Q2 2022 AIDE MEMOIRE

A number of events in 2021 and 2022 have an impact on the year-on-year comparison for Q2, H1 and full-year 2022. These include the following items, which you may wish to consider in your modelling. Please note that the items listed below are not exhaustive and that other factors may affect the comparisons for Q2 and H1 2022 versus the same periods last year.

FACTORS IMPACTING COMPARATIVE FIGURES

Western Europe

At the Q1 2022 conference call, we commented on the on-trade recovery in Q1:

"…index of 85 with regards to Q1 2022, on-trade versus 2019."

…and elaborated further on the exit rate for Q1 2022:

"…probably I guess it will be close to 100% if you take in exit"

At the Q1 2022 conference call, we commented on the revenue/hl for Q2 and H2 2022:

"…in Q2, there will be a positive channel mix also, albeit significantly smaller than in Q1. We see that the pricing impact will be larger than in Q1. However, total revenue per hectoliter improvement will be significantly lower than in Q1, and H2 will be even lower as there will only be few restrictions in H2 – there were few restrictions in H2 last year."

Asia

At the Q1 2022 conference call, we commented on China:

"Volumes in China were up by double-digit thanks to successful New Year activities and continued good progress for our growth priorities including expanded distribution, the international and local premium portfolio and Big City growth. The initial results of the launch of Somersby have been very positive. Our strongholds in China were not impacted by the spread of the Omicron variant, but the increasing number of cases and spread of the virus may pose a significant challenge in the months ahead."

… and elaborated further:

"… we had a very strong Q1 in China. But in April, we do see some impacts from COVID, not so much in our strongholds… but we are, of course, following the situation very closely, and have also increased our inventory levels. In the second half or basically in Q2 and further, we might have some impact of COVID that what we already took into account, also in our guidance. And as a consequence, you could argue that maybe the revenue, the price/mix will be a bit muted…"

In the Q1 2022 announcement we commented on some of the other Asian markets:

“Our Indian business had a slow start to the year, with January and February being impacted by the outbreak of Omicron and volumes in March rebounded, delivering record high monthly volumes.

We saw very good volume growth in Laos, Vietnam and Cambodia.”

Central & Eastern Europe

In the Q1 2022 announcement we commented on the performance in parts of the region:

“Volumes in the south-eastern part of the region and in some export & licence markets benefited from the recovery of the on-trade channel, which was subject to restrictions and lockdowns in Q1 2021. Revenue/hl improved across markets due to price increases, country mix and, in some markets, recovery of the on-trade channel.”

Costs

At the Q1 2022 conference call, we commented on the expected COGS development for 2022:

“If we exclude Russia from the previous guidance, then the COGS per hectoliter increase would have been around 8% to 10%. So the current expectation of 10% to 12% is a couple of percentage points higher than previously on a like-for-like basis.”

…and further commented on the phasing of COGS in 2022:

“If you talk about COGS, the headwinds will be bigger in the second half than in first half.”

At the Q1 2022 conference call, we were asked about 2023 COGS development:

“We’re not going into details as to how much it is. We will do that at a later point when we talk about 2023. But we are very much aware of the mountain to climb, also for 2023, and we are preparing for that, including reviewing in details how to continue our strategy of making sure that we pass on COGS per hectoliter increases to revenue per hectoliter increases. So that something is not coming as a surprise to us and we know very much how much it is. And we’re not commenting on the exact figure but we are aware and we are focused on making sure that we continue to pass it on.”

OUTLOOK

In the Q1 2022 we reiterate earnings guidance for 2022:

“The earnings expectations are based on the restated 2021 operating profit of DKK 10,129m, which excludes the business in Russia, and including operating profit of DKK 0 from Ukraine from 24 February 2022:

- *Organic operating profit development of around -5% to +2%.*

Fully excluding the Ukrainian business in 2021 and 2022, the above guidance would change to:

- *Organic operating profit development of around -1% to +7%.*

It must be emphasised that the earnings expectations are significantly more uncertain than usual, as the development of the war in Ukraine; continued uncertainty on input costs; possible supply chain disruptions; the COVID-19 pandemic, including possible government actions, particularly in China; consumer sentiment; and the macroeconomic development may all have significant implications for business performance during the remainder of the year.

Based on the spot rates at 27 April, we assume a translation impact of around DKK +350m (previously around DKK +400m).

Other relevant assumptions are:

- *Financial expenses, excluding currency losses or gains, are expected to be around DKK 550-600m.*
- *The reported effective tax rate is expected to be around 22-23%.*
- *Capital expenditure at constant currencies is expected to be around DKK 4.5bn."*

At the Q1 2022 conference call we commented on the phasing of revenue and profits between quarters for 2022:

"Revenue and profits for – and that's then your second question – revenue and profits for 2022 will be more frontend-loaded than usual. On top line, the Q1 is expected to be the strongest quarter of the year. Q2 will also be good due to expected better on-trade than last year, in particular in April and May. First half profit growth and margins are expected to be much better than the second half, partly due to last year's comps and also partly due to the comment from before of higher input and energy costs that will impact more in the second half than in first half."

… and gave the following comment regarding COVID-19 restrictions in China included in the earnings guidance:

"The guidance and the guidance range take into account some COVID-19 disruptions, also within our core markets, but not a full country-wide lockdown, which is not – also not what we are assuming."

ACCOUNTING TREATMENT OF RUSSIA AND UKRAINE

At the Q1 2022 conference call we explained the accounting treatment of Russia and Ukraine:

"Last week, we announced the key changes following the decision to divest the Russian business. As a consequence of this decision, the Russian business will be presented separately in the Group accounts as from the 1st of January 2022.

In the P&L, the net result from the Russian business will be presented in one-line as "net result from Russian operations held for sale", and that is below profit after tax. In other words, revenue EBIT finance costs and tax from Russia will not be included in the respective P&L lines. The net result from Russia will include the write-down of the Russian net assets. I'll come back to that in just a moment.

In the appendix to the Q1 announcement, we provide restated 2021 P&L and regional figures for the full year, the half-year and also for the quarters. Note that there are also small changes to the Western European numbers due to intercompany transactions. In the balance sheet, Russia will also be included as one-liners in both assets and liabilities.

The divestment of the Russian business is complicated and may take up to 12 months. A few words on what will happen to equity when the divestment is completed. The accumulated currency translation reserve within equity related to the Russian business will be reclassified from equity to the income statement and included in the net result from the Russian business. After reclassification of the currency translation reserve, the amount will be recognized in retained earnings. Therefore, there will be no change to total equity. The reclassification will have no effect on the Group's tax position. As at end of March 2022, the accumulated currency translation reserve related to the Russian business represented a loss of around DKK 42 billion.

…and continued:

"As a consequence of the decision to divest Russia and as a consequence of the operational impact from the war on Ukraine and on other parts of the region, several write-downs have been recognized.

The Russian net assets all being reassessed at fair value, currently resulting in a write-down of approximately DKK 9.5 billion in the Russian P&L. This is not based on external offers for the business, but on a range of internal assumptions and subject to a very high level of uncertainty and volatility. Consequently, the fair value of the Russian business is highly sensitive to changes in the assumptions and may change until the final value can be determined, based on an actual transaction. The write-down of the net assets related to the business in Russia will be included in net result from Russia operations held for sale in the P&L.

In Ukraine, the war has of course impacted customers and sales outlets. And as a result, we have written down doubtful trade receivables, obsolute inventories and some commercial assets in total amounting to around DKK 300 million. This write-down will be recognized in special items.

Finally, the war has also led to impairment and write-down of goodwill allocated to the Central & Eastern European region, including the goodwill related to our business in Ukraine. In total, write-down of goodwill in Central & Eastern Europe amounts to around DKK 700 million, which will be included in special items.

We assume that we will be able to resume consistent production at our breweries in Ukraine when the situation in the country stabilizes. However, due to the extraordinary nature of the situation, there will be changes to the presentation of profit and loss from the business.

Volumes and revenue in Ukraine after 24 February will continue to be included in regional figures. However, until a consistent level of operations is resumed, the operating result will be reported at DKK 0, as costs not covered by revenue will be reported in special items due to the very special circumstances."

DISCLAIMER