-300	-248
On-trade loans, net	-863	-968
Other receivables, net	-36	-736
Net interest-bearing debt	**25,503**	**30,945**

Changes in net interest-bearing debt (DKKm)



SECTION 4.3

Capital structure

4.3.1 Capital structure

Management regularly assesses whether the Group's capital structure is in the interests of the Group and its shareholders. The overall objective is to ensure a continued development and strengthening of the Group's capital structure, which supports long-term profitable growth and a solid increase in key earnings and ratios.

This includes assessment of and decisions on the split of financing between share capital and borrowings, which is a long-term strategic decision to be made in connection with significant investments and other transactions.

Carlsberg A/S' share capital is divided into two classes (A shares and B shares). Combined with the Carlsberg Foundation's position as majority shareholder (in terms of control), management considers that this division will remain advantageous for all of its shareholders, as this structure enables and supports the long-term development of the Group.

Carlsberg targets a leverage ratio below 2.0x. As the leverage comes down even further towards a level of 1.5x to 2.0x, there will be a gradual increase in payout. The leverage ratio is measured as net interest-bearing debt to operating profit before depreciation, amortisation and impairment losses.

As an element in strategic decisions on capital structure, management assesses the risk of changes in the Group's investment-grade rating. The Group is rated by Moody's Investors Service and Fitch Ratings. Following a temporary downgrade of the Group's investment-grade ratings in 2015, both ratings were upgraded one notch in 2016. Identification and monitoring of risks were carried out on an ongoing basis throughout the year.

SECTION 4.3 (CONTINUED)

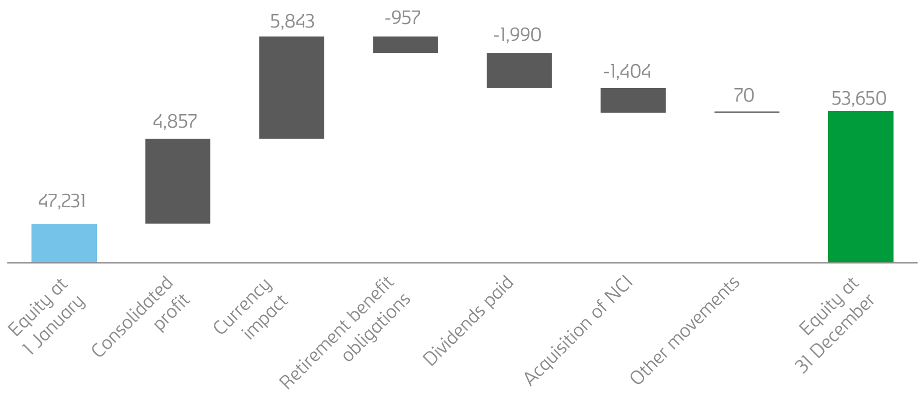
Capital structure

4.3.2 Equity

According to the authorisation of the General Meeting, the Supervisory Board may, in the period until 19 March 2019, allow the Company to acquire treasury shares up to a total holding of 10% of the nominal share capital at a price quoted on Nasdaq Copenhagen at the time of acquisition with a deviation of up to 10%. The Company holds no class A shares.

The Group proposes a dividend of DKK 10.00 per share (2015: DKK 9.00 per share), amounting to DKK 1,526m (2015: DKK 1,373m). The proposed dividend has been included in retained earnings at 31 December 2016.

Equity (DKKm)



Transactions with shareholders in Carlsberg A/S

DKK million	2016	2015
Dividends paid to shareholders	-1,373	-1,373
Acquisition of treasury shares	-214	-259
Disposal of treasury shares	149	127
Total	**-1,438**	**-1,505**

Transactions with non-controlling interests (NCI)

DKK million	2016	2015
Dividends paid to NCI	-617	-513
Acquisition of NCI	-399	-
Capital increase	1	-
Total	**-1,015**	**-513**

Dividends paid to non-controlling interests primarily related to entities in Asia.

Share capital

	Class A shares		Class B shares		Total share capital	
	Shares of DKK 20	Nominal value, DKK '000	Shares of DKK 20	Nominal value, DKK '000	Shares of DKK 20	Nominal value, DKK '000
1 January 2015	33,699,252	673,985	118,857,554	2,377,151	152,556,806	3,051,136
No change in 2015	-	-	-	-	-	-
31 December 2015	**33,699,252**	**673,985**	**118,857,554**	**2,377,151**	**152,556,806**	**3,051,136**
No change in 2016	-	-	-	-	-	-
31 December 2016	**33,699,252**	**673,985**	**118,857,554**	**2,377,151**	**152,556,806**	**3,051,136**

A shares carry 20 votes per DKK 20 share. **B shares** carry two votes per DKK 20 share. A preferential right to an 8% non-cumulative dividend is attached to B shares. Apart from votes and dividends, all shares rank equally.

Treasury shares

	Fair value at 31 December, DKKm	Shares of DKK 20	Nominal value, DKKm	Percentage of share capital
1 January 2015		18,452	-	0.0%
Acquisition of treasury shares		459,116	9	0.3%
Used to settle share-based payments		-473,013	-9	-0.3%
31 December 2015	**2**	**4,555**	**-**	**0.0%**
Acquisition of treasury shares		335,734	7	0.2%
Used to settle share-based payments		-335,888	-7	-0.2%
31 December 2016	**3**	**4,401**	**-**	**0.0%**

To facilitate settlement of share-based incentive programmes in 2016, the Company acquired class B treasury shares at an average price of DKK 637 (2015: DKK 565).

Accounting policies

Proposed dividends

Proposed dividends are recognised as a liability at the date when they are adopted at the Annual General Meeting (declaration date). The dividend recommended by the Supervisory Board, and therefore expected to be paid for the year, is disclosed in the statement of changes in equity.

Treasury shares

Cost of acquisition, consideration received and dividends received from treasury shares are recognised directly in equity as retained earnings. Capital reductions from the cancellation of treasury shares are deducted from the share capital at an amount corresponding to the nominal value of the shares.

Proceeds from the sale of treasury shares in connection with the settlement of share-based payments are recognised directly in equity.

SECTION 4.3 (CONTINUED)

Capital structure

4.3.3 Financial risk management

The Group's activities give rise to exposure to a variety of financial risks, including market risk (foreign exchange risk, interest rate risk and raw material risk), credit risk and liquidity risk. These risks are described in the following sections:

- Foreign exchange risk: sections 1.4 and 4.5
- Interest rate risk: section 4.6
- Commodity risk: section 1.3.1
- Credit risk: sections 1.6 and 4.4.2
- Liquidity risk: section 4.7

The Group's financial risks are managed by Group Treasury in accordance with the Financial Risk Management Policy approved by the Supervisory Board and are an integrated part of the overall risk management process at Carlsberg. The risk management governance structure is described in the Management review.

To reduce the exposure to these risks, the Group enters into a variety of financial instruments and generally seeks to apply hedge accounting to reduce volatility in the income statement.

While the risk management activities were largely unchanged during 2016, the macroeconomic situation affecting markets and exchange rates in Russia and Ukraine continued to warrant increased monitoring and planning.

SECTION 4.4

Borrowings and cash

4.4.1 Borrowings

Borrowings decreased during 2016 due to the strong free cash flow. A GBP 300m bond was repaid at maturity in November 2016. Bank borrowings also decreased compared with year-end 2015. Mortgage financing at the brewery in Fredericia, Denmark, was significantly reduced.

Gross financial debt

DKK million	2016	2015
Non-current		
Issued bonds	18,489	25,988
Mortgages	420	1,248
Bank borrowings	1,114	4,202
Other borrowings	1,114	41
Total	**21,137**	**31,479**
Current		
Issued bonds	7,424	3,103
Current portion of other non-current borrowings	193	225
Bank borrowings	1,443	1,212
Other borrowings	7	9
Total	**9,067**	**4,549**
Total borrowings	**30,204**	**36,028**
Fair value	32,160	37,635

An overview of issued bonds (current and non-current) is provided in section 4.6.

Other borrowings include finance lease liabilities of DKK 26m (2015: DKK 31m).

Cash flow from external financing

DKK million	2016	2015
Repayment of bonds	-2,620	-
Credit institutions, long-term	-3,080	-4,058
Credit institutions, short-term	-889	-363
Other financing liabilities	-163	-136
Total	**-6,752**	**-4,557**

Accounting policies

Amounts owed to credit institutions, bonds etc. are recognised at the date of borrowing at fair value less transaction costs. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between the fair value less transaction costs and the nominal value is recognised in the income statement under financial expenses over the term of the loan. Financial liabilities also include the capitalised residual obligation on finance leases, which is measured at amortised cost. Other liabilities are measured at amortised cost.

4.4.2 Cash

Cash and cash equivalents

DKK million	2016	2015
Cash and cash equivalents	3,502	3,131
Bank overdrafts	-1,154	-111
Cash and cash equivalents, net	**2,348**	**3,020**

Short-term bank deposits amounted to DKK 1,014m (2015: DKK 688m). The average interest rate on these deposits was 5.9% (2015: 8.0%).

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. 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 3,502m (2015: DKK 3,131m) represents the maximum credit exposure related to cash and cash equivalents. Of this amount, DKK 2,057m is cash in Asia.

The credit risk on receivables is described in section 1.6.

SECTION 4.5

Foreign exchange risk related to net investments and financing activities

4.5.1 Currency profile of borrowings

The Group is exposed to foreign exchange risk on borrowings denominated in a currency other than the 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 and have to be repaid in another currency.

Currency profile of borrowings

BEFORE AND AFTER DERIVATIVE FINANCIAL INSTRUMENTS

DKK million

2016	Original principal	Effect of swap	After swap
CHF	146	1,578	1,724
DKK	543	6,783	7,326
EUR	28,170	-9,493	18,677
GBP	94	-310	-216
RUB	184	-2,408	-2,224
USD	34	3,128	3,162
Other	1,033	722	1,755
Total	**30,204**	**-**	**30,204**
Total 2015	**36,028**	**-**	**36,028**

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 RUB, CHF, CNY and MYR. The basis for hedging is reviewed at least once a year, and the two parameters, risk reduction and cost, are balanced. In economic terms, having debt in foreign currency or creating synthetic debt via forward exchange contracts constitutes hedging of the DKK value of future cash flows arising from operating activities or specific transactions.

The most significant net risk relates to foreign exchange adjustment of net investments in RUB.

Where the fair value adjustments of forward exchange contracts do not exceed the fair value adjustments of the investment, the adjustments of the financial instruments are recognised in other comprehensive income. Otherwise the fair value adjustments are recognised in the income statement. For 2016 and 2015, all fair value adjustments were recognised in other comprehensive income. The effect of net investment hedges on other comprehensive income is summarised in the table.

The fair value of derivatives used as net investment hedges recognised at 31 December 2016 amounted to DKK -104m (2015: DKK –216m).

4.5.3 Exchange rate risk on borrowings

The main principle for funding of subsidiaries is that loans and borrowings should be in local currency or hedged to local currency to avoid foreign exchange risk. However, in some Group entities debt is denominated in a currency other than the local entity's functional currency without the foreign exchange risk being hedged. This applies primarily to a few entities in Eastern Europe and is based on an assessment of the alternative cost of financing the entity in the local currency. For the countries concerned, the interest rate level in the local currency, and thus the additional cost of financing in local currency, is so high that it justifies a foreign exchange risk. In some countries, financing in local currency is not available at all.

Net investment hedges

	Hedging of investment, amount in local currency		Addition to net investment, amount in local currency		Total adjustment to other comprehensive income (DKK)	
DKK million	2016	2015	2016	2015	2016	2015
RUB	-10,000	-	-	-	-133	-
CNY	-1,250	-1,250	-	-	-7	-122
MYR	-336	-336	-	-	-13	39
HKD	-	-	1,345	1,457	36	135
CHF	-330	-430	-	-	5	-289
GBP	-	-	75	77	-113	57
NOK	-	-	3,000	3,000	127	-143
SEK	-	-4,046	-	-	106	-108
SGD	-	-	84	167	5	56
Other	-	-	-	-	-1	-41
Total					**12**	**-416**

SECTION 4.5 (CONTINUED)

Foreign exchange risk related to net investments and financing activities

4.5.4 Impact on financial statements and sensitivity analysis

Impact on operating profit

For a description of the currency impact on operating profit, please refer to section 1.4.

Impact on financial items, net

In 2016, the Group had net gains on foreign exchange and fair value adjustments of financial instruments of DKK 416m (2015: loss of DKK 110m), cf. section 4.1.

Impact on statement of financial position

Fluctuations in foreign exchange rates will affect the level of debt as funding is obtained in a number of currencies. In 2016, net interest-bearing debt decreased by DKK 46m (2015: decreased by DKK 244m) due to changes in foreign exchange rates.

Impact on other comprehensive income

For 2016, the total gains on net investments (Carlsberg's share), loans granted to subsidiaries as an addition to the net investment and net investment hedges amounted to DKK 5,585m (2015: losses of DKK 4,484m). Gains were primarily incurred in RUB, while CNY, UAH and PLN depreciated during the year, cf. section 4.1.

Sensitivity analysis

An adverse development in the exchange rates would, all other things being unchanged, have had the hypothetical impact on the consolidated income statement for 2016 illustrated in the table. The hypothetical impact ignores the fact that the subsidiaries' initial recognition of revenue, cost and debt would be similarly exposed to the changes in the exchange rates. The calculation is made on the basis of items in the statement of financial position at 31 December.

Other comprehensive income is affected by changes in the fair value of currency derivatives designated as cash flow hedges of future purchases and sales. If the foreign exchange rates of the currencies hedged had been 5% higher on 31 December 2016, other comprehensive income would have been DKK 133m lower (2015: DKK 142m lower).

Applied exchange rates

	Closing rate		Average rate	
DKK	2016	2015	2016	2015
Swiss franc (CHF)	6.9228	6.9008	6.8166	6.9994
Chinese yuan (CNY)	1.0156	1.0524	1.0125	1.0727
Euro (EUR)	7.4344	7.4625	7.4442	7.4595
Pound sterling (GBP)	8.6832	10.1119	9.1182	10.3102
Indian rupee (INR)	0.1040	0.1038	0.0999	0.1053
Laotian kip (LAK)	0.0009	0.0008	0.0008	0.0008
Norwegian krone (NOK)	0.8182	0.7761	0.8028	0.8350
Polish zloty (PLN)	1.6857	1.7600	1.7080	1.7895
Russian rouble (RUB)	0.1165	0.0938	0.1019	0.1143
Swedish krona (SEK)	0.7783	0.8122	0.7866	0.7982

Applied exchange rates

The DKK exchange rates applied for the most significant currencies when preparing the consolidated financial statements are presented above.

The average exchange rate for the year was calculated using the monthly exchange rates weighted according to the phasing of the net revenue per currency throughout the year.

Exchange rate sensitivity

DKK million

2016	EUR receivable	EUR payable	EUR borrowings	EUR cash	Gross exposure	Derivative	Net exposure	% change	Effect on P/L	2015 Effect on P/L
EUR/GBP	1,203	-731	-	194	666	-	666	5%	33	23
EUR/NOK	87	-735	-	6	-642	-	-642	5%	-32	-22
EUR/RUB	3	-189	-	2	-184	-	-184	10%	-18	-13
EUR/UZS	-	-	-245	5	-240	-	-240	10%	-24	-24
Total									**-41**	**-36**

2016	USD receivable	USD payable	USD borrowings	USD cash	Gross exposure	Derivative	Net exposure	% change	Effect on P/L	2015 Effect on P/L
USD/RUB	1	-	-	307	308	-	308	10%	31	20
USD/UAH	-	-52	-	179	127	-	127	10%	13	22
Total									**44**	**42**

SECTION 4.6

Interest rate risk

The most significant interest rate risk in the Group relates to borrowings. As the Group's net debt is primarily in EUR and DKK, the interest rate exposure relates to the development in the interest rates in these two currencies.

The interest rate risk is measured by the duration of the net financial debt. The target is to have a duration between two and five years. At 31 December 2016, the duration was 3.7 years (2015: 3.8). Interest rate risks are mainly managed using fixed-rate bonds. No interest rate swaps were in effect at 31 December 2016.

The EUR 750m bond maturing on 3 July 2019 consists of two bond issues of EUR 250m and EUR 500m.

Sensitivity analysis
At the reporting date, 76% of the net financial debt consisted of fixed-rate borrowings with interest rates fixed for more than one year (2015: 79%). It is estimated that a 1 percentage point interest rate increase would lead to an increase in annual interest expenses of DKK 64m (2015: DKK 69m). The analysis assumes a parallel shift in the relevant yield curves and 100% effective hedging of changes in the yield curve.

If the market interest rate had been 1 percentage point higher at the reporting date, it would have led to a financial gain of DKK 978m (2015: DKK 1,245m), and a similar loss had the rate been 1 percentage point lower. However, since all fixed-rate borrowings are measured at amortised cost, there is no impact on other comprehensive income or the income statement.

Interest rate risk

DKK million

2016	Interest rate	Average effective interest rate	Fixed for	Carrying amount	Interest rate risk
Issued bonds					
EUR 1,000m maturing 13 October 2017	Fixed	3.6%	0-1 year	7,424	Fair value
EUR 750m maturing 3 July 2019	Fixed	2.6%	2-3 years	5,582	Fair value
EUR 750m maturing 15 November 2022	Fixed	2.7%	>5 years	5,546	Fair value
EUR 1,000m maturing 28 May 2024	Fixed	2.6%	>5 years	7,361	Fair value
Total issued bonds		**2.9%**		**25,913**	
Total issued bonds 2015		**3.1%**		**29,091**	
Mortgages					
Floating-rate	Floating	0.7%	<1 year	420	Cash flow
Total mortgages		**0.7%**		**420**	
Total mortgages 2015		**0.5%**		**1,248**	
Bank borrowings and other borrowings					
Floating-rate	Floating	3.9%	<1 year	2,047	Cash flow
Fixed-rate	Fixed	0.7%	>1 year	1,824	Fair value
Total bank borrowings and other borrowings				**3,871**	
Total bank borrowings and other borrowings 2015				**5,690**	

Net financial debt by currency

DKK million

				Interest rate	
2016	Net financial debt[1]	Floating[1]	Fixed[1]	Floating[2] %	Fixed[2] %
EUR	18,207	-1,740	19,947	28%	72%
DKK	7,313	7,311	2	100%	-
PLN	-172	-172	-	100%	-
USD	2,922	2,920	2	101%	-1%
CHF	1,715	1,715	-	100%	-
RUB	-2,228	-2,228	-	100%	-
Other	-1,055	-1,417	362	122%	-22%
Total	**26,702**	**6,389**	**20,313**	**24%**	**76%**
2015					
EUR	19,536	-6,494	26,030	2%	98%
DKK	9,427	9,427	-	100%	-
PLN	192	192	-	100%	-
USD	2,222	2,222	-	100%	-
CHF	3,090	3,090	-	100%	-
RUB	-1,171	-1,171	-	100%	-
Other	-399	-401	2	101%	-1%
Total	**32,897**	**6,865**	**26,032**	**21%**	**79%**

[1] Net financial debt consists of current and non-current items after currency derivatives less cash and cash equivalents.
[2] Net financial debt consists of current and non-current items less cash and cash equivalents.

SECTION 4.6 (CONTINUED)
Interest rate risk

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 2015. The Group did not enter into new swaps during 2016.

The floating-rate mortgage was repriced in December 2016 at a rate of 0.07% (excl. margin) commencing in January 2017 and will be repriced again in July 2017. The time to maturity is more than five years. The floating-rate mortgage is repriced semi-annually with reference to 6-month CIBOR.

Time to maturity for non-current borrowings

DKK million

2016	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Issued bonds	-	5,582	-	-	12,907	18,489
Mortgages	-	-	-	-	420	420
Bank borrowings	1,058	18	16	12	10	1,114
Other non-current borrowings	20	1,079	-	-	15	1,114
Total	**1,078**	**6,679**	**16**	**12**	**13,352**	**21,137**
Total 2015	**7,475**	**588**	**5,608**	**1**	**17,807**	**31,479**

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 primarily involves obtaining sufficient committed credit facilities to ensure adequate financial resources and, to some extent, tapping a range of funding sources.

Credit resources available
Carlsberg uses the term Credit resources available to determine the adequacy of access to credit facilities.

Net financial debt is used internally by Group Treasury to monitor the Group's credit resources available. Net financial debt is the Group's net interest-bearing debt, excluding interest-bearing assets, as these assets are not actively managed in relation to liquidity risk.

At 31 December 2016, net financial debt was DKK 26,702m (2015: DKK 32,897m).

At 31 December 2016, the Group had total unutilised credit facilities of DKK 19,388m (2015: DKK 16,836m), of which DKK 19,029m (2015: DKK 16,000m) was non-current credit facilities. Credit resources available consist of the unutilised non-current credit facilities and cash and cash equivalents of DKK 3,502m (2015: DKK 3,131m) less utilisation of current facilities of DKK 9,067m (2015: DKK 4,549m).

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 management, the Group mitigates liquidity risk by arranging borrowing facilities with solid financial institutions.

The Group uses cash pools in the day-to-day liquidity management for most of the entities in Western Europe, as well as intra-group loans between Group Treasury and subsidiaries. As a result of withholding tax and local legislation, some of the majority-owned entities in Eastern Europe and Asia have their own credit facilities and borrowings from banks.

The table below lists the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of

Committed credit facilities and credit resources available

DKK million				2015
2016	Total committed loans and credit facilities	Utilised portion of credit facilities	Unutilised credit facilities	Unutilised credit facilities
<1 year	9,426	9,067	359	836
Total current committed loans and credit facilities	**9,426**	**9,067**	**359**	**836**
<1 year	-	-	-9,067	-4,549
1-2 years	1,447	1,078	369	-
2-3 years	6,679	6,679	-	873
3-4 years	16	16	-	-
4-5 years	18,672	12	18,660	-
>5 years	13,352	13,352	-	15,127
Total non-current committed loans and credit facilities	**40,166**	**21,137**	**9,962**	**11,451**
Cash and cash equivalents			3,502	3,131
Credit resources available (total non-current committed loans and credit facilities - net debt)			**13,464**	**14,582**

SECTION 4.7 (CONTINUED)

Liquidity risk

netting agreements, and thus summarises the gross liquidity risk.

The risk implied by the values shown in the table reflects the one-sided scenario of cash outflows only. Trade payables and other financial liabilities mainly originate from the financing of assets in ongoing operations, such as property, plant and equipment, and investments in working capital, for example inventories and trade receivables.

The nominal amount/contractual cash flow of the financial debt was DKK 172m higher (2015: DKK 148m 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 2016.

The cash flow is estimated based on the notional amount of the above-mentioned borrowings and expected interest rates at year-end 2016 and 2015. Interest on debt recognised at year-end 2016 and 2015, for which no contractual obligation exists (current borrowing and cash pools), has been included for a two-year period.

Maturity of financial liabilities

DKK million

2016	Contractual cash flows	Maturity <1 year	Maturity >1 year <5 years	Maturity >5 years	Carrying amount
Derivative financial instruments					
Derivative financial instruments, payables	255	255	-	-	214
Non-derivative financial instruments					
Gross financial debt	30,376	9,078	7,843	13,455	30,204
Interest expenses	2,950	710	1,751	489	N/A
Trade payables and other liabilities	15,193	15,193	-	-	15,193
Liabilities related to acquisition of entities	3,027	-	3,027	-	3,027
Non-derivative financial instruments	**51,546**	**24,981**	**12,621**	**13,944**	**-**
Financial liabilities	**51,801**	**25,236**	**12,621**	**13,944**	**-**
Financial liabilities 2015	**56,939**	**20,283**	**17,562**	**19,094**	**-**

SECTION 4.8

Financial instruments

Value adjustments of fair value hedges, financial derivatives not designated as hedging instruments and ineffectiveness regarding instruments designated in a hedge relationship are recognised in the income statement. The adjustments are included in financial income and financial expenses, cf. section 4.1. In 2016, fair value adjustments amounted to DKK 564m (2015: DKK 68m).

The ineffectiveness includes both the ineffective portion of hedges and technical ineffectiveness relating to exchange rate instruments and aluminium swaps designated as cash flow hedges.

The Group monitors the cash flow hedge relationships on a quarterly basis to assess whether the hedge is still effective. If this is not the case, the accumulated gain/loss on the portion of the hedge that is no longer effective is reclassified to the income statement.

Of the total ineffective portion of hedges for 2016, DKK 65m related to the Group's aluminium hedging scheme (2015: DKK -58m) and DKK 9m related to foreign exchange hedges (2015: DKK -24m). The ineffective portion regarding aluminium relates to hedged transactions that are expected to take place in 2017.

The fair value of derivatives classified as a cash flow hedge is presented in the cash flow hedge section below. Other instruments are primarily aluminium hedges, which are not classified as cash flow hedges.

Fair value hedges and financial derivatives not designated as hedging instruments (economic hedges)

DKK million

2016	Fair value adjustment recognised in the income statement	Fair value
Exchange rate instruments	486	285
Other instruments	4	2
Ineffectiveness	74	-
Total	**564**	**287**
2015		
Exchange rate instruments	154	-179
Other instruments	-4	-4
Ineffectiveness	-82	-
Total	**68**	**-183**

SECTION 4.8 (CONTINUED)

Financial instruments

Cash flow hedges comprise aluminium hedges where the hedged item is aluminium cans that will be used in a number of Group entities in Western Europe and Eastern Europe during 2017 and currency swaps entered to cover the foreign exchange risk on transactions expected to take place in 2017 and 2018.

The fair value of cash flow hedges recognised at 31 December 2016 includes the ineffective portion of the financial instruments designated as cash flow hedges. This does not include the value of cash flow hedges closed and not yet transferred to the income statement.

The impact on other comprehensive income from exchange rate instruments relates to hedges of Group entities' purchases and sales in currencies other than their functional currencies. The impact on other comprehensive income from other instruments relates to hedges of Group entities' exposure to changes in aluminium prices.

Determination of fair value

The Group has no financial instruments measured at fair value on the basis of level 1 input (quoted prices) or level 3 input (non-observable data).

The methods and assumptions used in determining the fair values of each category of financial assets and financial liabilities are described in their relevant sections.

The carrying amount of financial assets and liabilities approximates their fair value, except for borrowings, cf. section 4.4.

Cash flow hedges

DKK million

2016	Fair value adjustment recognised in other comprehensive income	Fair value	Expected recognition
Interest rate instruments	1	-	N/A
Exchange rate instruments	-11	-37	2017-2018
Other instruments	139	83	2017
Total	**129**	**46**	
2015			
Interest rate instruments	52	-	N/A
Exchange rate instruments	26	-25	2016-2017
Other instruments	-99	-121	2016-2017
Total	**-21**	**-146**	

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 hedge instruments is assessed at least quarterly.

Fair values of derivative financial instruments are computed on the basis of current market data and generally accepted valuation methods. Internally calculated values are used, and these are compared with external market quotes on a quarterly basis. For currency and aluminium derivatives, the calculation is as follows:

a) the forward market rate is compared with the agreed rate on the derivatives, and the difference in cash flow at the future point in time is calculated
b) the amounts are discounted to present value.

When entering into a contract management assesses whether the contract contains embedded derivatives and if 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 in the statement of financial position at fair value on the trade date and subsequently measured at fair value. Attributable transaction costs are recognised in the income statement.

The fair values of derivative financial instruments are included in other receivables and other payables, and positive and negative values are offset only when the Group has the right and the intention to settle several financial instruments net. Fair values of derivative financial instruments are computed on the basis of current market data and generally accepted valuation methods.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a fair value hedge of recognised assets and liabilities are recognised in the income statement. Changes in the value of the hedged portion of assets or liabilities are also recognised. Except for foreign currency hedges, hedging of future cash flows according to a firm agreement is treated as a fair value hedge of a recognised asset or liability.

Changes in the portion of the fair value of derivative financial instruments that are designated and qualify as a cash flow hedge and that effectively hedge changes in the value of the hedged item are recognised in other comprehensive income and attributed to a separate reserve in equity. When the hedged transaction results in gains or losses, amounts previously recognised in other comprehensive income are transferred to the same item as the hedged item when the hedged risk impacts the income statement. If the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the non-financial asset is recognised.

Derivatives designated as and qualifying for recognition as a cash flow hedge of financial investments are recognised in other comprehensive income. On complete or partial disposal of the financial investment, the portion of the hedging instrument that is recognised in other comprehensive income and relates to that financial investment is recognised in the income statement when the gain or loss on disposal is recognised.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement as financial income or financial expenses.

Changes in the fair value of derivative financial instruments used to hedge net investments in foreign subsidiaries, associates and joint ventures and that effectively hedge currency fluctuations in these entities are recognised in other comprehensive income and attributed to a separate translation reserve in equity.

SECTION 5

Acquisitions, disposals, associates and joint ventures

2.1bn

In gains on disposal of entities recognised in special items.

2.7bn

In net cash proceeds from disposal of entities included in cash flow from investments.

SECTION 5.1

Acquisitions and disposals

Acquisition of entities in 2016

In 2016, the Group gained control of two entities that individually and collectively are not material to the Group. The purchase price allocation has been completed for one of the entities, while the other has been recognised at provisional values at 31 December 2016. Goodwill amounted to DKK 249m.

Acquisition of entities in 2015

In 2015, the Group gained control of Olympic Brewery SA (Greece) through the completion of a merger with Carlsberg's wholly owned subsidiary Mythos Brewery SA, leaving the Group with a 51% ownership interest in the combined Olympic Brewery. The fair values of the identifiable assets and liabilities at the date of acquisition were provisionally estimated and disclosed in the Annual Report for 2015. In 2016, the provisional values were finalised, leading to a DKK 45m increase in deferred income and a corresponding DKK 45m increase in goodwill. Comparative figures have not been restated.

Disposal of entities in 2016

The restructuring of the Group's Chinese activities in Chongqing and Eastern Assets continued in 2016, resulting in the disposal of nine entities comprising brewing and malting activities. Most of the breweries had been closed before the disposals.

As part of an asset swap, the associate Xinjiang Hops was disposed of in June and the Group acquired a 35% non-controlling interest in Xinjiang Wusu Breweries in exchange. Following the completion, the Group holds 100% of Xinjiang Wusu Breweries. The gain on disposal of Xinjiang Hops was recognised in special items, income, while the cost of the acquisition of the non-controlling interest is recognised in the statement of equity. The cash flows were recognised accordingly and amounted to approximately DKK 200m, net.

The Group also disposed of its 59% controlling interest in Carlsberg Malawi (August), its wholly owned entities Danish Malting Group (January) and Carlsberg Vietnam Breweries - Vung Tau (July), as well as the associate Sejet Planteforædling (December), a Danish plant breeding company, and other minor entities.

The disposals were part of the structural changes under the Funding the Journey programme, and all related to non-core assets.

Entities disposed of

DKK million	2016
Non-current assets	687
Current assets	995
Non-current liabilities	-156
Current liabilities	-630
Net assets of entities disposed of	**896**
Non-controlling interests	-83
Net assets of entities disposed of, attributable to Carlsberg	**813**
Recycling of cumulative exchange differences	263
Directly attributable expenses	7
Gain on disposal, net, recognised in special items, cf. section 3.1	2,078
Prepayment received in prior period	-25
Cash consideration received, cf. section 5.2	**3,136**

SECTION 5.1 (CONTINUED)

Acquisitions and disposals

Disposal of entities in 2015

As a result of changes to the shareholder agreement for Myanmar Carlsberg Co. Ltd, the company was deconsolidated as of 1 January 2015 and recognised as an associate.

In 2015, the Group disposed of a dormant subsidiary in the Xinjiang Wusu Group, China, and its 70% shareholding in Luen Heng F&B Sdn. Bhd., Malaysia.

The disposals and the deconsolidation resulted in a net loss of DKK 1m, which was recognised in special items.

Accounting estimates and judgements

Assessment of control

The classification of entities where Carlsberg does not control 100% of the voting rights is based on an assessment of the contractual and operational relationship between the parties. This includes assessing the conditions in shareholder agreements, contracts etc. Consideration is also given to the extent to which each party can govern the financial and operating policies of the entity, how the operation of the entity is designed, and which party possesses the relevant knowledge and competences to operate the entity.

Another factor relevant to this assessment is the extent to which each of the parties can direct the activities and affect the returns, for example by casting votes, rights or exclusively reserved matters.

Accounting policies

For acquisition of new subsidiaries, associates and joint ventures, the acquisition method is used. The acquired entities' identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if they are separable or arise from a contractual right. Deferred tax on revaluations is recognised.

The acquisition date is the date when the Carlsberg Group effectively obtains control of an acquired subsidiary or significant influence over an associate or a joint venture.

The cost of a business combination comprises the fair value of the consideration agreed upon. When a business combination agreement provides for an adjustment to the cost of the combination that is contingent on future events, the fair value of that adjustment is included in the cost of the combination.

Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with a functional currency other than the presentation currency used in the Carlsberg Group are treated as assets and liabilities belonging to the foreign entity and translated into the foreign entity's functional currency at the exchange rate at the transaction date.

If uncertainties regarding measurement of acquired identifiable assets, liabilities and contingent liabilities exist at the acquisition date, initial recognition will take place on the basis of preliminary fair values. If identifiable assets, liabilities and contingent liabilities are subsequently determined to have a different fair value at the acquisition date from that first assumed, goodwill is adjusted up until 12 months after the acquisition. The effect of the adjustments is recognised in the opening balance of equity and the comparative figures are restated accordingly if the amount is material.

Except in cases of material error, changes in estimates of contingent purchase considerations are recognised in the income statement under special items, unless they qualify for recognition directly in equity.

Changes in estimates of contingent purchase considerations in business combinations completed no later than 31 December 2009 are recognised as an adjustment to goodwill.

Disposals

Gains or losses on the disposal or winding-up of subsidiaries, associates and joint ventures are stated as the difference between the sales price and the carrying amount of net assets, including goodwill at the date of disposal or winding-up, foreign exchange adjustments recognised in other comprehensive income, and costs to sell or winding-up expenses.

Partial disposal of investments with loss of control

When the Group loses control of a subsidiary through a partial disposal of its shareholding or voting rights, the retained shareholding in the entity is classified as an associate or a security depending on the level of control after the disposal. The shareholding in the associate or the security held after the partial disposal is measured at fair value at the date of disposal. The fair value is recognised as the new cost of the shareholding in the associate or the security. The resulting gain or loss is recognised in the income statement under special items.

SECTION 5.2

Cash flow effect from acquisitions and disposals

The cash flow from acquisition and disposal of entities comprises the cash consideration paid/received net of cash and cash equivalents acquired/disposed of with the entities.

Elements of cash consideration paid and received

DKK million	2016	2015
Cash consideration received/paid, associates	716	9
Cash and cash equivalents acquired/disposed of	-210	-84
Cash consideration received/paid, subsidiaries	2,179	51
Total cash consideration received, net	**2,685**	**-24**
- of which consideration received for entities	3,136	51

SECTION 5.3

Non-controlling interests

The Group has entities, primarily in Asia, that are not wholly owned.

Non-controlling interests' share of profit for the year

DKK million	2016	2015
Lao Brewery	288	280
Carlsberg Malaysia Group	173	182
Chongqing Brewery Group	-164	-120
Asia, other	63	-8
Other regions	11	10
Total	**371**	**344**

Contingent considerations

The fair value of contingent considerations is estimated using generally accepted valuation methods, including discounted cash flows and multiples, in accordance with the agreements entered into with non-controlling interests. Estimates are based on updated information since initial recognition of the contingent consideration, including new budgets and sales forecasts, discount rates etc.

The total fair value adjustment recognised in 2016 amounted to DKK 1,011m (2015: DKK 367m). Of this, the fair value adjustment of contingent considerations for acquisitions completed before 1 January 2010 amounted to DKK 6m (2015: DKK 19m), which was recognised as an adjustment to goodwill.

Accounting policies

On acquisition of non-controlling interests (i.e. subsequent to the Group obtaining control), acquired net assets are not measured at fair value. The difference between the cost and the non-controlling interests' share of the total carrying amount, including goodwill, is transferred from the non-controlling interests' share of equity to equity attributable to shareholders in Carlsberg A/S. The amount deducted cannot exceed the non-controlling interests' share of equity immediately before the transaction.

On disposal of shareholdings to non-controlling interests, the difference between the sales price and the share of the total carrying amount, including goodwill acquired by the non-controlling interests, is transferred from equity attributable to shareholders in Carlsberg A/S to the non-controlling interests' share of equity.

Fair value adjustment of put options granted to non-controlling interests on or after 1 January 2010 is recognised directly in the statement of changes in equity. Fair value adjustment of put options granted no later than 31 December 2009 is recognised in goodwill.

Transactions with non-controlling interests

DKK million 2016	Attributable to shareholders in Carlsberg A/S	Attributable to non-controlling interests
Consideration paid for acquisition of non-controlling interests	-399	-
Proportionate share of equity acquired from non-controlling interests	597	-597
Fair value adjustment of contingent considerations	-1,005	-
Recognised in equity	**-807**	**-597**
2015	**105**	**91**

Transactions with non-controlling interests comprise transactions with shareholdings in:
2016: Xinjiang Wusu Breweries, Carlsberg South Asia Pte Ltd and Olympic Brewery SA.
2015: Carlsberg South Asia Pte Ltd, PJSC Carlsberg Ukraine, Luen Heng F&B Sdn. Bhd, Chongqing Brewery Co., Ltd and Olympic Brewery SA.

SECTION 5.4

Associates and joint ventures

Investments in associates and joint ventures increased compared with 2015, primarily due to capital increases and a minor acquisition of additional shareholdings, in total DKK 52m. The increase was partially offset by a minor disposal and the classification of two associates as assets held for sale. Both are expected to be disposed of in 2017.

The disposal of Xinjiang Hops had no impact on the carrying amount of associates, as the investment had been written down in prior years.

As a result of changes to the shareholder agreement for Myanmar Carlsberg Co. Ltd, the

Key figures for associates and joint ventures

DKK million	Carlsberg Group share			
2016	Profit after tax	Other comprehensive income	Total comprehensive income	Investments in associates and joint ventures
Associates	220	3	223	3,500
Joint ventures	104	-	104	1,201
	324	**3**	**327**	**4,701**
2015				
Associates	194	-2	192	3,519
Joint ventures	170	-	170	1,157
	364	**-2**	**362**	**4,676**

SECTION 5.4 (CONTINUED)

Associates and joint ventures

Group lost control in January 2015 but retained significant influence. Consequently, the company was deconsolidated and recognised as an associate from 2015.

For associates in which the Group holds an ownership interest of less than 20%, the Group participates in the management of the company and is therefore exercising significant influence.

The Group also has minor investments in entities in which the Group is unable to exercise significant influence.

None of the associates and joint ventures are material to the Group.

Fair value of investment in listed associates

DKK million	2016	2015
The Lion Brewery Ceylon, Biyagama, Sri Lanka	439	600

Contingent liabilities

The Group did not issue any guarantees for loans etc. raised by associates and joint ventures in 2016 or 2015.

Accounting policies

The proportionate share of the results of associates and joint ventures after tax is recognised in the consolidated income statement after elimination of the proportionate share of unrealised intra-group profits/losses.

Investments in associates and joint ventures are recognised according to the equity method and measured at the proportionate share of the entities' net asset values calculated in accordance with the Group's accounting policies. The proportionate share of unrealised intra-group profits and the carrying amount of goodwill are added, whereas the proportionate share of unrealised intra-group losses is deducted.

Investments in associates and joint ventures with negative net asset values are measured at DKK 0. If the Group has a legal or constructive obligation to cover a deficit in the associate or joint venture, the deficit is recognised under provisions. Any amounts owed by associates and joint ventures are written down to the extent that the amount owed is deemed irrecoverable.

On acquisition of investments in associates and joint ventures, the acquisition method is used, cf. section 5.1.

SECTION 5.5

Assets and liabilities held for sale

Assets and liabilities held for sale primarily comprise Carlsberg Uzbekistan and two associates, both of which are expected to be disposed of in 2017. The transactions are in line with the Group's ambition of disposing of non-core assets, improving the return on invested capital and reducing the financial leverage.

Assets and liabilities held for sale

DKK million	2016	2015
Assets		
Property, plant and equipment	61	194
Deferred tax assets	-	6
Inventories	15	149
Trade receivables	-	103
Other current assets	29	10
Total assets in a disposal group classified as held for sale	**105**	**462**
Assets classified as held for sale	20	7
Total assets held for sale	**125**	**469**
Liabilities		
Deferred tax liabilities	-	11
Provisions	-	1
Borrowings	-	1
Trade payables	-	44
Corporation tax	-	15
Other liabilities	15	16
Total liabilities held for sale	**15**	**88**

A reversal of impairment of DKK 105m was recognised in special items prior to the classification as assets held for sale. Except for the reversal of impairment, the classification of assets as held for sale did not impact the income statement or statement of cash flows for 2016.

In 2015, assets held for sale, DKK 469m, consisted primarily of Danish Malting Group, which was disposed of in 2016.

Accounting policies

Assets held for sale comprise non-current assets and disposal groups held for sale. Disposal groups are defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction and those liabilities directly associated with the assets that will be transferred in the transaction.

Assets are classified as held for sale if management has decided to sell the asset or disposal group and taken the necessary steps to carry out the sale such that the carrying amount will be recovered principally through a sale within 12 months in accordance with a formal plan rather than through continuing use. Comparative figures are not restated.

Assets or disposal groups held for sale are measured at the lower of carrying amount or fair value less costs to sell. Assets are not depreciated or amortised from the date when they are reclassified as held for sale.

If a sale is not completed as expected, the asset or disposal group is reclassified to the items in the statement of financial position from which the asset or disposal group was originally separated. This reclassification is made at the carrying amount less any depreciation charges that would have been recognised if the asset had not been classified as held for sale.

SECTION 6

Tax

Tax 2,392m

Up from DKK 849m in 2015.

Tax rate 33%

Negatively impacted by the outcome of tax dispute and valuation allowances on tax losses.

SECTION 6.1

Corporation tax

The nominal weighted tax rate for the Group is calculated as domestic tax rates applicable to profits in the entities as a proportion of each entity's share of the Group's profit before tax.

The tax rate of 33% was negatively impacted, mainly by the lost tax case in Finland in 2016. The tax expense related to this is non-recurring and had no impact on cash flow. Valuation allowances on tax losses also impacted negatively.

The tax rate in 2015 of -49.0% was negatively impacted by the impairment of intangible assets and property, plant and equipment in Baltika Breweries, Eastern Assets, Chongqing Brewery Group and Carlsberg UK, which was recognised in special items. Excluding these items, the effective tax rate would have been 29.2%.

Reconciliation of the effective tax rate for the year

	2016		2015	
	%	DKK million	%	DKK million
Nominal weighted tax rate	21.7%	1,575	21.4%	-370
Change in tax rate	-1.1%	-81	-0.5%	9
Adjustments to tax for prior years	2.2%	159	2.5%	-43
Non-capitalised tax assets, net movements	7.5%	543	-18.9%	327
Non-taxable income	-	-	-0.9%	15
Non-deductible expenses	3.9%	283	-13.8%	239
Tax incentives etc.	-0.8%	-56	4.6%	-80
Special items	-2.5%	-184	-42.4%	734
Withholding taxes	3.7%	268	-8.7%	151
Other and tax in associates and joint ventures	-1.6%	-115	7.7%	-133
Effective tax rate for the year	**33.0%**	**2,392**	**-49.0%**	**849**

Fair value adjustments of hedging instruments arise in Denmark, but it is not possible to deduct all fair value adjustments due to local thin capitalisation rules. Tax on such adjustments therefore fluctuates from year to year.

No prior-year adjustments are included in the tax income/ expense for hedging instruments in 2016 or 2015.

Accounting policies

Tax for the year comprises current tax and changes in deferred tax for the year, including changes as a result of a change in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, while the tax expense relating to items recognised in other comprehensive income is recognised in other comprehensive income.

If the Group obtains a tax deduction on computation of the taxable income in Denmark or in foreign jurisdictions as a result of share-based payment programmes, the tax effect of the programmes is recognised in tax on the profit/loss for the year. However, if the total tax deduction exceeds the total tax expense, the tax benefit for the excess deduction is recognised directly in equity.

SECTION 6.2

Deferred tax

Of the total deferred tax assets recognised, DKK 673m (2015: DKK 911m) 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, DKK 1,287m (2015: DKK 1,826m), primarily related to tax losses that are not expected to be utilised in the foreseeable future. Tax losses that will not expire amounted to DKK 525m (2015: DKK 651m).

Deferred tax of DKK 113m (2015: DKK 32m) was recognised in respect of earnings in entities in the Eastern Europe region that are intended for distribution in the short term, as tax of 5% is payable on distributions.

For other subsidiaries where reserves are planned to be distributed, any distribution of earnings will not trigger a significant tax liability based on current tax legislation.

Deferred tax on temporary differences relating to investments in subsidiaries, associates and joint ventures amounted to DKK 0m (2015: 0m).

Corporation tax

			2016			2015
DKK million	**Income statement**	**Other comprehensive income**	**Total comprehensive income**	**Income statement**	**Other comprehensive income**	**Total comprehensive income**
Tax for the year can be specified as follows						
Current tax	2,700	18	2,718	1,748	-34	1,714
Change in deferred tax during the year	-393	-41	-434	-865	-133	-998
Change in deferred tax as a result of change in tax rate	-74	2	-72	9	7	16
Adjustments to tax for prior years	159	-	159	-43	-	-43
Total	**2,392**	**-21**	**2,371**	**849**	**-160**	**689**

Tax recognised in other comprehensive income

			2016			2015
DKK million	**Recognised before tax**	**Tax income/ expense**	**After tax**	**Recognised before tax**	**Tax income/ expense**	**After tax**
Foreign exchange adjustments	5,843	-	5,843	-3,824	-	-3,824
Hedging instruments	141	-30	111	-437	76	-361
Retirement benefit obligations	-957	55	-902	-334	84	-250
Share of other comprehensive income in associates and joint ventures	3	-	3	-2	-	-2
Other	-	-4	-4	-	-	-
Total	**5,030**	**21**	**5,051**	**-4,597**	**160**	**-4,437**

SECTION 6.2 (CONTINUED)

Deferred tax

Accounting estimates and judgements

The Group recognises deferred tax assets, including the expected tax value of tax loss carryforwards, if management assesses that these tax assets can be offset against positive taxable income in the foreseeable future. This judgement is made annually and based on budgets and business plans for the coming years, including planned commercial initiatives.

Accounting policies

Current tax payable and receivable are recognised in the statement of financial position as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax on all temporary differences between the carrying amount and the tax base of assets and liabilities is measured using the balance sheet liability method. However, deferred tax is not recognised on temporary differences relating to goodwill that is not deductible for tax purposes or on office premises and other items where temporary differences, apart from business combinations, arise at the acquisition date without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on management's planned use of the asset or settlement of the liability.

If specific dividend plans exist for subsidiaries, associates and joint ventures in countries levying withholding tax on distributions, deferred tax is recognised on expected dividend payments.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised under other non-current assets at the expected value of their utilisation, either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax assets and tax liabilities are offset if the entity has a legally enforceable right to offset current tax liabilities and tax assets or intends either to settle current tax liabilities and tax assets or to realise the assets and settle the liabilities simultaneously. Deferred tax assets are subject to annual impairment tests and are recognised only to the extent that it is probable that the assets will be utilised.

Adjustments are made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the end of the reporting period and when the deferred tax is expected to crystallise as current tax. The change in deferred tax as a result of changes in tax rates is recognised in the income statement. Changes to deferred tax on items recognised in other comprehensive income are, however, recognised in other comprehensive income.

Deferred tax

DKK million	2016	2015
Deferred tax at 1 January, net	4,227	5,717
Adjustments to prior years	123	10
Acquisition and disposal of entities	61	19
Recognised in other comprehensive income	-41	-133
Recognised in the income statement	-393	-865
Change in tax rate	-72	16
Foreign exchange adjustments	735	-532
	4,640	**4,232**
Deferred tax assets and liabilities classified as held for sale	-	-5
Deferred tax at 31 December, net	**4,640**	**4,227**
Recognised as follows		
Deferred tax liabilities	6,250	5,924
Deferred tax assets	-1,610	-1,697
Deferred tax at 31 December, net	**4,640**	**4,227**

Specification of deferred tax

	Deferred tax assets		Deferred tax liabilities	
DKK million	2016	2015	2016	2015
Intangible assets	446	371	5,072	4,592
Property, plant and equipment	412	444	1,909	1,893
Current assets	141	182	60	23
Provisions and retirement benefit obligations	1,281	809	195	93
Fair value adjustments	154	164	10	10
Tax losses etc.	1,407	1,422	1,235	1,013
Total before set-off	**3,841**	**3,392**	**8,481**	**7,624**
Set-off	-2,231	-1,689	-2,231	-1,689
Deferred tax assets and liabilities classified as held for sale	-	-6	-	-11
Deferred tax assets and liabilities at 31 December	**1,610**	**1,697**	**6,250**	**5,924**
Expected to be used as follows				
Within 12 months after the end of the reporting period	311	357	1,149	1,011
More than 12 months after the end of the reporting period	1,299	1,340	5,101	4,913
Total	**1,610**	**1,697**	**6,250**	**5,924**

SECTION 7

Staff costs and remuneration

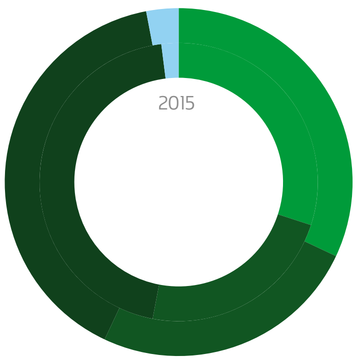
Pensions

Defined benefit obligations decreased due to an additional cash contribution to the Group's pension fund in the UK. The effect of the contribution exceeded the net effect from the decrease in the discount rate and the depreciation of GBP.

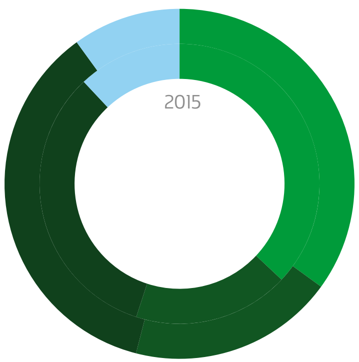
42,062

The average number of employees decreased by 5,402, mainly as a result of brewery closures in China.

Employees
By region (%)



By function (%)



SECTION 7.1

Staff costs

The average number of employees decreased, driven by brewery closures in China during 2016. The brewery closures impacted approximately 3,400 employees. The layoff of approximately 2,280 employees in 2015 and 2016, due to the implementation of the operating expense efficiency programme, had an effect of approximately 1,000 on the 2016 average headcount compared with the average for 2015. Furthermore, the disposal of Danish Malting Group, Carlsberg Malawi and Carlsberg Vietnam Breweries - Vung Tau impacted the average headcount for 2016 by around 700 employees.

Staff costs

DKK million	2016	2015
Salaries and other remuneration	8,060	8,682
Severance payments	506	221
Social security costs	1,359	1,412
Retirement benefit costs – defined contribution plans	273	185
Retirement benefit costs – defined benefit plans	310	262
Share-based payments	52	113
Other employee benefits	75	251
Total	**10,635**	**11,126**
Average number of employees	**42,062**	**47,464**
Staff costs are included in the following items in the income statement		
Cost of sales	2,689	2,908
Sales and distribution expenses	5,347	5,555
Administrative expenses	2,239	2,377
Other operating activities, net	37	43
Special items (restructurings)	323	243
Total	**10,635**	**11,126**

SECTION 7.2

Remuneration

The remuneration policy applicable to the Supervisory Board, the executive directors and key management personnel is described in detail in the Remuneration report in the Management review.

Management review, pages 42-47

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 2016, the CEO and the new CFO were entitled to bonuses of a minimum of 60% and 100% of their respective fixed salaries.

For 2017, the potential maximum bonus will remain at 100% of fixed salary, with a bonus equal to 60% of fixed salary payable for on-target performance. A scorecard of performance measures is used to assess performance, cf. the Remuneration report.

The remuneration to key management personnel was higher than in 2015 as a result of severance payments to former employees and the introduction of the Funding the Journey cash plan with scheduled payout after two years in the spring of 2018, whereas the former share-based incentive schemes had a three-year vesting period.

In respect of other benefits and bonus schemes, the remuneration of CEOs in subsidiaries is based on local terms and conditions.

In 2015, former President & CEO Jørgen Buhl Rasmussen and former Deputy CEO & CFO Jørn P. Jensen retired and received severance payments totalling DKK 93m, of which share-based payments amounted to DKK 44m. As part of the severance payments outstanding performance shares at a value of DKK 28m were settled in cash. The severance payments were recognised in special items.

Key management personnel

Key management personnel comprise the Executive Committee, excluding the executive directors. Other management personnel comprise Vice Presidents and other key employees in central functions as well as the management of significant subsidiaries. The key management personnel, together with the executive directors, are responsible for planning, directing and controlling the Group's activities.

Accounting policies

Staff costs comprise wages and salaries, social security contributions, paid leave and sick leave, and bonuses and other employee benefits and are recognised in the financial year in which the employee renders the related service. Further, the cost of share-based payments, which is expensed over the vesting period of the programme according to the service conditions, is recognised in staff costs and provisions or equity, depending on how the programme is settled with the employees.

Remuneration

	Executive directors					Key management personnel		Supervisory Board	
DKK million	2016	Cees 't Hart 2015	Heine Dalsgaard 2016	Jørgen Buhl Rasmussen 2015	Jørn P. Jensen 2015	2016	2015	2016	2015
Fixed salary	12.0	7.0	4.2	5.1	7.3	35.7	38.0	8.92	8.76
Cash bonus	10.0	4.2	7.3	3.1	4.3	11.2	11.4	-	-
Special bonus[1]	-	5.8	11.9	-	-	-	-	-	-
Severance payments	-	-	-	23.9	25.2	29.5	4.0	-	-
Non-monetary benefits	1.3	0.5	0.2	0.2	0.2	5.7	4.5	-	-
Funding the Journey cash plan	-	-	-	-	-	20.7	-	-	-
Share-based payments[2]	12.8	2.5	1.9	32.0	24.6	5.2	6.0	-	-
Total	**36.1**	**20.0**	**25.5**	**64.3**	**61.6**	**108.0**	**63.9**	**8.92**	**8.76**

[1] Special bonus covering remuneration waived from previous employer.
[2] Includes accelerated cost of share-based payments granted to Jørgen Buhl Rasmussen and Jørn P. Jensen before retirement.

SECTION 7.3

Share-based payments

The Carlsberg Group has set up share-based incentive programmes to attract, retain and motivate the Group's executive directors and other levels of management personnel, and to align their interests with those of the shareholders. No share-based incentive programme has been set up for Carlsberg A/S' Supervisory Board.

In 2016, three different equity-settled awards were granted to the Executive Board: share options, regular performance shares and Funding the Journey performance shares. Funding the Journey performance shares vest subject to the achievement of the strategic measures in Funding the Journey and were only awarded in 2016.

CFO Heine Dalsgaard received a special grant of regular and Funding the Journey performance shares equal to 200% of his full-year base salary.

In 2015, President & CEO Cees 't Hart received a special grant of share options at a value equal to 150% of his full-year base salary.

In May 2016, 25,049 regular performance shares awarded in 2013 under the long-term incentive programme vested. Immediately after vesting, they were converted to Carlsberg B shares and transferred to the eligible employees.

Accounting estimates and judgements

For share options granted after 1 January 2015, the volatility is based on the historical volatility of the price of Carlsberg A/S' class B shares over the previous eight years. From 1 January 2010 up until 31 December 2014, the volatility was based on presently observed data on Bloomberg's Options Valuation Function, while prior to 2010 it was based on the historical volatility of the price of Carlsberg A/S' class B shares over the previous two years. For performance shares, the volatility is based on similar data over the previous three years.

The risk-free interest rate is the interest rate on Danish government bonds of the relevant maturity, while the dividend yield is calculated as the expected future dividends at the grant date of DKK 9.00 per share (2015: DKK 9.00 per share) divided by the share price. The fair value at 31 December 2016 has been calculated by applying an expected dividend of DKK 9.00 per share.

For share options and performance shares granted or measured after 1 January 2010, the expected life is based on exercise at the end of the exercise period, whereas for share options granted prior to 2010, it was based on exercise in the middle of the exercise period.

Accounting policies

The fair value of equity-settled programmes is measured at the grant date and recognised in the income statement under staff costs over the vesting period with a corresponding increase in equity.

The fair value of granted share options is estimated using the Black-Scholes call option-pricing model, taking into account the terms and conditions upon which the options were granted.

The share price and the exercise price for share options are calculated as the average price of Carlsberg A/S' class B shares on Nasdaq Copenhagen during the first five trading days after publication of Carlsberg A/S' Financial statement following the granting of the options.

The fair value of granted performance shares is estimated using a stochastic (quasi-Monte Carlo) valuation model and a Black-Scholes call option-pricing model, taking into account the terms and conditions upon which the performance shares were granted. On initial recognition of share options and performance shares, an estimate is made of the number of awards expected to vest.

The estimated number is subsequently revised for changes in the number of awards expected to vest. Accordingly, recognition is based on the number of awards that ultimately vest.

General terms and conditions

	Share options		Regular performance shares		Funding the Journey performance shares
	2016	**2015**	**2016**	**2015**	**2016**
Granted during the year	17,650	230,889	25,079	329,115	37,242
Number of employees	1	3	2	319	2
DKK million					
Fair value at grant date	2	42	13	135	22
Cost of share-based payment granted in the year recognised in the income statement	1	27	3	30	5
Total cost of share-based payments granted 2013-2016 (2012-2015)	7	46	40	67	5
Not recognised in respect of share-based payments expected to vest	11	15	34	70	17
Fair value of outstanding options and performance shares at 31 December	69	161	114	119	22

SECTION 7.3 (CONTINUED)

Share-based payments

Share-based incentive programmes

	Exercise price	Number				
	Fixed, weighted average	Executive directors	Key management personnel	Other management personnel	Resigned employees	Total
Share options						
Share options outstanding at 31 December 2014	**463.87**	**581,828**	**50,250**	**133,280**	**164,579**	**929,937**
Granted	524.58	230,889	-	-	-	230,889
Forfeited/expired	472.11	-	-	-929	-11,211	-12,140
Exercised	397.74	-24,776	-	-54,115	-239,782	-318,673
Transferred	485.48	-690,607	-35,356	-10,536	736,499	-
Share options outstanding at 31 December 2015	**360.10**	**97,334**	**14,894**	**67,700**	**650,085**	**830,013**
Granted	597.60	17,650	-	-	-	17,650
Forfeited/expired	516.42	-	-	-7,433	-55,126	-62,559
Exercised	476.56	-	-	-37,462	-275,615	-313,077
Transferred	439.48	-	-6,200	-1,900	8,100	-
Share options outstanding at 31 December 2016	**248.66**	**114,984**	**8,694**	**20,905**	**327,444**	**472,027**
Regular performance shares						
Performance shares outstanding at 31 December 2014		**8,609**	**7,704**	**46,635**	**1,018**	**63,966**
Granted		15,312	52,516	261,287	-	329,115
Forfeited/expired/adjusted		-	-19,159	-100,611	534	-119,236
Exercised/settled		-23,921	-	-	-	-23,921
Transferred		-	-5,251	-7,851	13,102	-
Performance shares outstanding at 31 December 2015		**-**	**35,810**	**199,460**	**14,654**	**249,924**
Granted		25,079	-	-	-	25,079
Forfeited/expired/adjusted		-	-3,471	-20,078	4,371	-19,178
Exercised/settled		-	-2,396	-18,172	-4,481	-25,049
Transferred		-	-15,327	1,340	13,987	-
Performance shares outstanding at 31 December 2016		**25,079**	**14,616**	**162,550**	**28,531**	**230,776**
Funding the Journey performance shares						
Granted		37,242	-	-	-	37,242
Performance shares outstanding at 31 December 2016		**37,242**	**-**	**-**	**-**	**37,242**

The granted number of performance shares included in the specification is the number of performance shares that are expected to vest. The estimated number is revised on a regular basis until vesting. Transferred performance shares comprise performance shares that have been granted to employees who have either moved between management categories or left the Group during the year. Adjusted performance shares comprise the change in the number of performance shares expected to vest, based on an assessment of the extent to which the vesting conditions are expected to be met.

SECTION 7.3 (CONTINUED)

Share-based payments

Key information

	Share options		Regular performance shares		Funding the Journey performance shares	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Average share price at the exercise date	630	585	-	-		-
Weighted average contractual life for awards outstanding at 31 December	5.9	4.5	1.1	1.9	2.2	-
Range of exercise prices for share options outstanding at 31 December	203.50-597.60	203.50-583.10	-	-	-	-
Exercisable outstanding share options at 31 December	128,488	413,124	None	None	None	None
Weighted average exercise price for exercisable share options at 31 December	482	463	-	-	-	-

Assumptions						
Exercise price	597.60	503.00/540.30	None	None	None	No grant
Expected volatility	26%	38%	24%/23%	21%	-	-
Risk-free interest rate	0.0%	0.5% / 0.0%	0.0%	0.0%	0.0%	-
Expected dividend yield	1.5%	1.7%	1.5%/1.4%	1.7%	1.5%/1.4%	-
Expected life of options, years	8.0	8.0	3.0/2.5	3.0	3.0/2.5	-
Fair value at measurement date	121.89	184.93/180.17	523.37/528.36	411.23	583.61/603.07	-

Terms and conditions			
Years granted	2001-2016	Since 2013	Only 2016
Settlement features	Each share option entitles the holder to purchase one class B share in Carlsberg A/S. The Group has not purchased a significant number of treasury shares to meet this obligation, cf. section 4.3.2.	Each performance share granted entitles the holder to receive a number of Carlsberg B shares. For each grant, the exact number of shares granted is determined after publication of the Annual Report for the last year in the vesting period.	Each performance share granted entitles the holder to receive a number of Carlsberg B shares. The exact number of shares vesting is determined after publication of the Annual Report for the last year in the vesting period.
Timing of valuation of award	Immediately following the publication of the Annual Report for the Group for the prior reporting period.	Immediately following the publication of the Annual Report for the Group for the prior reporting period.	Immediately following the publication of the Annual Report for the Group for the prior reporting period.
Vesting conditions	3 years of service.	3 years of service and achievement of 3 (2015: 4) KPIs in the vesting period.	3 years of service and achievement of the Funding the Journey financial targets.
Earliest time of exercise	3 years from grant date.	-	-
Latest time of exercise	8 years from grant date.	Shares are transferred to the employee immediately after they have vested.	Shares are transferred to the employee immediately after they have vested.

Upon resignation, a proportion of share options may be exercised within one to three months unless special severance terms have been agreed. Special terms and conditions apply in the case of retirement, illness, death or changes in Carlsberg A/S' capital resources.

SECTION 7.4

Retirement benefit obligations and similar obligations

A number of the Group's employees are covered by retirement benefit plans. The nature of the retirement benefit plans varies depending on labour market conditions, legal requirements, tax legislation and economic conditions in the individual countries. Benefits are generally based on wages and salaries and length of employment. Retirement benefit obligations cover both present and future retirees' entitlement to retirement benefits.

The future retirement obligation is primarily based on seniority and salary at the point of retirement.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity independent of the Group and will have no legal or constructive obligation to pay further amounts.

Approximately 47% (2015: approximately 41%) of the Group's retirement benefit costs relates to defined contribution plans. The cost related to these plans amounted to DKK 273m for 2016 (2015: DKK 185m).

Defined benefit plans

The defined benefit plans typically guarantee the employees covered a retirement benefit based on the salary at the time of retirement. For defined benefit plans, the Group assumes the risk associated with future developments in interest rates, inflation, mortality and disability etc.

The majority of the obligations are funded, with assets placed in independent pension funds in, for example, Switzerland, the UK and Hong Kong.

In some countries, primarily Germany, Sweden and Italy, the obligation is unfunded. For these unfunded plans, the retirement benefit obligations amounted to DKK 1,922m for 2016 (2015: DKK 1,935m) or approximately 13% (2015: 14%) of the total gross liability.

Obligation, net

			2016			2015
DKK million	Present value of obligation	Fair value of plan assets	Obligation, net	Present value of obligation	Fair value of plan assets	Obligation, net
Obligation at 1 January	**14,269**	**9,034**	**5,235**	**12,928**	**8,302**	**4,626**
Recognised in the income statement						
Current service cost	310	-	310	276	-	276
Interest cost	296	-	296	349	-	349
Expected return on plan assets	-	173	-173	-	204	-204
Curtailments and settlements	-	-	-	-14	-	-14
Total	**606**	**173**	**433**	**611**	**204**	**407**
Remeasurements						
Gain/loss from changes in actuarial assumptions	-81	-	-81	96	-	96
Gain/loss from changes in financial assumptions	1,561	523	1,038	205	-33	238
Total	**1,480**	**523**	**957**	**301**	**-33**	**334**
Other changes						
Contributions to plans	-	1,232	-1,232	-	296	-296
Benefits paid	-646	-491	-155	-562	-467	-95
Acquisition of entities	-46	-	-46	-	-	-
Disposals and transfers	80	60	20	-33	-16	-17
Foreign exchange adjustments etc.	-930	-596	-334	1,024	748	276
Obligation at 31 December	**14,813**	**9,935**	**4,878**	**14,269**	**9,034**	**5,235**

The total return on plan assets for the year amounted to DKK 696m (2015: DKK 171m).

SECTION 7.4 (CONTINUED)

Retirement benefit obligations and similar obligations

During 2016, the defined benefit plan in the UK was impacted by the Brexit referendum, which led to an increase in the obligation of approximately DKK 1.4bn due to lower interest rates. In DKK, this development was partly offset by a foreign exchange difference of approximately DKK 0.9bn. The increase in the deficit led to an extra cash contribution of GBP 100m in December 2016.

The Group expects to contribute DKK 76m (2015: DKK 218m) to the plan assets in 2017.

Plan assets do not include shares in or properties used by Group companies.

The actuarial loss and foreign exchange adjustment recognised in other comprehensive income amounted to DKK -623m (2015: DKK -610m). The development in the foreign exchange rate was mainly affected by the depreciation of GBP.

The accumulated actuarial loss and foreign exchange adjustment recognised at 31 December 2016 was DKK -4,925m (2015: DKK -4,302m), of which actuarial losses, net, totalled DKK 4,814m (2015: DKK 3,857m).

The two most significant plans in the Group are in the UK and Swiss entities. The UK represented 46% (2015: 44%), Switzerland 40% (2015: 41%) and the eurozone countries 5% (2015: 6%) of the gross obligation at 31 December 2016.

7.4.1 Assumptions applied

The mortality tables used in Carlsberg UK are S1PMA/S1PFA tables for post-retirement and AMC00/AFC00 for pre-retirement, both with CMI_2013 projections, while the Swiss entities use the BVG 2015/GT 2015 (KJ) mortality table for valuation of their retirement 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 assumptions vary from country to country due to local economic and labour market conditions.

The present value of the net obligation is calculated using the expected long-term interest rate in each country, where available, based on long-term government bonds.

Mortality assumptions are based on the Group entity's best estimate of the mortality of plan members during and after employment, and include expected changes in mortality, for example using estimates of mortality improvements. Due to the broad range of entities comprising the retirement benefit obligation, several different mortality tables are used to calculate the future retirement benefit obligation.

Breakdown of plan assets

	2016		2015	
	DKK million	%	DKK million	%
Shares	2,767	28%	2,745	30%
Bonds and other securities	4,116	41%	4,073	45%
Real estate	2,095	21%	1,950	22%
Cash and cash equivalents	957	10%	266	3%
Total	**9,935**	**100%**	**9,034**	**100%**

Assumptions applied

2016	CHF	UK	EUR	Others	Weighted average
Discount rate	0.5%	2.7%	1.1-1.7%	0.5-5.0%	1.5%
Growth in wages and salaries	1.0%	2.5%	2.2-2.3%	2.3-10.0%	1.7%

2015	CHF	UK	EUR	Others	Weighted average
Discount rate	0.6%	3.8%	1.8-2.9%	1,8-16.0 %	2.3%
Growth in wages and salaries	1.0%	2.7%	2.3-2.5%	1.0-16,0 %	2.1%

SECTION 7.4 (CONTINUED)

Retirement benefit obligations and similar obligations

7.4.2 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 retirement benefit obligation.

Expected maturity and duration

Retirement benefit obligations are primarily expected to mature after five years.

The expected duration of the obligations at year-end 2016 was 19 years, comprising active employees at 25 years and retired employees at 15 years. The duration is calculated using a weighted average of the duration compared with the benefit obligation.

Sensitivity analysis

DKK million	2016	2015
Reported retirement benefit obligation	14,813	14,269
Discount rate		
Discount assumption +0.5%	-1,786	-1,779
Discount assumption -0.5%	2,066	2,011
Growth in wages and salaries		
Wages and salaries assumption +0.5%	758	817
Wages and salaries assumption -0.5%	-723	-809
Mortality		
Mortality assumption +1 year	905	939
Mortality assumption -1 year	-870	-866

Maturity of retirement benefit obligations

DKK million	<1 year	1-5 years	>5 years	Total
Retirement benefits	450	2,110	23,609	26,169

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 in respect of **defined benefit plans** is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior years. The future benefits are discounted to determine the present value. The calculation is performed annually by a qualified actuary.

The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The actuarial present value less the fair value of any plan assets is recognised in the statement of financial position under retirement benefit obligations.

Retirement benefit costs for the year are recognised in the income statement based on actuarial estimates and financial expectations at the beginning of the year. Any differences between the expected 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 changes in benefits relating to services rendered by employees in prior years result in changes in the actuarial present value, the changes are recognised as historical costs. Historical costs are recognised immediately, provided employees have already earned the changed benefits. If employees have not earned the benefits, the historical costs are recognised in the income statement over the period in which the changed benefits are earned by the employees.

If a retirement benefit plan constitutes a net asset, the asset is only recognised if it offsets future refunds from the plan or will lead to reduced future payments to the plan.

Interest on retirement benefit obligations and the expected return on plan assets are recognised under financial income or financial expenses.

Realised gains and losses on the adjustment of retirement benefit obligations as a result of large-scale termination of jobs in connection with restructurings are recognised in the income statement under special items.

Realised gains and losses on the curtailment or settlement of retirement benefit plans are recognised in the income statement under staff costs.

SECTION 8

Other disclosure requirements

3,881m

Profit attributable to shareholders in Carlsberg A/S, adjusted for special items after tax (DKK).

25.4

Earnings per share, adjusted for special items after tax (DKK).

SECTION 8.1

Earnings per share

In 2016, diluted earnings per share excluded 264,001 share-based incentives that did not have a dilutive effect, as the total of the exercise price and the fair value at the grant date was higher than the average market price of the Carlsberg B share in the year. These could potentially dilute earnings in the future.

As consolidated profit for 2015 was negative, no dilution effect was included in the calculation of earnings per share in 2015.

Earnings per share

DKK	2016	2015
Basic earnings per share of DKK 20 (EPS)	29.4	-19.2
Diluted earnings per share of DKK 20 (EPS-D)	29.4	-19.2
Earnings per share, adjusted (EPS-A)	25.4	28.1

Number of shares

1,000 shares		
Average number of shares	152,557	152,557
Average number of treasury shares	-5	-15
Average number of shares outstanding	152,552	152,542
Average dilutive effect of share-based incentives	264	-
Diluted average number of shares outstanding	**152,816**	**152,542**

Profit attributable to shareholders

DKK million		
Consolidated profit	4,857	-2,582
Non-controlling interests	-371	-344
Profit attributable to shareholders in Carlsberg A/S	**4,486**	**-2,926**
Special items after tax	-605	7,218
Profit attributable to shareholders in Carlsberg A/S, adjusted	**3,881**	**4,292**

Comparative figures adjusted for non-controlling interests' share of special items after tax, primarily in Chongqing Brewery Group.

SECTION 8.2

Related party disclosures

Related parties exercising control

The Carlsberg Foundation, H.C. Andersens Boulevard 35, 1553 Copenhagen V, Denmark, holds 30.3% of the shares and 75.3% of the voting power in Carlsberg A/S, excluding treasury shares.

The following transactions took place between the Carlsberg Foundation and the Carlsberg Group in 2016:

Payment of dividends from Carlsberg A/S to the Carlsberg Foundation. The Foundation received DKK 9.00 per share, the same as every other shareholder.

Funding and grants received for research and development activities from the Carlsberg Foundation amounted to DKK 25m (2015: DKK 22m) and related to the operation of the Carlsberg Research Laboratory.

Disposal of building rights by Carlsberg A/S to the Carlsberg Foundation for the Researcher Apartments located in Carlsberg Byen. The building rights were valued at market price using the same conditions/price applicable for other building rights in the area.

Carlsberg Breweries A/S leases storage facilities in the Researcher Apartments. The annual lease, DKK 172 thousand, and the lease terms are on market conditions.

The Carlsberg Group brewed a special beer, the "Rebrew" beer, for the Carlsberg Foundation's 140th anniversary. Carlsberg Breweries A/S managed the market communication and brand activation of the anniversary, and may in turn use the Rebrew beer rights globally. It is estimated that the benefit for the Carlsberg Group of these rights corresponds to the value of the services provided to the Foundation, which again corresponds to what each party would have had to invest if having the same deliverables provided by external parties, excluding the additional work that the Carlsberg Group will have to include for use of the brand rights for its own commercial purposes.

Related parties exercising significant influence

Related parties exercising significant influence comprise Carlsberg A/S' Supervisory Board, Executive Board and close family members. Related parties also comprise companies in which these persons have significant influence.

During the year, the Group was not involved in any transactions with major shareholders, members of the Supervisory Board, members of the Executive Board or companies outside the Group in which these parties have significant influence, except for remuneration to the Supervisory Board and the Executive Board as disclosed in section 7.2.

Related parties also include the Group's associates and joint ventures.

The income statement and the statement of financial position include the following transactions

DKK million	2016	2015
Associates and joint ventures		
Revenue	104	120
Cost of sales	-230	-203
Loans	300	85
Receivables	90	67
Trade payables and other liabilities etc.	-18	-14

SECTION 8.3

Fees to auditors

Fees to auditors appointed by the Annual General Meeting

DKK million	2016	2015
KPMG		
Statutory audit	22	23
Assurance engagements	1	1
Tax advisory	3	2
Other services	9	7

Other services include fees for advice and services in relation to acquisition and disposal of entities, including accounting and tax advice.

SECTION 8.4

Events after the reporting period

Apart from the events recognised or disclosed in the consolidated financial statements, no events have occurred after the reporting period of importance to the consolidated financial statements.

SECTION 9

Basis for preparation

Change in presentation from 2017

Carlsberg Supply Company included in Western Europe segment.

Change in calculation of ROIC from 2017

Alignment of internal and external ROIC measures.

SECTION 9.1

Significant accounting estimates and judgements

In preparing the Group's 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. These estimates and judgements may therefore prove incomplete or incorrect, and unexpected events or circumstances may arise.

The most significant accounting estimates and judgements made relate to the following areas:

Impairment testing	Section 2
Useful life and residual value of intangible assets with finite useful life and property, plant and equipment	Section 2
Restructurings	Section 3
Provisions and contingencies	Section 3
Receivables	Section 1
Deferred tax assets	Section 6
Retirement benefit obligations and similar obligations	Section 7
Acquisitions and disposals	Section 5

SECTION 9.2

General accounting policies

The Group's 2016 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Danish Financial Statements Act.

The 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 consolidated financial statements are prepared on a historical cost basis except for the following assets and liabilities measured at fair value: derivative financial instruments, financial instruments in the trading portfolio and financial instruments classified as available for sale.

SECTION 9.2 (CONTINUED)

General accounting policies

All assets and liabilities measured or disclosed at fair value in the financial statements are categorised within the fair value hierarchy. The Carlsberg Group has no financial instruments measured at fair value on the basis of level 1 input (quoted prices) or level 3 input (non-observable data). The methods and assumptions applied to determine the fair value of derivative financial instruments, loans and borrowings and on-trade loans on the basis of level 2 input are disclosed in the relevant sections. The carrying amount of other financial assets and liabilities approximates their fair value.

Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying amount before the changed classification and fair value less costs to sell.

The accounting policies set out below have been used consistently in respect of the financial year and the comparative figures.

Defining materiality

Significant items are presented individually in the financial statements as required by IAS 1. Other items that may not be significant but are considered relevant to stakeholders and the understanding of the Carlsberg Group business model, including research, real estate, geographical diversity etc., are also presented in the financial statements.

Basis of consolidation

The consolidated financial statements comprise the Parent Company, Carlsberg A/S, and its subsidiaries.

Control over an entity is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Entities over which the Group exercises a significant influence, but which it does not control, are considered associates. Significant influence is generally obtained by direct or indirect ownership or control of more than 20% but less than 50% of the voting rights. When assessing whether Carlsberg A/S exercises control or significant influence, potential voting rights exercisable at the end of the reporting period are taken into account. Entities that by agreement are managed jointly with one or more other parties are considered joint ventures. Associates and joint ventures are consolidated using the equity method, cf. section 5.

The consolidated financial statements are prepared as a consolidation of the financial statements of the Parent Company and subsidiaries according to the Group's accounting policies.

On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates and joint ventures are eliminated in proportion to the Group's ownership share of the entity. Unrealised losses are eliminated in the same way as unrealised gains to the extent that impairment has not taken place.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of identifiable net assets, including recognised contingent liabilities, at the acquisition date.

The accounting items of subsidiaries are included in full in the consolidated financial statements. Non-controlling interests' share of the profit/loss for the year and of the equity of subsidiaries are included in the Group's profit/loss and equity respectively, but are disclosed separately. Entities acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Entities disposed of or wound up are recognised in the consolidated income statement until the date of disposal or winding-up. The comparative figures are not restated for entities acquired or disposed of.

Foreign currency translation

A functional currency is determined for each of the reporting entities in the Group. The functional currency is the primary currency used for the reporting entity's operations. Transactions denominated in currencies other than the functional currency are considered transactions denominated in foreign currencies.

On initial recognition, transactions denominated in foreign currencies are translated to the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the end of the reporting period. The difference between the exchange rates at the end of the reporting period and at the date at which the receivable or payable arose or the exchange rate in the latest consolidated financial statements is recognised in the income statement as financial income or financial expenses.

On recognition in the consolidated financial statements of entities with a functional currency other than the presentation currency of Carlsberg A/S (DKK), the income statement and statement of cash flows are translated at the exchange rates at the transaction date, and the statement of financial position items are translated at the exchange rates at the end of the reporting period. An average exchange rate for the month is used as the exchange rate at the transaction date to the extent that this does not significantly deviate from the exchange rate at the transaction date. Foreign exchange differences arising on translation of

SECTION 9.2 (CONTINUED)

General accounting policies

the opening balance of equity of foreign entities at the exchange rates at the end of the reporting period, and on translation of the income statement from the exchange rates at the transaction date to the exchange rates at the end of the reporting period, are recognised in other comprehensive income and attributed to a separate translation reserve in equity.

Foreign exchange adjustment of balances with foreign entities that are considered part of the investment in the entity is recognised in the consolidated financial statements in other comprehensive income if the balance is denominated in the functional currency of the Parent Company or the foreign entity. Correspondingly, foreign exchange gains and losses on the part of loans and derivative financial instruments that is designated as hedges of investments in foreign entities with a functional currency other than that of Carlsberg A/S, and that effectively hedges against corresponding foreign exchange gains and losses on the investment in the entity, are also recognised in other comprehensive income and attributed to a separate translation reserve in equity.

On recognition in the consolidated financial statements of associates and joint ventures with a functional currency other than the presentation currency of Carlsberg A/S, the share of profit/loss and other comprehensive income for the year is translated at average exchange rates and the share of equity, including goodwill, is translated at the exchange rates at the end of the reporting period. Foreign exchange differences arising on the translation of the share of the opening balance of equity of foreign associates and joint ventures at the exchange rates at the end of the reporting period, and on translation of the share of profit/loss and other comprehensive income for the year from average exchange rates to the exchange rates at the end of the reporting period, are recognised in other comprehensive income and attributed to a separate translation reserve in equity.

On complete or partial disposal of a foreign entity or on repayment of balances that constitute part of the net investment in the foreign entity, the share of the cumulative amount of the exchange differences recognised in other comprehensive income relating to that foreign entity is recognised in the income statement when the gain or loss on disposal is recognised.

Prior to translation of the financial statements of foreign entities in countries with hyperinflation, the financial statements are inflation-adjusted for changes in purchasing power in the local currency. Inflation adjustment is based on relevant price indexes at the end of the reporting period.

Income statement and statement of financial position, general

Income statement

The presentation of the Group's income statement is based on the internal reporting structure, as IFRS does not provide a specific disclosure requirement.

Special items not directly attributable to ordinary operating activities and that are significant and non-recurring are shown separately in order to give a truer and fairer view of the Group's operating profit.

Cash flow

Cash flow is calculated using the indirect method and is based on operating profit before depreciation, amortisation and impairment losses.

Cash flow cannot be derived directly from the statement of financial position and income statement.

Presentation of discontinued operations

Discontinued operations comprise activities and cash flows that can be clearly distinguished from the other business areas and have either been disposed of or are held for sale. The sale is expected to be carried out within 12 months in accordance with a formal plan. Discontinued operations also include entities that are classified as held for sale in connection with an acquisition.

Discontinued operations are presented in a separate line in the income statement and as assets and liabilities held for sale in the statement of financial position, and main items are specified in the notes. Comparative figures are restated.

Financial ratios and non-IFRS financial measures

The Group uses certain additional financial measures to provide management, investors and investment analysts with additional measures to evaluate and analyse the Company's results. These non-IFRS financial measures are defined and calculated by the Group, and therefore may not be comparable with other companies' measures.

The non-IFRS financial measures disclosed in the Annual Report are:

- Earnings per share, adjusted
- Organic development
- Pro rata volumes
- Volumes

Earnings per share (EPS) and diluted earnings per share (EPS-D) are calculated in accordance with IAS 33.

The Danish Finance Society does not acknowledge use of special items and states that adjustments of tax should be based on the marginal tax rate. When calculating financial measures, the Group uses operating profit before special items and the effective tax rate for measures adjusted for tax.

Other financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios 2015", unless specifically stated.

SECTION 9.2 (CONTINUED)

General accounting policies

Calculation of key figures and financial ratios stated in the Annual Report

Cash flow from operating activities per share (CFPS)	Cash flow from operating activities divided by the number of shares outstanding, fully diluted for share options and performance shares in the money in accordance with IAS 33[1].
Debt/operating profit before depreciation, amortisation and impairment losses[2]	Net interest-bearing debt[3] divided by operating profit before special items adjusted for depreciation, amortisation and impairment losses.
Earnings per share (EPS)	Consolidated profit for the year, excluding non-controlling interests, divided by the average number of shares outstanding.
Earnings per share, adjusted (EPS-A)[4]	Consolidated profit for the year adjusted for special items after tax, excluding non-controlling interests, divided by the average number of shares outstanding.
Earnings per share, diluted (EPS-D)	Consolidated profit for the year, excluding non-controlling interests, divided by the average number of shares outstanding, fully diluted for share options and performance shares in the money in accordance with IAS 33[1].
Equity ratio	Equity attributable to shareholders in Carlsberg A/S at year-end as a percentage of total assets at year-end.
Financial gearing	Net interest-bearing debt[3] at year-end divided by total equity at year-end.
Free cash flow per share (FCFPS)	Free cash flow[5] divided by average number of shares outstanding, fully diluted for share options and performance shares in the money in accordance with IAS 33[1].
Interest cover[2]	Operating profit before special items divided by interest expenses, net.
Number of shares, average	Number of issued shares, excluding treasury shares, as an average for the year (=average number of shares outstanding).
Number of shares, year-end	Total number of issued shares, excluding treasury shares, at year-end (=number of shares outstanding at year-end).
Operating margin[2]	Operating profit before special items as a percentage of revenue.
Operating profit[2]	Expression used for operating profit before special items in the Management review.
Organic development[4]	Measure of growth excluding the impact of acquisitions, divestments and foreign exchange from year-on-year comparisons.
Payout ratio	Dividend for the year as a percentage of consolidated profit, excluding non-controlling interests.
Pro rata volumes[4]	The Group's sale of beverages in consolidated entities, and 100% of the sale of the Group's international brands in associates and joint ventures and the proportionate share of the sale of local brands in these entities.
Return on invested capital including goodwill (ROIC)[2]	Operating profit before special items as a percentage of average invested capital[6] calculated as a 12-month rolling average.
Return on invested capital excluding goodwill (ROIC excl. goodwill)[2]	Operating profit before special items as a percentage of average invested capital excluding goodwill[6] calculated as a 12-month rolling average.

[1] The dilutive effect is calculated as the difference between the number of shares that could be acquired at fair value for the proceeds from exercise of the share options and performance shares and the number of shares that could be issued assuming these are exercised.
[2] The calculation is based on operating profit before special items, whereas the Danish Finance Society defines the ratio using operating profit.
[3] The calculation of net interest-bearing debt is specified in section 4.2.
[4] This key figure or ratio is not defined by the Danish Finance Society.
[5] The calculation of free cash flow is specified in the statement of cash flows.
[6] The calculation of invested capital is specified in section 2.1.

SECTION 9.3

Change in accounting policies

Changed accounting policies and classification in the Annual Report 2016

The Annual Report has been prepared using the same accounting policies for recognition and measurement as those applied to the consolidated financial statements for 2015.

As of 1 January 2016, the following amendments and improvements became applicable without having any impact on the Group's accounting policies, as they cover areas that are not relevant for the Group or limit choices of accounting policies that have not been used by the Group:

- IAS 1 "Disclosure Initiative"
- IAS 27 "Equity Method in Separate Financial Statements"
- IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"
- IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"
- IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"
- Improvements to IFRS 2012-2014

As of 2016, the Group has decided that intra-segment revenue should be allocated to and eliminated in the segment where the revenue is recognised. Previously, intra-segment revenue was eliminated in "Not allocated".

Impact from changes in accounting policies for 2017

The Group has changed the segmentation format as of 1 January 2017. Carlsberg Supply Company is a separate legal entity, containing the supply chain office and related activities. As it is operationally focused on Western Europe, which is also its key priority, the Group has decided to move the company to the Western Europe segment. Previously, the company was included in the "Not allocated" segment. Central costs, mainly overall management costs, not managed or influenced by Western Europe, will continue to be included in "Not allocated". The new segmentation reflects the structure used for internal control and monitoring of the Group's strategic and financial targets.

Furthermore, the calculation of the return on invested capital (ROIC) has changed as of 1 January 2017, as the Group decided to align internal and external measurements. Compared with the 2016 calculation, the new ROIC calculation uses operating profit before special items adjusted for tax using the effective tax rate, and includes assets held for sale and trade receivables sold and excludes contingent considerations and corporation tax.

The Danish Finance Society's guidelines in the "Recommendations and Financial Ratios 2015" do not acknowledge the use of special items and state that any adjustment for tax should be based on the marginal tax rate. The new calculation is therefore not fully in accordance with the Danish Finance Society's guidelines.

Changed segmentation

DKK million		Before		After
2016	Western Europe	Not allocated	Western Europe	Not allocated
Net revenue	37,597	146	37,597	146
Total cost	-32,380	-1,821	-32,880	-1,321
Share of profit after tax of associates and joint ventures	141	-16	141	-16
Operating profit before special items	5,358	-1,691	4,858	-1,191
Operating margin	14.2%	-	12.9%	-
Total assets	62,348	-20,503	63,759	-21,914
Invested capital	34,541	-1,396	34,058	-913
Invested capital excluding goodwill	13,748	-1,396	13,265	-913
Acquisition of property, plant and equipment and intangible assets	1,690	426	1,920	196
Amortisation and depreciation	1,747	898	1,971	674
Impairment losses	11	-	11	-

New calculation of ROIC

%		Before		After
2016	ROIC	ROIC excl. goodwill	ROIC	ROIC excl. goodwill
Western Europe	14.9%	34.9%	9.2%	19.8%
Eastern Europe	6.0%	12.0%	4.5%	8.8%
Asia	12.5%	37.8%	8.3%	23.2%
Not allocated	-	-	-	-
Beverages, total	9.3%	21.7%	5.9%	12.9%
Non-beverage	-	-	-	-
Carlsberg Group, total	9.2%	21.2%	5.9%	12.7%

SECTION 9.4

New legislation

New and amended IFRSs and Interpretations not yet applicable within the EU

The following new or amended IFRSs and Interpretations of relevance to the Group have been issued and adopted by the EU but are not applicable for the financial reporting for 2016:

- IFRS 9 "Financial Instruments", effective for financial years beginning on or after 1 January 2018.
- IFRS 15 "Revenue from Contracts with Customers", including amendments to IFRS 15 "Effective date of IFRS 15", effective for financial years beginning on or after 1 January 2018.

The implementation of IFRS 9 is not expected to have any significant impact on the financials. The Group is still assessing the impact of IFRS 9.

The implementation of IFRS 15 "Revenue from Contracts with Customers" is expected to impact the Group's financials and revenue stream, as the new standard requires all activities with customers to be recognised as revenue.

With the implementation of IFRS 15, certain marketing activities provided for or organised together with customers will be considered a part of the customer relationship. Consequently, such costs will be recognised as discounts, and not as trade marketing costs.

The expected impact for the Group is an increase in discounts with a corresponding decrease in trade marketing costs, leaving operating profit before special items unchanged. The operating margin is expected to be positively impacted by approximately 0.2-0.3 of a percentage point.

New and amended IFRSs and Interpretations not yet adopted by the EU

Furthermore, the following new or amended IFRSs and Interpretations of relevance to the Group have been issued but not yet adopted by the EU:

- IFRS 14 "Regulatory Deferral Accounts". The European Commission has decided not to launch the adoption process for this interim standard and to await the final standard instead.
- IFRS 16 "Leases", effective for financial years beginning on or after 1 January 2019.
- Clarifications to IFRS 15 "Revenue from Contracts with Customers", effective for financial years beginning on or after 1 January 2018.
- Annual Improvements to IFRS Standards 2014-2016 Cycle, effective for financial years beginning on or after 1 January 2017 and 1 January 2018. Adoption is expected in H2 2017.
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration", effective for financial years beginning on or after 1 January 2018.
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions", effective for financial years beginning on or after 1 January 2018.
- Amendments to IFRS 4 applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts", effective for financial years beginning on or after 1 January 2018.
- Amendments to IAS 7 "Disclosure Initiative", effective for financial years beginning on or after 1 January 2017. Adoption is expected in Q2 2017.
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The amendments have been postponed.
- Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses", effective for financial years beginning on or after 1 January 2017. Adoption is expected in Q2 2017.
- Amendments to IAS 40 "Transfer of Investment Property", effective for financial years beginning on or after 1 January 2018.

The new and amended Standards and Interpretations are not mandatory for the financial reporting for 2016. The Group expects to adopt the Standards and Interpretations when they become mandatory.

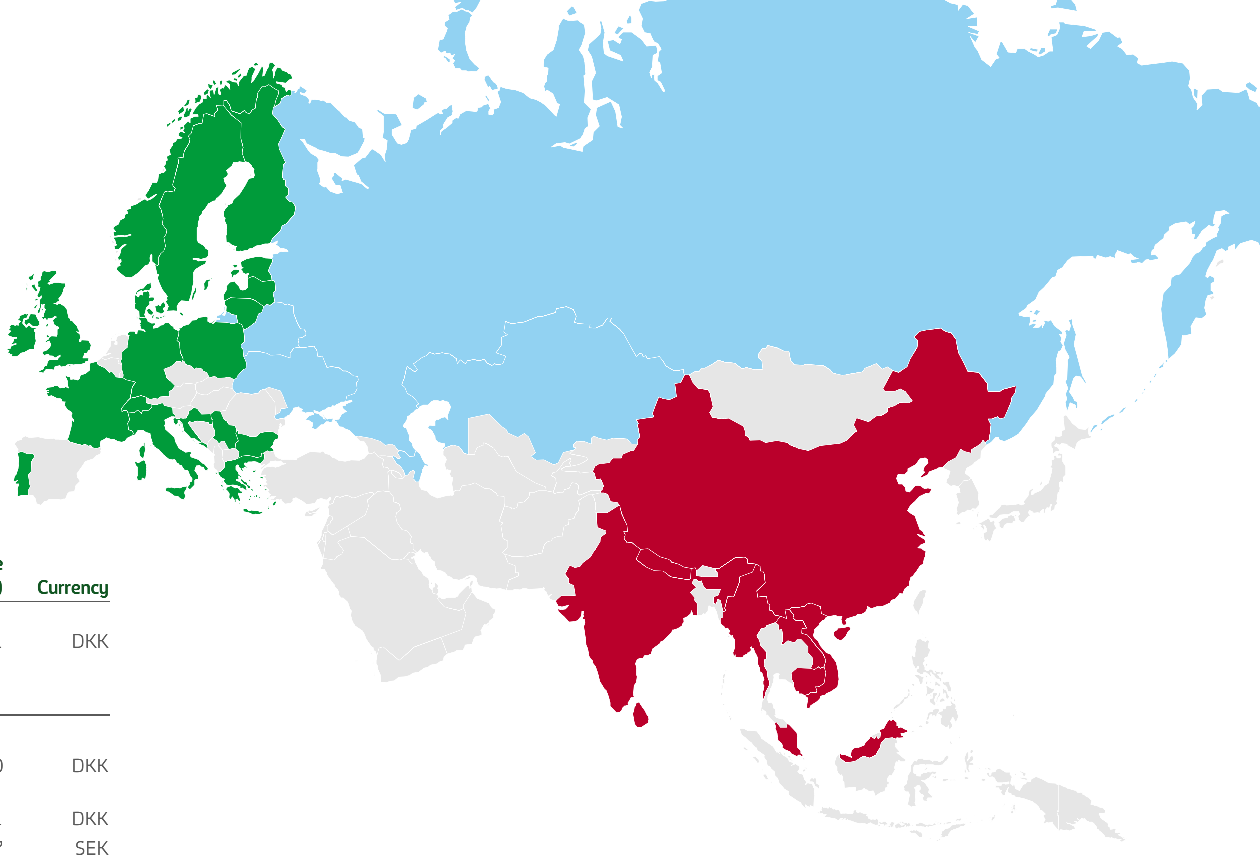
The implementation of IFRS 16 "Leases" is expected to impact the Group's financials and operating profit before special items.

The expected impact for the Group is an increase in property, plant and equipment and in financial liabilities corresponding to the liabilities on the operating leases, cf. section 2.4. Furthermore, an improvement in operating profit before special items is expected, as the lease cost includes an interest element, which will be recognised as a financial item.

The Group is still assessing the impact of IFRS 16.

SECTION 10

Group companies



	Number of subsidiaries		Ownership share[1]	Nominal share capital ('000)	Currency
Carlsberg Breweries A/S, Copenhagen, Denmark	13	O	100%	501	DKK
Western Europe					
Carlsberg Danmark A/S, Copenhagen, Denmark		O	100%	100,000	DKK
Carlsberg Supply Company Danmark A/S, Copenhagen, Denmark		O	100%	501	DKK
Pripps Ringnes AB, Stockholm, Sweden		O	100%	287,457	SEK
Carlsberg Sverige AB, Stockholm, Sweden	1	O	100%	70,000	SEK
Carlsberg Supply Company Sverige AB, Falkenberg, Sweden		O	100%	50	SEK
Ringnes Norge AS, Oslo, Norway	7	O	100%	50,000	NOK
Ringnes AS, Oslo, Norway	2	O	100%	210,366	NOK
Ringnes Supply Company AS, Oslo, Norway		O	100%	20,907	NOK
Oy Sinebrychoff Ab, Kerava, Finland		O	100%	41,203	EUR
Sinebrychoff Supply Company Oy, Kerava, Finland		O	100%	1,000	EUR
Carlsberg Deutschland GmbH, Hamburg, Germany	10	O	100%	50	EUR
Carlsberg Supply Company Deutschland GmbH, Hamburg, Germany		O	100%	26,000	EUR
Nordic Getränke GmbH, Hamburg, Germany	10	O	100%	25,000	EUR
Carlsberg Polska Sp. z o.o., Warsaw, Poland		O	100%	6,662	PLN
Carlsberg Supply Company Polska SA, Warsaw, Poland		O	100%	28,721	PLN

O Subsidiary
X Associate or joint venture
1 For some entities the consolidation percentage is higher than the ownership share due to written put options.
2 Listed company.
3 A separate annual report is not prepared.
4 Company not audited by KPMG.
5 The disposal of UzCarlsberg LLC was completed in January 2017.

	Number of subsidiaries		Ownership share[1]	Nominal share capital ('000)	Currency
Western Europe					
Saku Õlletehase AS, Tallinn, Estonia		o	100%	51,300	EUR
Aldaris JSC, Riga, Latvia		o	99%	20,575	EUR
Svyturys-Utenos Alus UAB, Utena, Lithuania		o	99%	34,220	EUR
Carlsberg UK Holdings Limited, Northampton, United Kingdom	1	o	100%	190,104	GBP
Carlsberg UK Limited, Northampton, United Kingdom	3	o	100%	177,200	GBP
Carlsberg Supply Company UK Limited, Northampton, United Kingdom		o	100%	17,865	GBP
Emeraude S.A.S., Strasbourg, France	10	o	100%	153,257	EUR
Kronenbourg S.A.S., Strasbourg, France	7	o	100%	547,891	EUR
Kronenbourg Supply Company S.A.S., Strasbourg, France		o	100%	6,534	EUR
Feldschlösschen Getränke Holding AG, Rheinfelden, Switzerland	2	o	100%	95,000	CHF
Feldschlösschen Getränke AG, Rheinfelden, Switzerland	1	o	100%	36,200	CHF
Feldschlösschen Supply Company AG, Rheinfelden, Switzerland		o	100%	100	CHF
Sicera AG, Glarus, Swtizerland	2	x	65%	3,231	CHF
Carlsberg Italia S.p.A., Lainate, Italy	3	o	100%	8,600	EUR
Unicer-Bebidas de Portugal, S.G.P.S., S.A., Leca do Balio, Portugal[4]	6	x	44%	50,000	EUR
Olympic Brewery SA, Thessaloniki, Greece[4]	1	o	51%	15,187	EUR
Carlsberg Serbia Ltd., Celarevo, Serbia	2	o	100%	3,010,468	RSD
Carlsberg Croatia d.o.o., Koprivnica, Croatia		o	100%	239,932	HRK
Carlsberg Bulgaria AD, Mladost, Bulgaria		o	100%	37,325	BGN
B to B Distribution EOOD, Mladost, Bulgaria		o	100%	10	BGN
Carlsberg Hungary Kft., Budaőrs, Hungary		o	100%	26,100	HUF
CTDD Beer Imports Ltd., Montreal, Canada		o	100%	4,032	CAD
Carlsberg Canada Inc., Mississauga, Canada		o	100%	11,000	CAD
Nuuk Imeq A/S, Nuuk, Greenland[4]		x	32%	38,000	DKK

	Number of subsidiaries		Ownership share[1]	Nominal share capital ('000)	Currency
Eastern Europe					
Baltika Brewery LLC, Saint Petersburg, Russia	5	o	100%	156,087	RUB
Baltika Baku LLC, Baku, Azerbaijan		o	100%	25,000	USD
PJSC Carlsberg Ukraine, Zaporizhzhya, Ukraine	2	o	99%	1,022,433	UAH
OJSC Brewery Alivaria, Minsk, Belarus		o	68%	6,145	BYN
Carlsberg Kazakhstan, Almaty, Kazakhstan	1	o	100%	30,160,779	KZT
UzCarlsberg LLC, Tashkent, Uzbekistan[4,5]		o	100%	82,282,014	UZS
Baltic Beverages Holding AB, Stockholm, Sweden	3	o	100%	12,000	EUR
Asia					
Carlsberg Brewery Hong Kong Ltd, Hong Kong, China	2	o	100%	9,734,520	HKD
Carlsberg Brewery (Guangdong) Ltd, Huizhou, China		o	99%	53,000	USD
Kunming Huashi Brewery Company Limited, Kunming, China		o	100%	9,850	USD
Xinjiang Wusu Breweries Co., Ltd., Urumqi, China	9	o	100%	105,480	CNY
Ningxia Xixia Jianiang Brewery Limited, Xixia, China		o	70%	24,895	USD
Carlsberg (China) Breweries and Trading Company Limited, Dali, China		o	100%	299,902	CNY
Chongqing Brewery Co., Ltd, Chongqing, China[2]	4	o	60%	483,971	CNY
Chongqing Jianiang Brewery Ltd., Chongqing, China	6	o	79%	435,000	CNY
Carlsberg Beer Enterprise Management (Chongqing) Company Limited, Chongqing, ("Eastern Assets"), China[4]	4	o	100%	648,580	CNY
Tibet Lhasa Brewery Company Limited, Lhasa, China		x	50%	45,910	USD

	Number of subsidiaries		Ownership share[1]	Nominal share capital ('000)	Currency
Asia					
Lanzhou Huanghe Jianiang Brewery Company Limited, Lanzhou, China		x	50%	25,373	USD
Qinghai Huanghe Jianiang Brewery Company Ltd., Xining, China		x	50%	10,488	USD
Jiuquan West Brewery Company Limited, Jiuquan, China		x	50%	4,436	USD
Tianshui Huanghe Jianiang Brewery Company Ltd, Tianshui, China		x	50%	7,679	USD
Carlsberg Brewery Malaysia Berhad, Selangor Darul Ehsan, Malaysia[2]		o	51%	154,039	MYR
Carlsberg Marketing Sdn BHD, Selangor Darul Ehsan, Malaysia		o	100%	9,900	MYR
Euro Distributors Sdn BHD, Selangor Darul Ehsan, Malaysia		o	100%	-	MYR
Carlsberg Singapore Pte Ltd, Singapore		o	100%	1,000	SGD
Maybev Pte Ltd., Singapore		o	51%	2,512	SGD
Lion Brewery (Ceylon) PLC, Biyagama, Sri Lanka[2,4]		x	25%	850,000	LKR
Carlsberg Distributors Taiwan Limited, Taipei, Taiwan	1	x	50%	100,000	TWD
Caretech Limited, Hong Kong, China[4]		x	50%	10,000	HKD
Cambrew Limited, Phnom Penh, Cambodia[4]	1	x	50%	125,000	USD
Carlsberg Vietnam Trading Co. Ltd., Hanoi, Vietnam		o	100%	80,000,000	VND
International Beverage Distributors Ltd., Hanoi, Vietnam		o	100%	15,622,000	VND
Carlsberg Vietnam Breweries Ltd., Hue, Vietnam		o	100%	344,410,832	VND
Hanoi Beer Alcohol and Beverage Joint Stock Corporation, Hanoi, Vietnam[4]		x	17%	2,318,000,000	VND
Lao Brewery Co. Ltd., Vientiane, Laos		o	61%	21,053	USD
CB Distribution Co., Ltd., Bangkok, Thailand		o	100%	520,000	THB
Carlsberg India Pvt. Ltd, New Delhi, India		o	100%	821,239	INR
Parag Breweries Limited, Kolkata, India		o	100%	131,851	INR
Brewery Invest Pte Ltd, Singapore		o	100%	1,000	SGD
South Asian Breweries Pte. Ltd., Singapore		o	67%	513,115	SGD

	Number of subsidiaries		Ownership share[1]	Nominal share capital ('000)	Currency
Asia					
Carlsberg Asia Pte Ltd, Singapore	1	o	100%	2,000	SGD
Paduak Holding Pte. Ltd., Singapore		o	100%	26,395	USD
Myanmar Carlsberg Co. Ltd, Yangon, Myanmar[4]		x	51%	75	USD
Gorka Brewery Pvt. Ltd., Kathmandu, Nepal[4]	1	o	90%	4,663,250	NPR
Not allocated					
Carlsberg Finans A/S, Copenhagen, Denmark		o	100%	9,508,000	DKK
Carlsberg International A/S, Copenhagen, Denmark		o	100%	1,100	DKK
Carlsberg Invest A/S, Copenhagen, Denmark	1	o	100%	33,000	DKK
Carlsberg Global Business Services A/S, Copenhagen, Denmark		o	100%	60,000	DKK
Carlsberg Insurance A/S, Copenhagen, Denmark		o	100%	25,000	DKK
Carlsberg Shared Services Sp. z o.o., Poznan, Poland		o	100%	50	PLN
Carlsberg Supply Company AG, Ziegelbrücke, Switzerland	2	o	100%	5,000	CHF
Non-beverage					
Ejendomsaktieselskabet Tuborg Nord C, Copenhagen, Denmark		o	100%	10,000	DKK
Ejendomsaktieselskabet af 4. marts 1982, Copenhagen, Denmark		o	100%	9,500	DKK
Carlsberg Ejendomme Holding A/S, Copenhagen, Denmark		o	100%	500	DKK
Boliginteressentskabet Tuborg, Copenhagen, Denmark[3]		o	100%	-	DKK
Carlsberg Byen P/S, Copenhagen, Denmark[4]	5	x	25%	17,000	DKK

PARENT COMPANY

Parent Company financial statements

SECTION 1

Investments in subsidiaries

SECTION 2

Capital structure and equity

SECTION 3

Staff costs and remuneration

SECTION 4

Other disclosure requirements

SECTION 5

General accounting policies

Income statement

DKK million	Section	2016	2015
Administrative expenses		-67	-67
Other operating activities, net	4.1	-38	-49
Operating profit before special items		**-105**	**-116**
Special items	4.4	-50	-204
Financial income	2.1	1,378	1,380
Financial expenses	2.1	-10	-24
Profit before tax		**1,213**	**1,036**
Corporation tax	4.6	29	69
Profit for the year		**1,242**	**1,105**
Attributable to			
Dividend to shareholders		1,373	1,373
Reserves		-131	-268
Profit for the year		**1,242**	**1,105**

Statement of comprehensive income

DKK million	Section	2016	2015
Profit for the year		**1,242**	**1,105**
Other comprehensive income			
Retirement benefit obligations	3.3	-3	-
Other		-	-1
Corporation tax	4.6	1	-
Items that may be reclassified to the income statement		**-2**	**-1**
Other comprehensive income		**-2**	**-1**
Total comprehensive income		**1,240**	**1,104**

Statement of financial position

DKK million	Section	31 Dec. 2016	31 Dec. 2015
ASSETS			
Non-current assets			
Intangible assets	4.5	9	11
Property, plant and equipment	4.5	270	257
Investments in subsidiaries	1.1	45,513	45,481
Receivables	2.2	490	496
Deferred tax assets	4.6	136	190
Total non-current assets		**46,418**	**46,435**
Current assets			
Receivables from subsidiaries	2.2	103	72
Tax receivables		-	6
Other receivables	2.2	68	73
Cash and cash equivalents		-	2
Total current assets		**171**	**153**
Total assets		**46,589**	**46,588**

DKK million	Section	31 Dec. 2016	31 Dec. 2015
EQUITY AND LIABILITIES			
Equity			
Share capital	2.4	3,051	3,051
Retained earnings		42,072	42,219
Total equity		**45,123**	**45,270**
Non-current liabilities			
Retirement benefit obligations and similar obligations	3.3	41	40
Provisions	4.2	102	95
Other liabilities		1	-
Total non-current liabilities		**144**	**135**
Current liabilities			
Borrowings	2.2	1,175	840
Trade payables		25	54
Provisions	4.2	79	64
Corporation tax		1	-
Other liabilities etc.		42	225
Total current liabilities		**1,322**	**1,183**
Total liabilities		**1,466**	**1,318**
Total equity and liabilities		**46,589**	**46,588**

Statement of changes in equity

DKK million	Shareholders in Carlsberg A/S		
2016	**Share capital**	**Retained earnings**	**Total equity**
Equity at 1 January	**3,051**	**42,219**	**45,270**
Profit for the year	**-**	**1,242**	**1,242**
Other comprehensive income			
Retirement benefit obligations	-	-3	-3
Corporation tax	-	1	1
Other comprehensive income	**-**	**-2**	**-2**
Total comprehensive income for the year	**-**	**1,240**	**1,240**
Acquisition/disposal of treasury shares	-	-1	-1
Settlement of share-based payments	-	-64	-64
Share-based payments	-	2	2
Share-based payments to employees in subsidiaries	-	49	49
Dividends paid to shareholders	-	-1,373	-1,373
Total changes in equity	**-**	**-147**	**-147**
Equity at 31 December	**3,051**	**42,072**	**45,123**

DKK million	Shareholders in Carlsberg A/S		
2015	**Share capital**	**Retained earnings**	**Total equity**
Equity at 1 January	**3,051**	**42,545**	**45,596**
Profit for the year	**-**	**1,105**	**1,105**
Other comprehensive income			
Other	-	-1	-1
Other comprehensive income	**-**	**-1**	**-1**
Total comprehensive income for the year	**-**	**1,104**	**1,104**
Acquisition/disposal of treasury shares	-	6	6
Settlement of share-based payments	-	-138	-138
Share-based payments	-	13	13
Share-based payments to employees in subsidiaries	-	62	62
Dividends paid to shareholders	-	-1,373	-1,373
Total changes in equity	**-**	**-326**	**-326**
Equity at 31 December	**3,051**	**42,219**	**45,270**

The proposed dividend of DKK 10.00 per share, in total DKK 1,526m (2015: DKK 9.00 per share, in total DKK 1,373m), is included in retained earnings at 31 December 2016.

Dividends paid out in 2016 for 2015 amount to DKK 1,373m (paid out in 2015 for 2014: DKK 1,373m), which is DKK 9.00 per share (2015: DKK 9.00 per share). Dividends paid out to shareholders of Carlsberg A/S do not impact taxable income in Carlsberg A/S.

Statement of cash flows

DKK million	2016	2015
Operating profit before special items	-105	-116
Adjustment for depreciation and amortisation	14	13
Operating profit before depreciation and amortisation	**-91**	**-103**
Adjustment for other non-cash items	-74	1
Change in working capital[1]	-179	317
Restructuring costs paid	-	-46
Interest etc. received	16	-6
Interest etc. paid	-15	-18
Corporation tax paid	92	5
Cash flow from operating activities	**-251**	**150**
Acquisition of property, plant and equipment and intangible assets	-6	-8
Total operational investments	**-6**	**-8**
Acquisition and disposal of joint ventures, net	-	7
Disposal of securities	1	1
Dividends from subsidiaries and joint ventures	1,373	1,373
Total financial investments	**1,374**	**1,381**
Other investments in property, plant and equipment	-20	-81
Disposal of other property, plant and equipment	21	653
Total other activities[2]	**1**	**572**
Cash flow from investing activities	**1,369**	**1,945**
Free cash flow	**1,118**	**2,095**
Shareholders in Carlsberg A/S	-1,438	-1,505
External financing	318	-588
Cash flow from financing activities	**-1,120**	**-2,093**
Net cash flow	**-2**	**2**
Cash and cash equivalents at 1 January	2	-
Cash and cash equivalents at 31 December	**-**	**2**

[1] Change in working capital consists of other receivables of DKK -22m (2015: DKK 4m), trade payables and other liabilities of DKK -180m (2015: DKK 314m), and retirement benefit obligations and other provisions of DKK 23m (2015: DKK -1m).
[2] Other activities cover real estate activities.

SECTION 1

Investments in subsidiaries

SECTION 1.1

Investments in subsidiaries

Please see section 10 in the consolidated financial statements for a list of companies in the Carlsberg Group. The carrying amount includes goodwill of DKK 11,207m (2015: DKK 11,207m) on acquisition of subsidiaries. Share-based payments to employees in subsidiaries comprise exercised as well as outstanding share options.

DKK million	2016	2015
Cost		
Cost at 1 January	45,481	45,573
Share-based payments to employees	32	-92
Cost at 31 December	**45,513**	**45,481**
Carrying amount at 31 December	**45,513**	**45,481**

Accounting estimates and judgements

Management performs an annual test on investments in subsidiaries for indications of impairment. Impairment tests are conducted in the same way as for goodwill in the Group, cf. section 2.3 in the consolidated financial statements.

It is management's assessment that no indications of impairment existed at year-end 2016. Impairment tests have therefore not been carried out for subsidiaries.

Accounting policies

Dividends on investments in subsidiaries are recognised as income in the income statement of the Parent Company in the financial year in which the dividend is declared.

Investments in subsidiaries are measured at the lower of cost and recoverable amount.

SECTION 1.2

Related parties exercising control

The Carlsberg Foundation, H.C. Andersens Boulevard 35, 1553 Copenhagen V, Denmark, holds 30.3% of the shares and 75.3% of the voting power in Carlsberg A/S, excluding treasury shares.

The following transactions took place between the Carlsberg Foundation and the Carlsberg Group in 2016:

Payment of dividends from Carlsberg A/S to the Carlsberg Foundation. The Foundation received DKK 9.00 per share, the same as every other shareholder.

Funding and grants received for research and development activities from the Carlsberg Foundation amounted to DKK 25m (2015: DKK 22m) for the operation of the Carlsberg Research Laboratory.

Disposal of building rights by Carlsberg A/S to the Carlsberg Foundation for the Researcher Apartments located in Carlsberg Byen. The building rights were valued at market price using the same conditions/price applicable for other building rights in the area.

Carlsberg Breweries A/S leases storage facilities in the Researcher Apartments. The annual lease, DKK 172 thousand, and the lease terms are on market conditions.

The Carlsberg Group brewed a special beer, the "Rebrew" beer, for the Carlsberg Foundation's 140th anniversary. Carlsberg Breweries A/S managed the market communication and brand activation of the anniversary, and may in turn use the Rebrew beer rights globally. It is estimated that the benefit for the Carlsberg Group of these rights corresponds to the value of the services provided to the Foundation, which again corresponds to what each party would have had to invest if having the same deliverables provided by external parties, excluding the additional work that the Carlsberg Group will have to include for use of the brand rights for its own commercial purposes.

Related parties exercising significant influence
Related parties exercising significant influence comprise Carlsberg A/S' Supervisory Board, Executive Board and close family members. Related parties also comprise companies in which these persons have significant influence.

During the year, the Company was not involved in any transactions with major shareholders, members of the Supervisory Board, members of the Executive Board or companies outside the Group in which these parties have interests. The income statement and statement of financial position items include transactions as shown in the table.

SECTION 2

Capital structure and equity

SECTION 1.2 (CONTINUED)

Related parties exercising control

No losses on loans to or receivables from joint ventures were recognised or provided for in either 2016 or 2015.

Transactions with subsidiaries

DKK million	2016	2015
Other operating activities, net	7	8
Interest income	4	5
Interest expenses	-6	-9
Dividends received	1,373	1,373
Capital reduction	-	-7
Loans	528	510
Receivables	63	55
Borrowings	-1,175	-840
Trade payables	-8	-16

SECTION 2.1

Financial income and expenses

Interest income relates to interest from cash and cash equivalents and loans to subsidiaries.

Other financial income relates to foreign exchange gains.

Interest expenses primarily relate to interest on borrowings.

No financial items were recognised directly in other comprehensive income.

Financial items recognised in the income statement

DKK million	2016	2015
Financial income		
Interest income	4	5
Dividends from subsidiaries	1,373	1,373
Other financial income	1	2
Total	**1,378**	**1,380**
Financial expenses		
Interest expenses	-6	-16
Other financial expenses	-4	-8
Total	**-10**	**-24**
Financial items, net recognised in the income statement	**1,368**	**1,356**

The average effective interest rate on loans to subsidiaries was 0.8% (2015: 0.8%) and on loans from subsidiaries 0.5% (2015: 0.5%).

SECTION 2.2

Receivables and borrowings

Receivables

DKK million	2016	2015
Loans to subsidiaries	528	511
Receivables from subsidiaries	63	45
Other receivables	70	85
Total	**661**	**641**

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

Borrowings

DKK million	2016	2015
Current borrowings		
Borrowings from subsidiaries	1,175	840
Total non-current and current borrowings	**1,175**	**840**
Fair value	1,175	840

Borrowings are measured at amortised cost.

SECTION 2.3

Net interest-bearing debt

Net interest-bearing debt

DKK million	2016	2015
Current borrowings	1,175	840
Gross interest-bearing debt	**1,175**	**840**
Cash and cash equivalents	-	-2
Receivables	-1	-8
Loans to subsidiaries	-528	-510
Net interest-bearing debt	**646**	**320**
Changes in net interest-bearing debt		
Net interest-bearing debt at 1 January	**320**	**914**
Cash flow from operating activities, excluding interest-bearing part	257	-154
Cash flow from investing activities	-1,369	-1,945
Dividends to shareholders	1,373	1,373
Acquisition/disposal of treasury shares and exercise of share options	65	132
Total change	**326**	**-594**
Net interest-bearing debt at 31 December	**646**	**320**

SECTION 2.4

Share capital

At 31 December 2016, the fair value of treasury shares amounted to DKK 3m (2015: DKK 2m). The holdings of treasury shares are specified in section 4.3 in the consolidated financial statements.

According to the authorisation of the General Meeting, the Supervisory Board may, in the period until 19 March 2019, allow the Company to acquire treasury shares up to a total holding of 10% of the nominal share capital at a price quoted on Nasdaq Copenhagen at the time of acquisition with a deviation of up to 10%.

In the financial year, the Company acquired class B treasury shares of a nominal amount of DKK 8m (2015: DKK 9m) at an average price of DKK 637 (2015: DKK 565). Class B treasury shares are primarily acquired and disposed of to facilitate settlement of share-based incentive programmes. The Company holds no class A shares.

Transactions with shareholders in Carlsberg A/S

	2016	2015
Dividends to shareholders	-1,373	-1,373
Acquisition of treasury shares	-214	-259
Disposal of treasury shares	149	127
Total	**-1,438**	**-1,505**

Share capital

	Class A shares		Class B shares		Total share capital	
	Shares of DKK 20	Nominal value, DKK '000	Shares of DKK 20	Nominal value, DKK '000	Shares of DKK 20	Nominal value, DKK '000
1 January 2015	33,699,252	673,985	118,857,554	2,377,151	152,556,806	3,051,136
No change in 2015	-	-	-	-	-	-
31 December 2015	**33,699,252**	**673,985**	**118,857,554**	**2,377,151**	**152,556,806**	**3,051,136**
No change in 2016	-	-	-	-	-	-
31 December 2016	**33,699,252**	**673,985**	**118,857,554**	**2,377,151**	**152,556,806**	**3,051,136**

A shares carry 20 votes per DKK 20 share. **B shares** carry two votes per DKK 20 share. A preferential right to an 8% non-cumulative dividend is attached to B shares. Apart from votes and dividends, all shares rank equally.

SECTION 3

Staff costs and remuneration

Remuneration of executive directors is based on a fixed salary, cash bonus payments and non-monetary benefits, such as company car, telephone etc. Furthermore, share option programmes and incentive schemes have been established for executive directors. These programmes and schemes cover a number of years. The remuneration is specified in section 3.2.

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

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

Remuneration of executive directors and the Supervisory Board as well as their holdings of shares in the Company are specified in the Management review and section 7 in the consolidated financial statements.

SECTION 3.1

Staff costs and remuneration of executive directors

DKK million	2016	2015
Salaries and other remuneration	89	78
Retirement benefit costs - defined contribution plans	4	3
Severance payments	-	56
Share-based payments	15	58
Total	**108**	**195**
Staff costs are included in the following items in the income statement		
Administrative expenses	36	22
Other operating activities, net	36	43
Special items (restructuring)	-	46
Total staff costs recognised by the Parent Company	**72**	**111**
Staff costs recognised by other Group companies	36	84
Total	**108**	**195**

The Company had an average of 77 (2015: 82) full-time employees during the year.

SECTION 3.2

Share-based payments

Share options

In 2016, a total of 17,650 (2015: 230,889) share options were granted to 1 employee (2015: 3). The grant date fair value of these options was a total of DKK 2m (2015: DKK 42m). The total cost of share options was DKK 7m (2015: DKK 46m), which is recognised in the income statement under staff costs. Refunds etc. between Carlsberg A/S and its subsidiaries are recognised directly in equity.

Regular performance shares

In 2016, a total of 25,079 (2015: 16,754) regular performance shares were granted to 2 employees (2015: 3). The grant date fair value of these performance shares was DKK 13m (2015: DKK 6m). The total cost of performance shares was DKK 13m (2015: DKK 12m), which is recognised in the income statement under staff costs. Refunds etc. between Carlsberg A/S and its subsidiaries are recognised directly in equity.

Funding the Journey performance shares

In 2016, the Funding the Journey performance share programme was introduced, and a total of 37,242 performance shares were granted to 2 employees. The grant date fair value of these performance shares was DKK 22m. The total cost of performance shares was DKK 5m, which is recognised in the income statement under staff costs. Refunds etc. between Carlsberg A/S and its subsidiaries are recognised directly in equity.

	Exercise price	Number			
Share options	**Fixed, weighted average**	**Executive directors**	**Other employees**	**Resigned employees**	**Total**
Share options outstanding at 31 December 2014	**477.51**	**581,828**	**-**	**26,015**	**607,843**
Granted	524.58	230,889	-	-	230,889
Exercised	392.54	-24,776	-	-175,567	-200,343
Transferred	546.74	-690,607	-	690,607	-
Share options outstanding at 31 December 2015	**540.07**	**97,334**	**-**	**541,055**	**638,389**
Granted	597.60	17,650	-	-	17,650
Exercised	550.10	-	-	-233,500	-233,500
Share options outstanding at 31 December 2016	**536.93**	**114,984**	**-**	**307,555**	**422,539**
Regular performance shares					
Performance shares outstanding at 31 December 2014		**8,609**	**63**	**38**	**8,710**
Granted		15,312	1,442	-	16,754
Forfeited/expired/adjusted		-	-941	-4	-945
Exercised/settled		-23,921	-	-	-23,921
Performance shares outstanding at 31 December 2015		**-**	**564**	**34**	**598**
Granted		25,079	-	-	25,079
Adjusted		-	19	-	19
Exercised		-	-	-32	-32
Performance shares outstanding at 31 December 2016		**25,079**	**583**	**2**	**25,664**
Funding the Journey performance shares					
Granted		37,242	-	-	37,242
Performance shares outstanding at 31 December 2016		**37,242**	**-**	**-**	**37,242**

SECTION 3.2 (CONTINUED)

Share-based payments

Accounting policies

The fair value of share-based incentives granted to employees in the Parent Company's subsidiaries is recognised as investments in subsidiaries as the services rendered in exchange for the granted incentives are received in the subsidiaries and offset directly against equity.

The difference between the purchase price and the sales price for the exercise of share-based incentives by employees in subsidiaries is settled between Carlsberg A/S and the individual subsidiary and offset directly against investments in subsidiaries.

The difference at the end of the reporting period between the fair value of the Parent Company's equity instruments and the exercise price of outstanding share-based incentives is recognised as a receivable in Carlsberg A/S and offset directly against investments in subsidiaries.

Share-based incentives granted to the Parent Company's own employees are recognised and measured in accordance with the accounting policies used by the Group. Please refer to the consolidated financial statements for a description of accounting policies.

Key information

	Share options		Regular performance shares		Funding the Journey performance shares	
	2016	2015	2016	2015	2016	2015
Average share price at the exercise date for share options exercised in the year	629	580	-	-	-	-
Weighted average contractual life for awards outstanding at 31 December	6.5	5.6	2.1	1.9	2.2	-
Range of exercise prices for share options outstanding at 31 December	417.34-597.60	203.50-583.10	-	-	-	-
Exercisable outstanding share options at 31 December	79,000	221,500	None	None	None	None
Weighted average exercise price for share options exercisable at 31 December	504	538	-	-	-	-

The assumptions underlying the calculation of the fair value of share-based payment awards are described in section 7.3 in the consolidated financial statements.

SECTION 3.3

Retirement benefit obligations and similar obligations

Retirement benefit obligations and similar obligations comprise payments to retired directors that are not covered by an insurance company. The plan is unfunded.

Total obligations at 31 December 2016 amounted to DKK 41m (2015: DKK 40m) and include actuarial losses of DKK 3m (2015: DKK 0m) and benefits paid during the year of DKK 2m (2015: DKK 3m).

Of the expected payment obligation, DKK 4m is due within one year and DKK 23m after more than five years from the reporting date.

The actuarial assumptions underlying the calculations are based on local economic conditions and labour market conditions. The discount rate was 0.5% compared to 1% in 2015. The rate of increase in future retirement obligations was 2% (2015: 0%).

During the year, DKK 0m (2015: DKK 0m) was recognised in the income statement.

At 31 December 2016, DKK 3m (2015: DKK 0m) was recognised in other comprehensive income.

SECTION 4

Other disclosure requirements

SECTION 4.1

Other operating activities, net

DKK million	2016	2015
Gains on disposal of real estate	25	-
Real estate, net	-26	-20
Research activities, including the Carlsberg Research Laboratory, net	-34	-23
Other, net	-3	-6
Total	**-38**	**-49**

SECTION 4.2

Provisions

Provisions primarily comprise warranty provisions regarding real estate disposed of and provisions for ongoing disputes and lawsuits etc.

At 31 December 2016, provisions amounted to DKK 181m (2015: DKK 159m). Additional provisions recognised amounted to DKK 50m (2015: DKK 15m), and DKK 21m (2015: DKK 4m) was utilised during the year. Reversal of provisions amounted to DKK -7m (2015: DKK 8m).

Of total provisions, DKK 79m (2015: DKK 64m) falls due within one year and DKK 0m (2015: DKK 0m) after more than five years from the end of the reporting period.

SECTION 4.3

Fees to auditors

The audit fee to KPMG, which is appointed by the Annual General Meeting to perform the statutory audit, amounted to DKK 1m (2015: DKK 1m).

SECTION 4.4

Special items

Special items amounted to DKK -50m and relates to an adjustment to the gain on disposal of property, plant and equipment in prior years. In 2015, special items of DKK -204m comprised impairment of property, plant and equipment and severance payments to former executive directors.

SECTION 4.5

Asset base and leases

The carrying amount of intangible assets was DKK 9m (2015: DKK 11m), and the carrying amount of property, plant and equipment was DKK 270m (2015: DKK 257m). Property, plant and equipment comprise mainly land and buildings of DKK 189m (2015: DKK 188m). Property, plant and equipment under construction amounted to DKK 72m (2015: DKK 55m).

Depreciation and amortisation of DKK 14m (2015: DKK 13m) were included in administrative expenses.

For accounting policies on impairment of assets in the Group, please refer to section 2.3 in the consolidated financial statements.

Carlsberg A/S has entered into an operating lease relating to transport equipment. The lease contains no special purchase rights etc. Future lease payments total DKK 1m (2015: DKK 1m). Operating lease payments recognised in the income statement in 2016 amounted to less than DKK 1m (2015: DKK 1m).

Carlsberg A/S has entered into contractual commitments regarding developments of property, plant and equipment of DKK 54m (2015: DKK 28m).

SECTION 4.6

Tax

Deferred tax assets amounted to DKK 136m (2015: DKK 190m) and primarily comprise tax on property, plant and equipment of DKK 46m (2015: DKK 61m), provisions and retirement benefit obligations of DKK 36m (2015: DKK 26m) and tax losses etc. of DKK 64m (2015: DKK 110m). The utilisation of tax loss carryforwards depends on future positive taxable income exceeding the realised deferred tax liabilities. Deferred tax liabilities amounted to DKK 10m (2015: DKK 10m) and were offset against the deferred tax asset.

The changes in deferred tax comprise tax recognised in total comprehensive income of DKK -59m (2015: DKK 69m) and a joint taxation contribution of DKK 5m (2015: DKK -5m).

Together with changes to tax for prior years, the total tax for the year recognised in the income statement comprised income of DKK 29m (2015: DKK 69m). Of the deferred tax assets, DKK 5m (2015: DKK 7m) is expected to be used within one year. All tax assets have been recognised.

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

Reconciliation of tax for the year

DKK million	2016	2015
Tax in Denmark	267	243
Change in tax rate	-	13
Adjustments to tax for prior years	-11	2
Non-capitalised tax assets, net movements	-	-8
Non-deductible expenses	17	5
Tax-free dividend and tax-exempted items	-302	-322
Special items and other	-	-2
Tax for the year	**-29**	**-69**

Accounting estimates and judgements

Carlsberg A/S recognises deferred tax assets, including the tax base of tax loss carryforwards, if management assesses that these tax assets can be offset against positive taxable income in the foreseeable future. This judgement is made annually and based on budgets and business plans for the coming years, including planned commercial initiatives.

Accounting policies

Carlsberg A/S is the administration company and is subject to the Danish rules on mandatory joint taxation of the Carlsberg Group's Danish companies. Carlsberg A/S accordingly pays all income taxes to the tax authorities under the joint taxation scheme.

Danish subsidiaries are included in the joint taxation from the date when they are included in the consolidated financial statements and up to the date when they are excluded from the consolidation. The jointly taxed Danish companies are taxed under the on-account tax scheme.

On payment of joint taxation contributions, the current Danish corporation tax is allocated between the Danish jointly taxed companies in proportion to their taxable income. Companies with tax losses receive joint taxation contributions from other companies that have used the tax losses to reduce their own taxable profit (full absorption).

Tax on profit/loss for the year comprises profit/loss from real estate partnerships (joint ventures), as these are not individually taxed but included in the taxable income of the partners. In addition, tax on profit/loss and deferred tax are calculated and recognised as described in section 6 in the consolidated financial statements.

Tax

	2016			2015		
DKK million	Income statement	Other comprehensive income	Total comprehensive income	Income statement	Other comprehensive income	Total comprehensive income
Tax for the year						
Change in deferred tax during the year	-18	-1	-19	-85	-	-85
Change in deferred tax as a result of change in tax rate	-	-	-	13	-	13
Adjustments to current tax for prior years	-88	-	-88	-	-	-
Adjustments to deferred tax for prior years	77	-	77	3	-	3
Total	**-29**	**-1**	**-30**	**-69**	**-**	**-69**

SECTION 4.7

Contingent liabilities and other commitments

Carlsberg A/S has issued guarantees to subsidiaries for pension obligations of DKK 359m (2015: DKK 373m).

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

Carlsberg A/S is party to certain lawsuits, disputes etc. of various scopes. In management's opinion, apart from as recognised in the statement of financial position or disclosed in the financial statements, the outcome of these lawsuits, disputes etc. will not have a material negative effect on the Company's financial position.

Carlsberg A/S has issued a guarantee in respect of rental obligations of DKK 12m (2015: DKK 64m).

SECTION 4.8

Events after the reporting period

Apart from the events recognised or disclosed in the financial statements, no events have occurred after the reporting date of importance to the financial statements.

SECTION 5

General accounting policies

The 2016 financial statements of Carlsberg A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Danish Financial Statements Act.

The financial statements are presented in Danish kroner (DKK), which is the functional currency.

The accounting policies for the Parent Company are the same as for the Group, cf. section 9 in the consolidated financial statements and the individual sections.

Significant accounting estimates and judgements

In preparing Carlsberg A/S' financial statements, management makes various accounting estimates and judgements that form the basis of presentation, recognition and measurement of the Company's assets and liabilities.

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

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

REPORTS

Management statement

The Supervisory Board and the Executive Board have today discussed and approved the Annual Report of the Carlsberg Group and the Parent Company for 2016.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act.

In our opinion the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Carlsberg Group's and the Parent Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Carlsberg Group's and the Parent Company's operations and cash flows for the financial year 2016.

Further, in our opinion the Management review includes a fair review of the development in the Carlsberg Group's and the Parent Company's operations and financial matters, of the result for the year, and of the Carlsberg Group's and the Parent Company's financial position as well as describing the significant risks and uncertainties affecting the Carlsberg Group and the Parent Company.

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

Copenhagen, 8 February 2017

Executive Board of Carlsberg A/S

Cees 't Hart
CEO

Heine Dalsgaard
CFO

Supervisory Board of Carlsberg A/S

Flemming Besenbacher
Chairman

Lars Rebien Sørensen
Deputy Chairman

Hans Andersen

Carl Bache

Richard Burrows

Donna Cordner

Eva V. Decker

Elisabeth Fleuriot

Kees van der Graaf

Finn Lok

Erik Lund

Søren-Peter Fuchs Olesen

Peter Petersen

Nina Smith

Lars Stemmerik

REPORTS

The independent auditor's report

To the shareholders of Carlsberg A/S

Opinion

We have audited the consolidated financial statements and the Parent Company financial statements of Carlsberg A/S for the financial year 1 January – 31 December 2016, which comprise the income statement, the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes to the financial statements, including a summary of significant accounting policies for both the Group and the Parent Company (jointly the "financial statements"). The financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU and additional requirements in the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and Parent Company at 31 December 2016, and of the Group's and Parent Company's financial performance and the cash flows for the financial year 2016 in accordance with IFRS as adopted by the EU and additional requirements in the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing and additional requirements applicable in Denmark. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the additional requirements applicable in Denmark, and we have fulfilled our other ethical requirements in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 the financial year 2016. These matters were addressed in the context of our audit 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
Impairment test of goodwill and brands	
Management conducts annual impairment tests to determine the recoverable amount of intangible assets with indefinite useful life calculated as the assets' value in use. The value in use is calculated as the present value of expected future net cash flows. The calculation is subject to Management's judgements about the key assumptions applied. The key assumptions related to goodwill and for brands are described in section 2.3 "Accounting estimates and judgements" on pages 75 and 76 respectively.	We have discussed with Management and evaluated the process for preparing the budgets supporting the impairment test. Additionally, we have assessed whether the models applied by Management to calculate the value in use of the individual cash-generating units related to goodwill and for brands comply with the requirements of IFRS as adopted by the EU. We have focused our audit on testing the key assumptions made by Management. Our internal valuations specialist has supported the audit where relevant. We have analysed the projected cash flows used in the models to determine whether they are reasonable and supported by the most recent approved Management budgets, including expected future performance of the cash-generating units and brands as well as macroeconomic expectations in the market. We have assessed the appropriateness of the discount rates applied and underlying assumptions, as well as benchmarking to market data and external information, and discussed Managements judgements, as relevant. We have assessed the sensitivity analysis prepared for the key assumptions as described in section 2.3.5. We have discussed the appropriateness of the sensitivity analysis by applying our own sensitivity analysis to the key assumptions.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Group accounts for revenue arising from the sale of own-produced finished goods, goods for resale (third-party products) and by-products when all significant risks and rewards have been transferred to the buyer and when the income can be reliably measured and is expected to be received. The Group enters into contracts with discounts and agreements with marketing contributions etc. where the classification in the consolidated financial statements is based on Management's judgement. The revenue recognition and accounting treatment are described in section 1.2 "Accounting estimates and judgements" on page 62.	We have discussed with Management the key assumptions related to the recognition and classification of revenue. We have focused our audit on testing the controls related to revenue and performed additional substantive procedures relating to revenue, including the appropriate classification. We have evaluated the relevant IT systems and tested the internal controls the Group has implemented to ensure the completeness, accuracy and timing of revenue recognised. We have analysed and assessed the accounting treatment of discounts and marketing contributions, including, on a sample basis, new contracts with non-standard terms entered into during the financial year. We have assessed journal entries related to revenue at year-end to ensure proper cut-off.

Statement on the Management review
Management is responsible for the Management review.

Our opinion on the financial statements does not cover the 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 the Management review and, in doing so, consider whether the Management review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. Moreover, it is our responsibility to consider whether the Management review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management review is in accordance with the 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 the Management review.

Responsibilities of Management for the consolidated financial statements and the Parent Company financial statements
Management is responsible for financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and additional 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 in preparing the financial statements, 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.

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated financial statements and the Parent Company financial statements

Our objectives are to obtain reasonable assurance as to 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 International Standards on Auditing (ISA) 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 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 conducted in accordance with ISA 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 in preparing the financial statements 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 and the 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 gives a true and fair view.

- 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 are required to 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 communicate to 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 to those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and that 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, 8 February 2017

KPMG
Statsautoriseret Revisionspartnerselskab
CVR No. 25 57 81 98

Mike Maloney
Certified Public Accountant

Henrik O. Larsen
State Authorised Public Accountant

No. 1

Carlsberg A/S
100 Ny Carlsberg Vej 100
1799 Copenhagen V
Denmark

Phone +45 3327 3300
www.carlsberggroup.com
CVR no. 61056416

Editor: Carlsberg Group Investor Relations
Design & layout: Operate & SkabelonDesign
Photos: Nana Reimers et al
Proofreading: Borella projects

In 2007, we inaugurated our first brewery in India, and in 2016 we began work on our eighth brewery, which will open in Karnataka in 2017. Tuborg has been an important driver of our success and is now the no. 1 international brand in the country. Our Indian business broke even in 2015 and delivered a profit in 2016.