Annual report enhancement

1 September 2016

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EY
Building a better working world

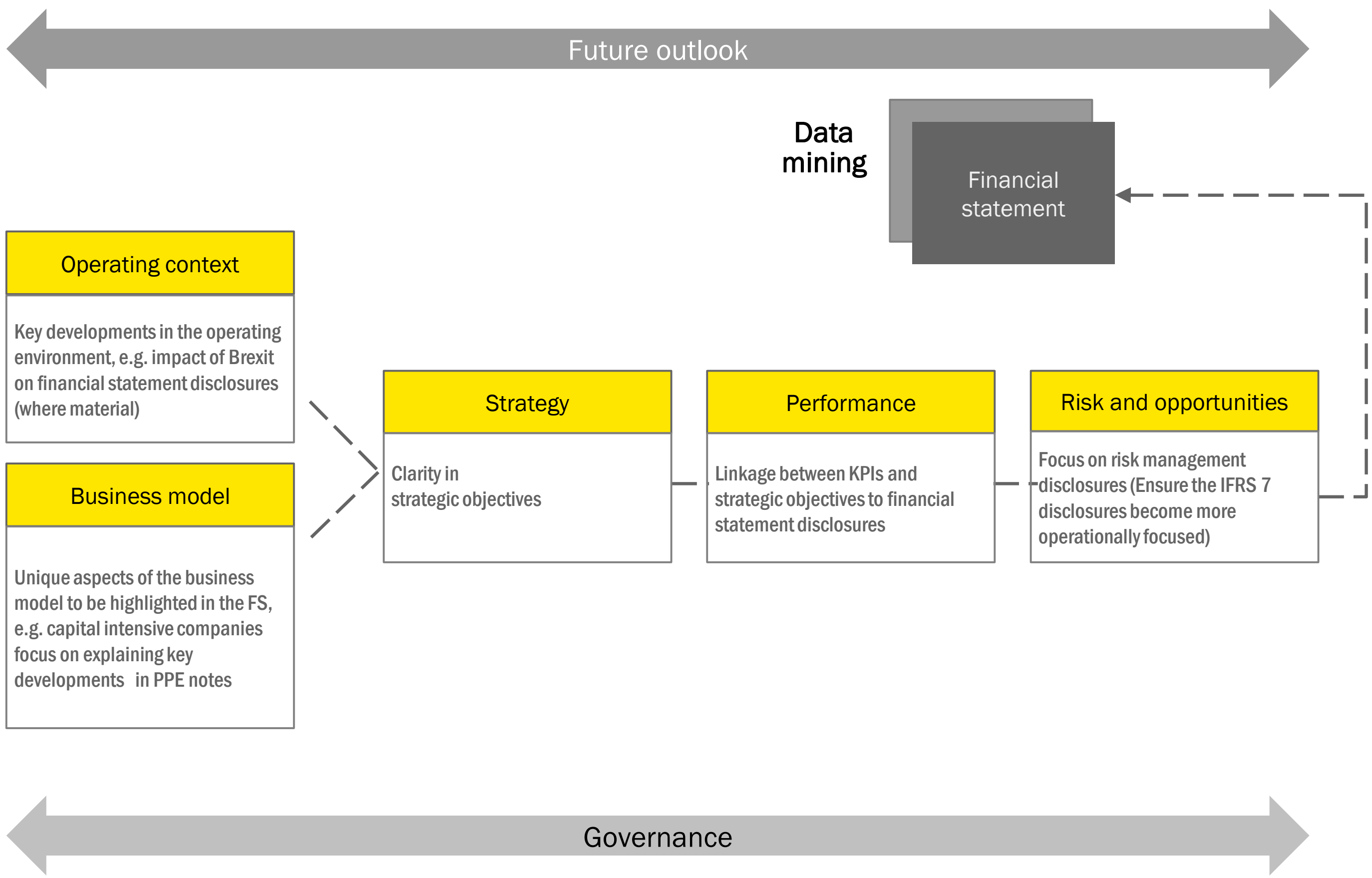
KARNOV GROUP

Agenda

Focus on the business when planning financial statement enhancement

Objectives:

- Break down the barrier between the front and back end of the annual report
- To create a clear linkage between key issues discussed in the management commentary and the financial statements
- To make the financial statements more accessible and tailored to the business



Clarify you target audience

Identifying whom you are addressing and matching it throughout the report

- Investors
- Regulators
- Analysts
- Customers
- Employees

Target reader adjustments

Report focus according to target

- Language adjustments
- Complexity adjustments (i.e. the degree to which technical accounting concepts are explained)

EY's approach to enhancing the financial statement

Preliminary steps
- Define the target reader
- Use language aligned to the target reader
- Preform a qualitative and quantitative materiality assessment

1. Make important information more visible
   - Aggregate line items on primary statements
   - Remove immaterial disclosures

2. Write accounting policies in plain language (consider placement against related note)

3. Group notes into themes
   - No introduction to the themes

4. Create introductions to the themes
   - Enhance linkage to key messages in the management commentary
   - Barriers: Must know the story and the highlights of the year

5. Link introductions to the strategy and the business model

6. Add diagrams, figures etc.

7. Break up risk management disclosures into the themes

ENHANCED FINANCIAL STATEMENT

Steps: Grouping of the notes

Group notes into themes

- Key focus is making the notes more user friendly
- Enhances tailoring to the company's business model
- Focuses on the most material
- Risk management/financial instruments notes
    - What does the company seek out to achieve via its risk management practices?
    - Separate discussion of operating from financing exposures and risk management practices
    - Break it up and place it against the relevant notes to which it relates

1 Basis for preparation	4 Strategic investment
2 Earnings	5 Funding and capital structure
3 Working capital	6 Other disclosures

Example: ISS 2015 Annual report

Steps: Integration of financial review

Pro's

- Clear overview
- Avoid repetition
- Reduce length of report
- Analytical
- Internet user friendliness
- Must comment on good and bad financial statement inputs, giving a possibility to explain the turnouts

Con's

- Users must familiarise themselves with the new set up
- Potentially too much information within the financial statements
- The financial review might not be relevant for all users, thus complicating their experience

EY's observations

- Majority of corporations use a separate financial review and financial statements
- Having an integrated financial statement provides an opportunity to link the financial statements directly to the KPIs and business model
- One model does not fit all

Lab insight report: Towards Clear & Concise Reporting

Steps: Integration of financial review

Example: Electrolux 2015 balance sheet (p. 84 and 85)

Financial position

- Equity/assets ratio was 20.8% (21.7).
- Return on equity was 9.9% (15.7).
- Return on net assets was 11.0% (14.2).
- Financial net debt decreased to SEK 1,898m (4,868).

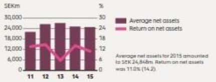
Net assets and working capital
Working capital amounted to SEK -12,234m (-8,377), corresponding to -9.9% (-6.6) of net sales.

Net assets and working capital

SEKm	Dec. 31, 2014	% of annualized net sales	Dec. 31, 2015	% of annualized net sales
Inventories	14,324	11.2	14,179	11.5
Trade receivables	20,663	16.2	17,745	14.3
Accounts payable	-25,705	-20.1	-26,467	-21.4
Provisions	-8,448		-8,057	
Prepaid and accrued income and expenses	-8,495		-9,406	
Taxes and other assets and liabilities	-716		-228	
Working capital	**-8,377**	**-6.6**	**-12,234**	**-9.9**
Property, plant and equipment	18,934		18,450	
Goodwill	5,350		5,200	
Other non-current assets	5,528		4,752	
Deferred tax assets and liabilities	4,664		5,244	
Net assets	**26,099**	**20.4**	**21,412**	**17.3**
Average net assets	25,166	22.4	24,848	20.1
Return on net assets, %	14.2		11.0	

Average net assets were SEK 24,848m (25,166), corresponding to 20.1% (22.4) of net sales.

Return on net assets



Change in net assets

SEKm	Net assets
December 31, 2014	**26,099**
Change in restructuring provisions	880
Write-down of assets	-4,787
Changes in exchange rates	-1,054
Capital expenditure	3,027
Depreciation	-3,936
Other changes in fixed assets and working capital, etc.	1,183
December 31, 2015	**21,412**

Liquid funds

Liquidity profile

SEKm	Dec. 31, 2014	Dec. 31, 2015
Liquid funds	9,835	11,199
% of annualized net sales[1]	14.1	17.5
Net liquidity	4,661	6,425
Fixed interest term, days	11	9
Effective annual yield, %	1.3	1.4

[1] Liquid funds plus back-up credit facilities divided by annualized net sales, see below.

For additional information on the liquidity profile, see Note 18.

Liquid funds as of December 31, 2015, amounted to SEK 11,199m (9,835), excluding short-term back-up credit facilities. Electrolux has two unused committed back-up revolving credit facilities. One multicurrency facility of SEK 3,400m maturing in 2017 and one multicurrency facility of EUR 500m, approximately SEK 4,600m, maturing in 2018. Electrolux has also a committed revolving credit facility of USD 300m, approximately SEK 2,500m, maturing in 2018.

Capital turnover-rate, times/year

The capital turnover-rate increased to 5.0 times (4.5) in 2015.

Consolidated balance sheet

SEKm	Note	December 31, 2014	December 31, 2015
ASSETS			
Non-current assets			
Property, plant and equipment	12	18,934	18,450
Goodwill	13	5,350	5,200
Other intangible assets	13	3,878	3,401
Investments in associates	29	228	209
Deferred tax assets	10	5,351	5,889
Financial assets	18	312	284
Pension plan assets	22	399	397
Other non-current assets	14	1,110	858
Total non-current assets		**35,562**	**34,688**
Current assets			
Inventories	15	14,324	14,179
Trade receivables	17, 18	20,663	17,745
Tax assets		784	730
Derivatives	18	375	149
Other current assets	16	4,774	5,176
Short-term investments	18	99	108
Cash and cash equivalents	18	9,107	10,696
Total current assets		**50,126**	**48,783**
Total assets		**85,688**	**83,471**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent Company			
Share capital	20	1,545	1,545
Other paid-in capital	20	2,905	2,905
Other reserves	20	-251	-1,739
Retained earnings	20	12,235	12,264
		16,434	**14,975**
Non-controlling interests		34	30
Total equity		**16,468**	**15,005**
Non-current liabilities			
Long-term borrowings	18	9,529	8,323
Deferred tax liabilities	10	687	645
Provisions for post-employment benefits	22	5,162	4,906
Other provisions	23	5,665	5,649
Total non-current liabilities		**21,043**	**19,523**
Current liabilities			
Accounts payable	18	25,705	26,467
Tax liabilities		1,042	813
Other liabilities	24	13,531	14,529
Short-term borrowings	18	4,960	4,504
Derivatives	18	156	222
Other provisions	23	2,783	2,408
Total current liabilities		**48,177**	**48,943**
Total liabilities		**69,220**	**68,466**
Total equity and liabilities		**85,688**	**83,471**
Pledged assets	19	**41**	**27**
Contingent liabilities	25	**3,739**	**1,312**

Example: Carlsberg 2015 balance sheet (p. 60 and 19)

STATEMENT OF FINANCIAL POSITION

DKK million	Section	31 Dec. 2015	31 Dec. 2014
ASSETS			
Non-current assets			
Intangible assets	2.3, 2.4	72,920	82,409
Property, plant and equipment	2.3, 2.4	26,678	29,173
Investments in associates and joint ventures	5.5	4,676	4,277
Receivables	1.6	1,854	2,130
Deferred tax assets	6.2	1,697	1,430
Total non-current assets		**107,825**	**119,419**
Current assets			
Inventories	1.3.1	3,817	4,293
Trade receivables	1.6	5,729	6,851
Tax receivables		324	196
Other receivables	1.6	2,532	2,609
Prepayments		1,074	949
Cash and cash equivalents	4.4.2	3,131	2,418
Total current assets		**16,607**	**17,316**
Assets held for sale	5.6	469	723
Total assets		**124,901**	**137,458**

DKK million	Section	31 Dec. 2015	31 Dec. 2014
EQUITY AND LIABILITIES			
Equity			
Share capital	4.3.2	3,051	3,051
Reserves		-35,447	-31,006
Retained earnings		75,885	80,392
Equity, shareholders in Carlsberg A/S		43,489	52,437
Non-controlling interests		3,742	3,560
Total equity		**47,231**	**55,997**
Non-current liabilities			
Borrowings	4.2, 4.4	31,479	38,690
Retirement benefit obligations and similar obligations	7.4	5,235	4,626
Deferred tax liabilities	6.2	5,924	7,147
Provisions	3.2	3,374	3,010
Other liabilities		1,899	1,442
Total non-current liabilities		**47,911**	**54,915**
Current liabilities			
Borrowings	4.2, 4.4	4,549	1,835
Trade payables		12,260	12,048
Deposits on returnable packaging	1.3.2	1,819	2,034
Provisions	3.2	648	510
Corporation tax		601	796
Other liabilities etc.		9,794	9,323
Total current liabilities		**29,671**	**26,546**
Liabilities associated with assets held for sale	5.6	88	-
Total liabilities		**77,670**	**81,461**
Total equity and liabilities		**124,901**	**137,458**

STATEMENT OF FINANCIAL POSITION
At 31 December 2015, Carlsberg had total assets of DKK 124.9bn against DKK 137.5bn at 31 December 2014. Invested capital amounted to DKK 90.1bn against DKK 104.0bn at 31 December 2014.

Total assets and invested capital were both impacted by a significant reduction in intangible assets and property, plant and equipment from impairment losses (cf. *Funding the Journey*) in addition to foreign exchange adjustments, primarily RUB.

Assets
The total decrease in non-current assets amounted to DKK 11.6bn. Intangible assets declined to DKK 72.9bn from DKK 82.4bn at 31 December 2014, while property, plant and equipment declined to DKK 26.7bn from DKK 29.2bn at 31 December 2014. Financial assets amounted to DKK 8.2bn against DKK 7.8bn at 31 December 2014.

Inventories and receivables amounted to DKK 9.5bn (DKK 11.1bn at 31 December 2014), primarily driven by lower stock levels and write-offs in Russia, improved inventory planning and brewery closures in China.

Other receivables etc. totalled DKK 3.9bn against DKK 3.8bn at 31 December 2014. Cash amounted to DKK 3.1bn versus DKK 2.4bn at 31 December 2014. The increase of DKK 0.7bn was the result of improved working capital.

Liabilities
Equity decreased to DKK 47.2bn compared to DKK 56.0bn at 31 December 2014. DKK 43.5bn was attributed to shareholders in Carlsberg A/S and DKK 3.7bn to non-controlling interests.

The decline in equity of DKK 8.9bn attributed to shareholders in Carlsberg A/S was mainly due to foreign exchange losses of DKK 4.1bn, loss for the period of DKK 2.9bn, payment of dividends to shareholders of DKK -1.4bn, value adjustments of hedging instruments of DKK -0.4bn and retirement benefit obligations of DKK -0.3bn.

Liabilities were DKK 77.7bn compared to DKK 81.5bn at 31 December 2014. The most notable change was the decrease in long-term borrowings (down DKK -7.3bn versus 31 December 2014) and the increase in short-term borrowings (up DKK 2.7bn versus 31 December 2014), reflecting an improvement in free cash flow.

CASH FLOW
Operating profit before depreciation, amortisation and impairment losses was DKK 13,213m (DKK 13,338m in 2014).

The change in trade working capital was DKK +1,284m (DKK -177m in 2014). A significant contributor to the improvement in trade working capital was the lower stock levels at distributors and lower trade receivables in Russia versus last year. Moreover, the efforts to continuously improve the elements of trade working capital continued, and average trade working capital to net revenue was -5.2% at the end of 2015 compared to -3.6% at the end of 2014. The change in other working capital was DKK +561m (DKK -682m in 2014), partly due to payables from sale of assets and phasing of VAT payments.

Restructuring costs paid amounted to DKK -586m (DKK -397m in 2014). The increase reflected increased restructuring measures across the Group, including actions under *Funding the Journey*.

Paid net interest etc. amounted to DKK -1,818m (DKK -1,995m in 2014). The decline was mainly due to lower funding costs.

Cash flow from operating activities was DKK 10,140m against DKK 7,405m in 2014.

Cash flow from investing activities improved by DKK 4.1bn and amounted to DKK -2,618m against DKK -6,735m in 2014. Operational investments totalled DKK -3,307m (DKK -5,549m in 2014). The decline was as expected and positively impacted by the sale of the Leeds brewery site in the UK. Financial investments amounted to DKK +117m versus DKK -1,166m in 2014, when financial investments were impacted by the purchase of Eastern Assets.

EXPECTATIONS AND RESULTS FOR 2015

		Operating profit before special items
18.02.2015	Actual (Financial Statements for 2014)	DKK 9,230m
18.02.2015	Financial Statements for 2014	Operating profit to grow organically by mid- to high-single-digit percentages
19.08.2015	Interim results Q2 2015	Organic operating profit to decline slightly
11.11.2015	Interim results Q3 2015	Organic operating profit to decline by high-single-digit percentages (due to reclassification of certain one-off items and restructuring costs in operating profit)
10.02.2016	Actual (Financial Statements for 2015)	Organic decline in operating profit of 7%

Cash flow from other activities amounted to DKK +572m (DKK -20m in 2014), positively impacted by the sale of the remaining plot of land at the Tuborg site north of Copenhagen, Denmark.

Free cash flow amounted to DKK 7,522m versus DKK 670m in 2014. Part of the significant improvement was of a one-off nature, such as the cash gain from the sale of former brewery sites and the positive trade working capital impact from the lower stock levels at distributors and trade receivables in Russia.

FINANCING
At 31 December 2015, gross interest-bearing debt amounted to DKK 36.0bn and net interest-bearing debt to DKK 30.9bn. The difference of DKK 5.1bn comprised other interest-bearing assets, including DKK 3.1bn in cash and cash equivalents. Net debt to EBITDA at year-end was 2.3x.

Of the gross financial debt, 87% (DKK 31.5bn) was long-term, i.e. with maturity more than one year from 31 December 2015. Of the net financial debt, 88% was denominated in EUR and DKK (after swaps) and 79% was at fixed interest (fixed-interest period exceeding one year).

Steps: Alternative performance measures

Alternative performance measures are defined as performance measures other than ‘profit/loss for the year’ and ‘profit/loss before tax for the year’

Examples

- EBIT/EBITDA
- Free cash flow
- Return on Equity
- Return on Invested Capital
- Debt ratio

How do APM’s create value?

- Provide a useful link between financial results and non-financial performance
- Work to lessen the likelihood of share price volatility
- Creates an ability to articulate the long-term story of a corporations performance
- Work to remove volatility associated with economic events
- Provide useful additional information to investors

REMINDER OF THE NEW ESMA APM GUIDELINES

- New guidelines are effective on or after 3 July 2016

EY’s recommendation

- APMs may with advantage be used to supplement the description of business results of operations and performance
- APMs should be described and explained to optimise the value for users

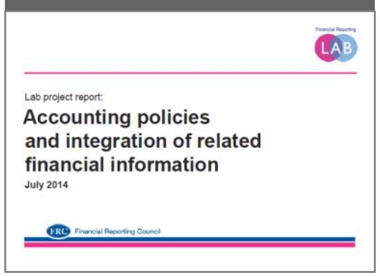
Trends abroad: The financial reporting lab

www.frc.org.uk

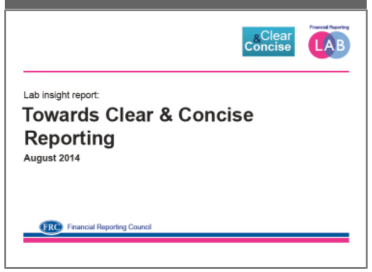
- The Financial Reporting Lab has been set up by the UK's Financial Reporting Council (FRC)
- Its aim is to improve the effectiveness of corporate reporting in the UK

Preparers → Financial Reporting LAB ← Investors

Financial reporting


Lab project report:
Accounting policies and integration of related financial information
July 2014
FRC Financial Reporting Council

Thematic


Clear & Concise
Lab insight report:
Towards Clear & Concise Reporting
August 2014
FRC Financial Reporting Council

Governance

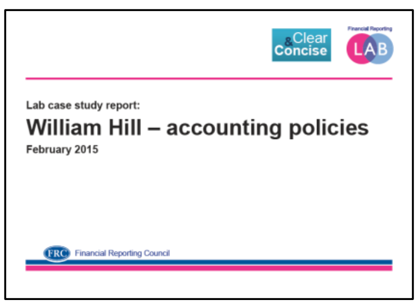

Lab project report:
Reporting of Audit Committees
October 2013
FRC

Trends abroad: Lab case study on William Hills disclosure of accounting policies

Case:

Only 4 significant accounting policies disclosed in the financial statements:

1. Revenue recognition
2. Intangible assets – licences
3. Going concern
4. Exceptional items


Clear & Concise

Financial Reporting LAB

Lab case study report:

William Hill – accounting policies

February 2015

FRC Financial Reporting Council

A full list of accounting policies has been made available either as an appendix or on the company's website

Feedback from investors:

"William Hill's policies are very clear."

Investor

"William Hill is undoubtedly the best reporter in the sector. They provide balanced and clear information."

Investor

"Significant policies are those where there is a lot of discretion – a lot of judgement required."

Investor

"I think they have got the key accounting policies."

Credit rating agency

Factors considered by William Hill in relation to each policy:

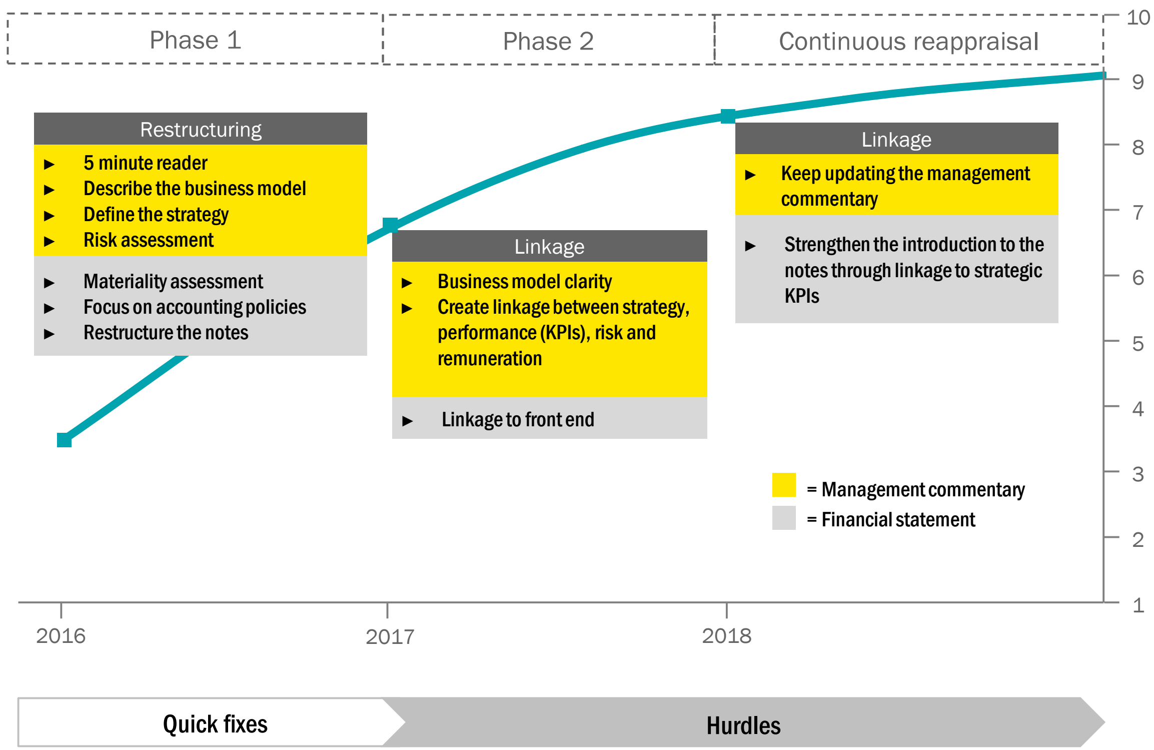
- Materiality of the item(s);
- The Company's internal assessment of financial reporting risk areas as reported to the Audit Committee;
- The amount of internal discussion required to value, classify or assess each item covered by the accounting policy;
- The extent of discussion with external auditors; and
- The extent of questions received from shareholders in relation to the policy and item(s) to which each policy relates

3 year plan

Steps to complete before an enhancement project:

1. Create a plan/ strategy of where you want your annual report to be (both the financial statement and the management commentary)
2. Prepare gap analysis
3. Identify barriers to filling the gaps
4. Create a plan to address the gaps, redefine ambition

3 year plan:




Questions?
The better the question. The better the answer.
The better the world works.
EY
Building a better
working world
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About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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