Carlsberg Breweries A/S: Facing Political Risk in Russia

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Carlsberg Breweries A/S (Carlsberg) had developed from a local to a global player in the brewing industry, having focused on growth in emerging economies in Europe and Asia. This growth path was against the background of economic transition and political change in Russia—from optimism about opportunities in the new market economy in the 1990s, to increasing regulatory obstacles, political authoritarianism, and increasing local competition in the 2010s. In 2022, Carlsberg, more than other West European consumer goods companies, was exposed to Russia when Russian military forces invaded Ukraine in February. This created complex operational and ethical challenges the company had to address with urgency. The company's annual general meeting was coming up, on March 14, and by then the executive board had to communicate to shareholders concerned with both the company's financial performance and its international reputation—as well as to Carlsberg employees across Europe (including both Russia and Ukraine) and the increasingly impatient Danish media—what steps the board would take to address the crisis.

Learning Objectives

The case may be used in undergraduate- and graduate-level courses on international business, business and politics, or corporate communications. It provides a foundation to discuss emerging market opportunities along with political risk, including regulatory risk, and their evolution over time, as well as the urgency of acting when the business environment is suddenly disrupted by a military conflict. After working through the case and assignment questions, students will be able to do the following:

- Appreciate different forms of political risks pertaining to international business operations.
- Assess alternative strategies to mitigate political risk.
- Discuss the ethics of doing business in a country with an authoritarian regime.
- Devise strategies to disengage from a politically sensitive business context.
- Communicate strategic decisions in ethically sensitive situations.

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CARLSBERG BREWERIES A/S: FACING POLITICAL RISK IN RUSSIA[1]

Carlsberg Breweries A/S (Carlsberg) was a Danish brewer that had become a leading global player in the brewing industry by focusing on opportunities in emerging markets in Europe and Asia.[2] Via its subsidiary Baltic Beverages Holding (BBH), Carlsberg held leading market positions in Russia, Ukraine, and Belarus.[3] However, after early successes, its business in Russia proved difficult to manage due to a weak economy, a series of bureaucratic obstacles,[4] and political tensions between the European Union and Russia after the Russian invasion of Crimea in 2014.[5]

On February 24, 2022, the business faced further challenges when Russian troops invaded Ukraine. In the evening of the same day, Carlsberg executives worked late into the night and established a working group to analyze the consequences of the invasion, such as the supply of aluminium and energy, care for employees in Russia and Ukraine, and cybersecurity.[6] With 9.8 per cent of its sales in Russia, Carlsberg was far more exposed to Russia than most other Western consumer goods companies.[7] Thus, the executive board was caught in a difficult ethical dilemma: How should Carlsberg balance its suddenly much more complex ethical and economic concerns? As a high-profile consumer goods brand, both reputational and financial risks had to be considered in developing and communicating an appropriate strategy.

The company's annual general meeting was coming up, on March 14.[8] By then the executive board had to communicate to shareholders concerned with both the company's financial performance and its international reputation—as well as to Carlsberg employees across Europe (including both Russia and Ukraine) and the increasingly impatient Danish media—what steps they would take to address the crisis.[9]

FALL OF THE IRON CURTAIN AND EMERGENCE OF THE MARKET ECONOMY

The end of the Soviet regime in 1990 marked a cornerstone in European history. The Soviet Union disintegrated and most of its successor states experimented with democracy. Russia, the largest of the successor states of the Soviet Union, held free elections in 1991, resulting in the election of Boris Yeltsin as president. Economic reform included liberalization, opening to international trade, and mass privatization of historically state-owned enterprises. However, the short-term benefits for the people of Russia were mixed: while they enjoyed more political freedoms, the economy collapsed, declining by 40 per cent from 1989 to 1998 (see Exhibit 1). The privatization process was highly imperfect as well: connected elites could accumulate control over key enterprises. Russia thus developed a distinctive form of "oligarchic capitalism" in which a small number of very large and powerful financial-industrial groups dominated highly concentrated industries, notably the exploration of natural resources.[10]

For companies in Western Europe, the fall of the Iron Curtain provided attractive business opportunities that would also support broader social objectives helping societies in Central and Eastern Europe to transition from plan economy to market economy, and from authoritarian regimes to democracy. Consumers eagerly picked up Western consumer goods, which they had long been deprived of by the central plan regime.[11]

From 1999 onwards, the economy recovered from the drawn-out recession of the 1990s, achieving economic growth of 5 per cent or more for ten years (see Exhibit 1). In 2000, Vladimir Putin was elected president of Russia, promising political stability, economic recovery, and a fight against corruption. While Putin was able to show initial economic progress, the Russian economy remained volatile. Russia was highly dependent on exports of oil and gas, and thus on the world market prices of these commodities.[12]

CARLSBERG: FROM REGIONAL TO GLOBAL PLAYER

Carlsberg went through a transformation from diversified local player to global leader in a focused industry segment. In 1970, it consolidated its leadership in the Danish brewing sector by acquiring the country's second largest brewery, Tuborg. In 1973, the famous tagline "Probably the best beer in the world" was created.[13] In the 1990s, it divested non-brewing assets in Denmark, such as its equity stakes in Rynkeby Foods A/S (fruit juices), Tivoli Gardens (amusement park and gardens), and Royal Copenhagen (porcelain), as well as a number of technology-based subsidiaries. Carlsberg also started investing in brewing activities in emerging economies by setting up joint ventures in countries such as Vietnam (1993) and Poland (1996), while in China a license agreement in 1991 was followed by the acquisition of a local brewery in 1995.[14]

Meanwhile, in 1991, two Scandinavian brewers, Pripps (Sweden) and Hartwall (Finland), established Baltic Beverages Holding (BBH) to acquire and modernize breweries across the former Soviet Union. They created the Baltika brand, and introduced modern marketing and distribution practices. Smaller breweries were merged or shut down, while a small number of breweries with larger scale economies were modernized. BBH positioned Baltika as a regional premium brand, complemented by a portfolio of local brands across the region. The Swedish co-owner, Pripps, was acquired by Orkla (Norway) in 1995.[15]

Carlsberg stepped up its effort to engage in the region in 2000 by forming a 60–40 joint venture with Orkla, which in turn owned 50 per cent of BBH. In 2004, Carlsberg bought out Orkla from the joint venture to take full control. The Orkla acquisition marked a major shift in Carlsberg's global strategy. Previously, it had focused on its Danish premium brands Carlsberg and Tuborg; from this point onwards Carlsberg would be managing a portfolio of global and local brands, mirroring the strategies of its global peers at the time: Interbrew SA, based in Belgium; Heineken N.V. (Heineken), based in Netherlands; and South African Breweries (SAB), based in South Africa.[16]

BBH operated across the former Soviet Union, including the Baltic States, Russia, Ukraine, Kazakhstan, Uzbekistan, and Belarus. In Belarus, BBH acquired the oldest brewery in the country, Alivaria, in 2006 together with the European Bank for Reconstruction and Development (EBRD). BBH increased its equity stake in Alivaria to 90 per cent in 2011, thus attaining operational control of the market leader in Belarus.[17] Yet BBH's main focus was Russia, which contributed 79 per cent of its sales and 86 per cent of its operating profits.[18]

The second largest shareholder of BBH was UK-based Scottish & Newcastle plc (S&N), which had acquired Hartwell in 2002. The joint ownership structure of BBH, however, was difficult to manage. A merger between Carlsberg and S&N was not feasible because they both had substantial market shares in several European countries, and a merger would have triggered interventions from the competition authorities. Heineken faced a similar problem when contemplating a merger with either Carlsberg or S&N.

Thus, Carlsberg and Heineken worked together to structure a special deal: they would jointly acquire S&N and then split it up in such a way that neither of them was attaining a dominant market position in any one country that would attract opposition from the competition authorities. As a result of this complex deal, Heineken got, among other assets, S&N's operations in the United Kingdom, Ireland, and Portugal, whereas Carlsberg got S&N's activities in China, Vietnam, and France, along with the Kronenbourg brand and the equity stake in BBH. Carlsberg paid DKK 57 billion,[19] at the time the biggest acquisition by a Danish company ever.[20] After the acquisition, the Eastern Europe region accounted for 28.5 per cent of Carlsberg's global revenues.[21]

Originally, the breweries of BBH operated with high autonomy and had local minority shareholders. Over the next four years, Carlsberg bought out the local partners and centralized the operations in each country. Brewing was largely a local business because transport costs for beer were high relative to value. Thus, BBH breweries mostly sourced raw materials locally and sold local brands into local markets, while brewing the Carlsberg brand under licence and importing other brands, such as Tuborg.[22]

Meanwhile the brewing industry was undergoing a concentration process globally. In 2000, Anheuser-Busch (United States) was the largest brewer globally with a world market share of 8.8 per cent, followed by Heineken (Netherlands) with 4.3 per cent, Interbrew SA (Belgium) with 4.0 per cent, Miller Brewing Company (United States) with 3.6 per cent, SAB (South Africa) with 3.3 per cent, and Carlsberg (Denmark) with 1.7 per cent. Following mergers between the largest players, and multiple acquisitions of smaller players, the global market leaders in 2009 were Anheuser-Busch InBev (AB InBev) with 19.5 per cent, Heineken with 6.9 per cent, SABMiller plc with 6.5 per cent, and Carlsberg with 5.8 per cent.[23]

With full equity control over BBH, Carlsberg was set to ride on the growth of Russian consumer demand. The company was full of optimism: BBH held 37.6 per cent of what was expected to be a rapidly growing market in Russia.[24] At the same time, the Baltika brand and existing breweries were seen as a foundation for growth in neighbouring countries, including Ukraine.[25]

DETERIORATING BUSINESS CLIMATE IN RUSSIA

Carlsberg had been optimistic, yet sales in Russia did not grow as expected due to a combination of government interventions and sluggish economic growth. The political system of Russia gradually became more authoritarian, as the government tried to push back on the power of oligarchs but also weakened democratic control. At the same time, nationalist policies and less-transparent regulatory processes (see Exhibit 2) created pressures for foreign investors. Military conflicts within Russia (notably Chechnya, 1999–2009) and neighbouring countries (notably Georgia, 2008) added to the uncertainty. After its significant oil-price-supported recovery in the 2000s, the Russian economy was strongly affected by the global financial crisis in 2008, and failed to resume its earlier rapid economic growth path (see Exhibit 1).

Russian culture historically had a strong affinity with alcoholic beverages, especially vodka. Russian leaders, from the czars to Boris Yeltsin, had periodically tried to convince Russians to drink less, but their attempts were met limited success. In 2011, the Russian parliament made a new attempt, increasing beer duties in three steps over three years from ₽12[26] per litre to ₽18 per litre. This corresponded to a 5 per cent increase in beer retail prices.[27] Such an excise tax increase created operational challenges on multiple levels. First, logistics had to cope with volatile demand: before the deadline of a tax increase, demand surged as consumers stocked up on beer supplies. Yet, demand dropped sharply after the deadline as consumers first drank what they had stored. Second, tax increases shifted the pattern of demand, affecting in particular the cheaper volume segment. Marketing thus had to re-allocate resources to premium segments.[28]

Another law introduced new restrictions on the marketing and selling of alcoholic beverages. Specifically, all TV, radio, and outdoor advertising for beer was banned from July 2012 onwards. Moreover, effective January 2013, the law banned all sales of beer with more than 0.5 per cent alcohol from "non-stationary" outlets, which traditionally played an important role for beer sales in Russia. In 2008, kiosks (stationary and non-stationary) still accounted for about 26 per cent of beer sales, but that share had fallen to about 20 per cent by 2011.[29] These duties and restrictions reduced alcohol consumption (see Exhibit 3), but some argued that due to lobbying by (mostly domestically owned) vodka producers, the rules were unfairly biased against (mostly foreign owned) breweries.[30]

Despite these administrative obstacles, the long-term market outlook remained positive. Notably, Russia joined the World Trade Organization in 2013, and thenceforth was trading on most-favoured-nation status with most other countries around the world. Despite what appeared to be temporary obstacles, Carlsberg remained optimistic, stating in its 2012 annual report: "Our strong Russian brand portfolio, our no. 1 position in every price segment and our strong value chain footprint across the Russian landscape are, and will remain, a significant competitive advantage. We are committed to regaining market share as a trend while at the same time securing the balance between volume and value."[31]

Crimea and Its Consequences

On February 27, 2014, Russian forces occupied and then annexed Crimea, a major island off the coast of Ukraine with the important maritime port of Sevastopol. At the same time, rebels supported by Russia took control of two districts in the Donbas region in the Eastern part of Ukraine. These expansions of Russian military control were viewed by Ukraine as a violation of its sovereignty, and many Western nations introduced trade sanctions on Russia in response. Specifically, the European Union blocked the export of extraction equipment for the oil and natural gas mining industries which was deemed to be close to the Russian government. This resulted in an estimated loss of exports of US$ 1.5 billion per year.[32] Russia responded by blocking the import of all food and agriculture products from the European Union, purportedly due to health concerns. These countersanctions resulted in a drop of Russian imports of estimated US$ 12.6 billion.[33] Beyond trade, foreign direct investment into Russia also declined (see Exhibit 4).

Yet, sanctions were not the only concern for foreign investors in Russia; the entire political and legal infrastructure was becoming more challenging to manage. Under the Putin presidency, "the state began to weaken, reverse, supplant, or ignore laws, regulations, and structural reforms" that had been implemented in the 1990s to promote democracy and the market economy (see Exhibit 2).[34] Thus, as Russia experts Sheila Puffer and her team explained,

> By mid-2018, Russia had evolved into a high-risk proposition for multinational enterprises. Much of that risk stemmed from uncertainty created by the fundamental erosion in the country's formal institutions, as well as Russia's contentious relationship with Western governments that have led to the imposition of severe economic sanctions that have affected both import and exports, as well as inward and outward direct investment.[35]

The political changes after 2014 were reinforced by a weakening economy and hence declining demand for consumer goods. Foreign investors such as Carlsberg faced a worsening political relationship between Russia and the European Union, while the devaluation of the ruble forced Carlsberg to write-down the Russian assets on its balance sheet.[36] The trade sanctions introduced by the European Union did not hit BBH directly, because most of the beer it sold in Russia was brewed in Russia. However, capacity utilization in BBH's Russian breweries dropped to below 60 per cent in 2014, and in 2015 BBH closed two breweries to reduce excess capacity.[37] Every time there was bad news from Russia, Carlsberg's share price took a hit.

In 2017, the brewing industry was hit by another round of tax increases and new regulations, such as restrictions on sales of 1.5-litre bottles. Overall, the beer market shrank by about 40 per cent from 2008 to 2016 (see Exhibit 3). At the same time, Carlsberg lost market share as local competitors with excess capacity put pressure on market prices, and it decided to protect its margin rather than engage in a price war for market share. Carlsberg's competitors AB InBev and Anadolu Efes—number two and number four in the Russian market, respectively—responded to the declining market by merging their operations in 2017. Their joint operation attained a market share of 31 per cent, second to BBH (39 per cent) and ahead of Heineken (15 per cent),[38] and soon overtook Carlsberg as market leader in Russia.[39]

Carlsberg's market share in Russia continued to decline (see Exhibit 5), while the contribution of Russia to Carlsberg's global sales also declined (see Exhibit 6). In view of the declining attractiveness of the Russian market, Carlsberg explored opportunities to sell the business, but it did not find a suitable buyer.[40]

Carlsberg launched new products, notably non-alcoholic beers, to counter the trend. These new products helped during the COVID-19 crisis in 2020 to grow sales in Russia when most other countries were suffering from lockdowns of restaurants and bars.[41] In particular, demand for non-alcoholic beer gained momentum, albeit from a low base. Carlsberg attained 50 per cent market share in this new market segment, though the segment was still small: just 2 per cent of the overall beer market, compared to 8 per cent in Germany and 11 per cent in Spain.[42]

Globally, the concentration of the brewing industry continued, while local players in emerging economies like China gained market share especially in their home market. Thus, the global market shares reported for 2020 showed AB InBev as the brewing industry's lead firm with 25.7 per cent, followed by Heineken (12.2 per cent), Carlsberg (6.1 per cent), China Resources Snow Breweries Ltd. (5.9 per cent), Molson Coors Beverage Company (4.6 per cent), Tsingtao Brewery Co., Ltd. (4.4 per cent), Asahi Breweries, Ltd. (3.3 per cent), and Anadolu Efes (2.0 per cent).[43]

WAR IN UKRAINE, 2022

The year 2022 started with an optimistic forecast: Carlsberg was expecting a global recovery from the COVID-19-induced decline of beer consumption. It was hoping for consumers to resume their social activities, especially in the summer which is usually the peak for beer consumption in Europe. Its primary concern at the time were rising costs in the supply chain due to indirect consequences of the COVID-19 crisis.[44] However, speculations of possible military action by Russia in Eastern Ukraine started impacting Carlsberg's share price, which dropped by 28 per cent from the beginning of the year to March 4.[45]

In 2021, Carlsberg held beer market shares of 27 per cent in Russia, 31 per cent in Ukraine, and 31 per cent in Belarus (see Exhibit 5). In Russia alone, Carlsberg employed 8,400 people in 2021 (down from 9,200 in 2018), 21 per cent of its global workforce. In Ukraine, Carlsberg employed over 1350 people.[46] The Eastern Europe region (which included the states of the former Soviet Union, other than the Baltics) in 2020 accounted for revenues of DKK 10.0 billion, or 17.1 per cent of total revenues. In contrast, at the peak in 2012 the region's contribution had been DKK 20.2 billion, or 30.4 per cent of total revenues (see Exhibit 7). In 2021, Russia alone accounted for only 9.8 per cent of global sales. However, the book value of the Russia operations was still high, a result of the valuation of the Baltika brand during the acquisition in 2008. Thus, Carlsberg's non-current assets in Russia were valued at DKK 19 billion (about 19.1 per cent of total non-current assets) in 2021, down from 61.6 billion (48 per cent) in 2012.[47]

On February 24, 2022, Russian troops invaded Ukraine from multiple directions. On the day of the invasion, Carlsberg's three breweries in Ukraine had to shut down because gas supplies were cut.[48] At headquarters, the executive committee established several working groups to explore, among other challenges, how to secure aluminum supplies traditionally sourced from Russia for beers cans, how to respond if a gas embargo were to lead to a shortage of energy at Carlsberg's plants in Western Europe, how to secure information technology security in view of the heightened threat of cyberattacks, how to handle the legal consequences of possible sanctions, and how to take care of the welfare of employees in both Ukraine and Russia.[49] Meanwhile, unconfirmed rumours suggested that Carlsberg was providing bottles to the Ukrainian resistance to assemble Molotov cocktails.[50]

In the Danish media, Carlsberg came under pressure to reduce its engagement in Russia to demonstrate solidarity with the people of Ukraine. For example, one pub owner gained a great deal of publicity after announcing a boycott of Carlsberg, which had previously supplied 90 per cent of his beverages.[51] Thomas Rohden of the Danish Social-Liberal Party argued, "It is time for Danish companies to decide for themselves on which side they want to be when the history books are written. In this conflict, there is no room for modern 'goulash barons', who want to make money on both sides of Europe's new Iron Curtain."[52]

With the prospect of the European Union and Russia each introducing new sanctions on the other, Carlsberg was concerned that Russia might simply expropriate all its assets in Russia, and continue operating the breweries and using their brands without Carlsberg having any influence over this.[53] The Russian ambassador to Denmark, Vladimir Barbin, wrote a letter to a leading Danish newspaper, explaining:

> The West is . . . putting unseen pressure on its own companies, forcing them to leave the Russian market. Here, Denmark is ahead of all other European countries. . . . Consensus is emerging [in Russia] on establishing external management in companies that cease their activities in Russia. This is a temporary measure dictated by the need to prevent a disruption of production and logistics, to avoid shortages of goods in the Russian market, and to fulfill social and occupational obligations to the employees in these companies. . . . Companies that remain in the Russian market and continue their production activities will receive the necessary support [from the Russian government].[54]

Confiscating Danish assets was one possibility indicated by the ambassador, as was continuing running the companies under Russian leadership. Peter Thagesen, the deputy head of the national confederation of industry, Dansk Industri, described the potential nationalization of Danish companies as a serious threat:

> "We risk that Putin's oligarch pals, who have had their assets frozen, will be given the keys to these companies so they can skim the profits, and some of that will no doubt go to Putin and the war in Ukraine."[55]

Other Western consumer brands, such as Nestlé and Danone, as well as retailers, such as Metro and Auchan Retail, pushed back against pressure to divest, arguing that they were providing basic needs for already deprived people and needed to look after their loyal employees.[56] They considered it unreasonable to penalize employees for the actions of their political leaders, over which they had no influence. Handing control to local agents would place the operation under direct control of the disliked Russian authorities. Another concern was how much operational control foreign owners actually had over the breweries, which were largely operating with local raw materials (such as hops, water, and malt) and did not depend on imported intermediate products (in contrast to, say, machinery or automotive manufacturers). According to Carlsberg's former chief executive officer, Niels Smedegaard Andersen, it would be completely ineffective to ask the Russian Baltika breweries to stop operating. As he put it bluntly, "Baltika does not necessarily stop producing beer because an SMS [text message] arrives from Copenhagen."[57]

In Smedegaard Andersen's opinion, others (such as an oligarch or the Russian authorities) would just take over the breweries and simply continue to produce beer. Besides, a shutdown would also have a high price for regular employees, who would likely face unemployment without pay. The reason was that the local business units would quickly run out of cash when they were not producing, and the sanctions would make it impossible to transfer money from Copenhagen. In the words of Smedegaard Andersen, "All companies that are considering closing down in Russia face a dilemma about their employees because they are quite dependent on having their salaries paid."[58]

Pressure to divest came from Ukrainian politicians and ambassadors abroad, supported by civil society groups across Western Europe. Peter Chernyshow, a Ukrainian businessperson who had been a director of Carlsberg operations in several post-Soviet republics before 2014, articulated the arguments for Carlsberg to leave Russia. Speaking from Lviv to Danish television, he acknowledged that in a fire sale, Carlsberg would not get a good price. However, he argued,

> "I am not saying that they have to stop operations immediately. What I am saying [is] that they have to announce that they put up their Russian operations for sale. And absolutely sure, there are some Chinese or Arab investors who love to buy these operations in Russia. That's what I think they have to do immediately. Right now!"[59]

The Ukrainian ambassador to Denmark, Mykhailo Vydoinyk, also advised Carlsberg to leave Russia as other Western companies had done:

> "I have spoken to Carlsberg and I have said that they should not wait any longer. The Russians still want to nationalize their breweries or freeze them, so Carlsberg can just as well avoid losing face and do the right thing now."[60]

Thomas Bustrup, deputy director of Dansk Industri, counter-argued:

> The ambassador is unreasonable and unvarying, and I do not understand that he argues so fiercely. I do not think it is in his interest to leave [the Carlsberg assets] to the Russians. We want the same thing, because there is no one who wants to finance Putin's war, but it is unreasonable to demand 20 billion kroner worth of assets to be handed over to Putin. In that way, one risks helping Putin's war machine more by leaving the country than by staying. [61]

However, it was unclear what the consequences of a sudden sale of the breweries would be, especially in a market where the most likely buyers would be politically well-connected oligarchs in Russia.

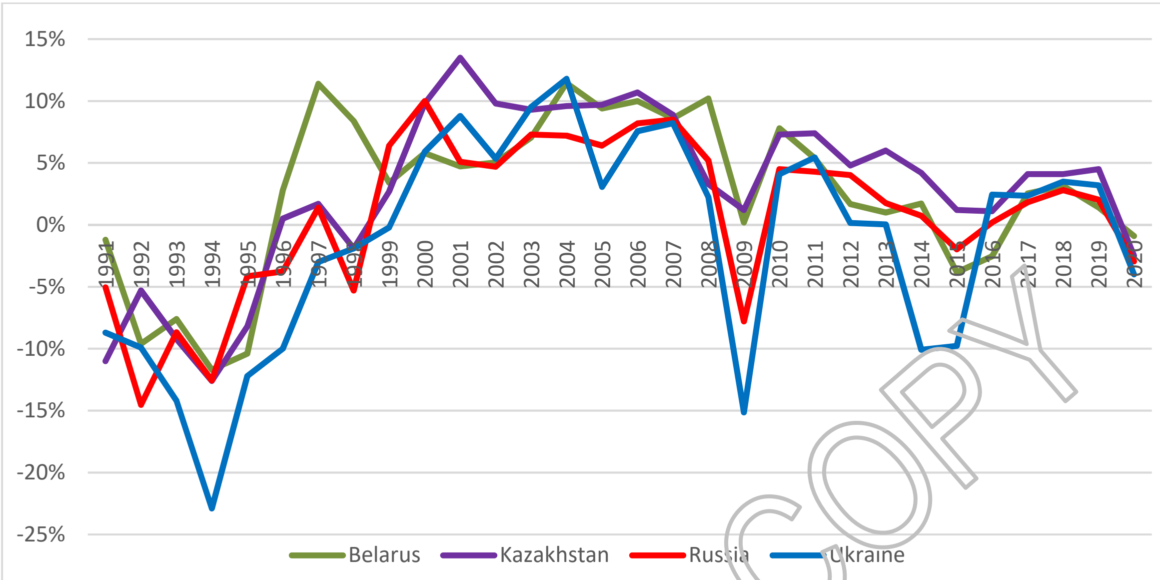
OUTLOOK: HOW AND HOW MUCH TO DISENGAGE

In early March 2022, the Carlsberg executive board (see Exhibit 8) was reviewing the situation. The annual general meeting was scheduled for March 14. By that time, shareholders needed to be given a clear direction. With shifting geopolitics, Carlsberg had to re-evaluate its global strategy.[62] The recent reduction of Russian operations appeared to have reduced the risk exposure, but was now a good time to divest completely? While public opinion in Denmark seemed to favour a complete disengagement, Carlsberg had to consider *how* and *how much* to disengage.

Both financial returns and international reputation were at risk for Carlsberg. Remaining neutral or passive might trigger boycotts of Carlsberg and thus a loss of sales in other European markets. Yet, Carlsberg also had to consider its 8,400 employees in Russia, many of whom had been loyal to the company for many years.[63] Closing the operations and continuing to pay salaries was not a realistic option because EU sanctions prevented the transfer of cash resources, and the local operation could not generate revenues if production was closed.[64]

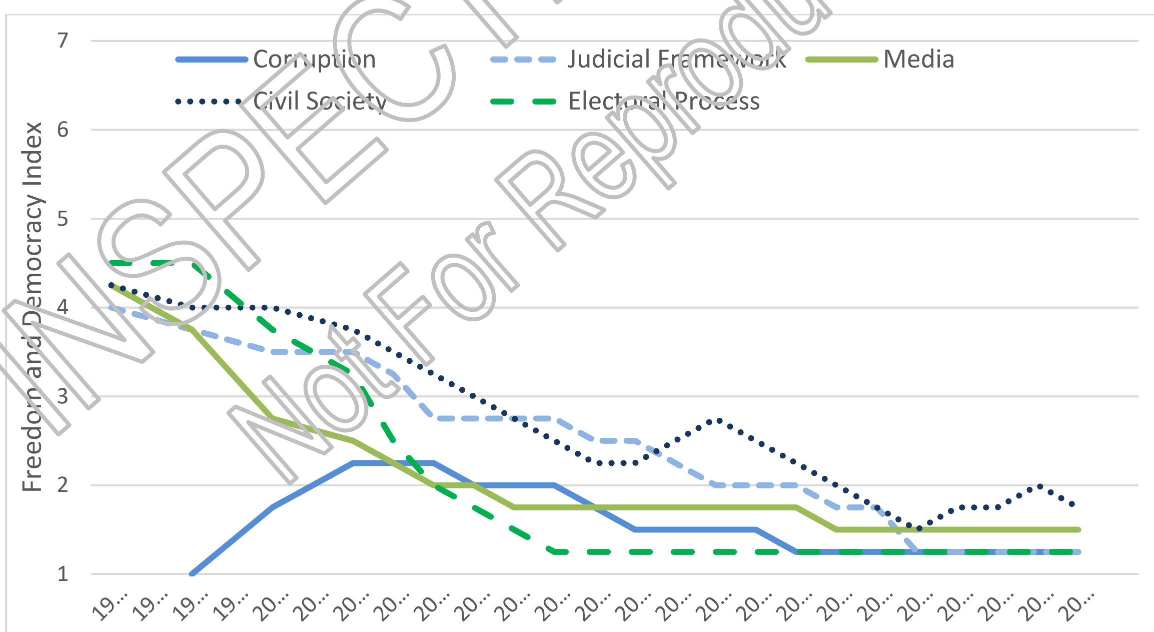
The range of possible actions was wide. Carlsberg could take symbolic actions such as declaring support for Ukraine, making charitable donations, or stopping marketing of its premium brands in Russia. At the other end of the spectrum, Carlsberg might shut down the entire operation or sell it to local or third-country investors, presumably for a price close to zero. Yet, who might be potential buyers for its Russian breweries? Domestic buyers would probably be related to the Putin regime, while foreign buyers would have to come from countries that had not imposed sanctions on Russia—yet, effectively handing over control of the assets to allies of President Putin did not seem right, either. Finally, how should the sales contract be structured: was there anything Carlsberg might put in the sales contract to protect its economic interest or its broader social responsibility agenda?

EXHIBIT 1: GDP GROWTH IN THE FORMER SOVIET UNION SINCE 1990



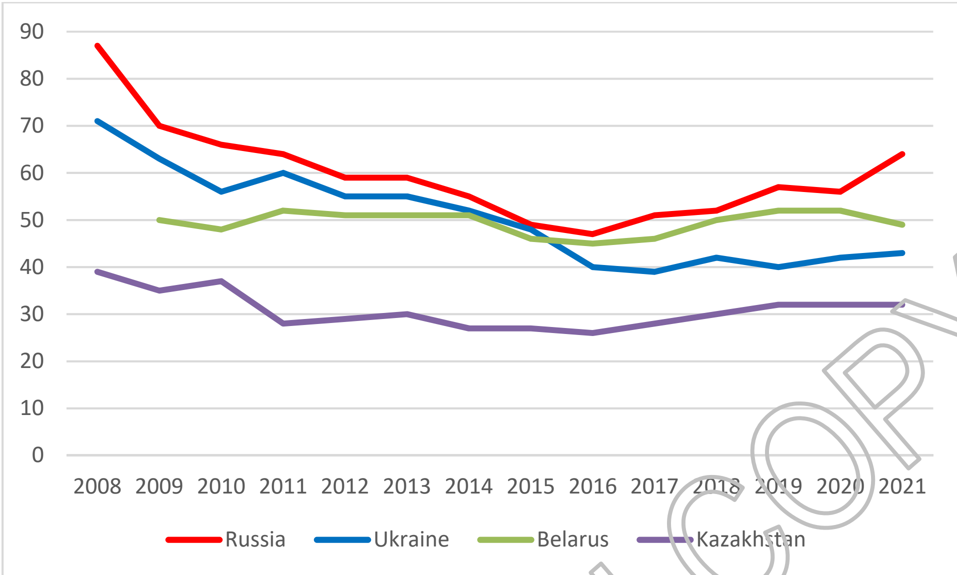
Note: GDP = gross domestic product.
Source: Case authors' calculations using data from "GDP Growth (Annual %) – Russian Federation, Ukraine, Belarus, Kazakhstan," The World Bank, accessed April 24, 2022, https:// data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=RU-UA-BY-KZ.

EXHIBIT 2: RUSSIA INSTITUTIONAL CHANGE AS REFLECTED IN FREEDOM HOUSE INDICES, 1996–2020



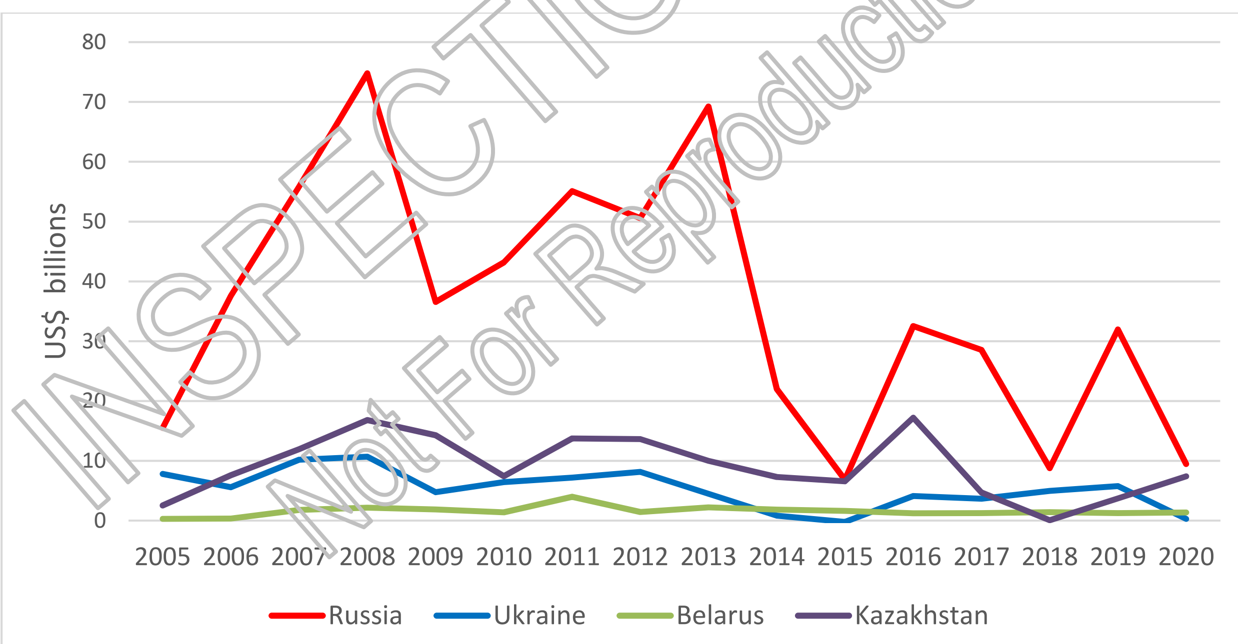
Note: The items are scored 1 to 7, where 1 equals freedom and democracy and 7 equals a consolidated authoritarian regime. Data for 1997, 1999, and 2001 are interpolated.
Source: Case authors' calculations using data "Worldwide Governance Indicators," subset Freedom House indices, The World Bank, accessed April 24, 2022, http://info.worldbank.org/governance/wgi/Home/Reports.

EXHIBIT 3: PER CAPITA BEER CONSUMPTION IN FORMER SOVIET UNION COUNTRIES (IN LITRES)



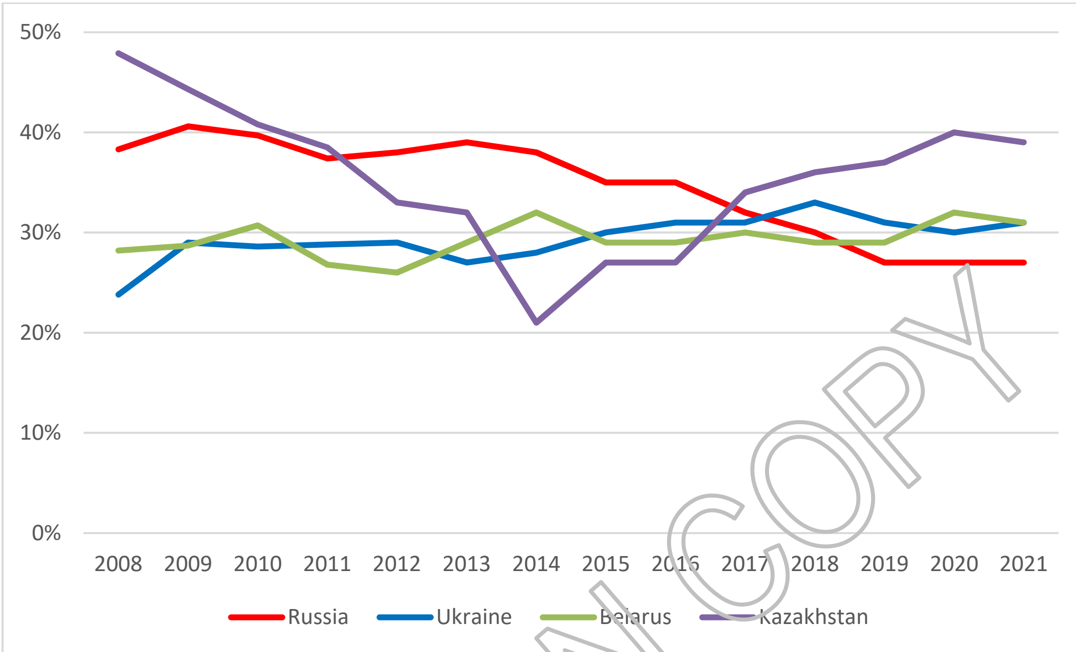
Source: Case authors' calculation using data from Carlsberg Group, Annual Report, 2008–2021, available at "Report Listing," Carlsberg Group, https://www.carlsberggroup.com/reports-downloads/.

EXHIBIT 4: RUSSIA FOREIGN DIRECT INVESTMENT INFLOW, 2005–2020



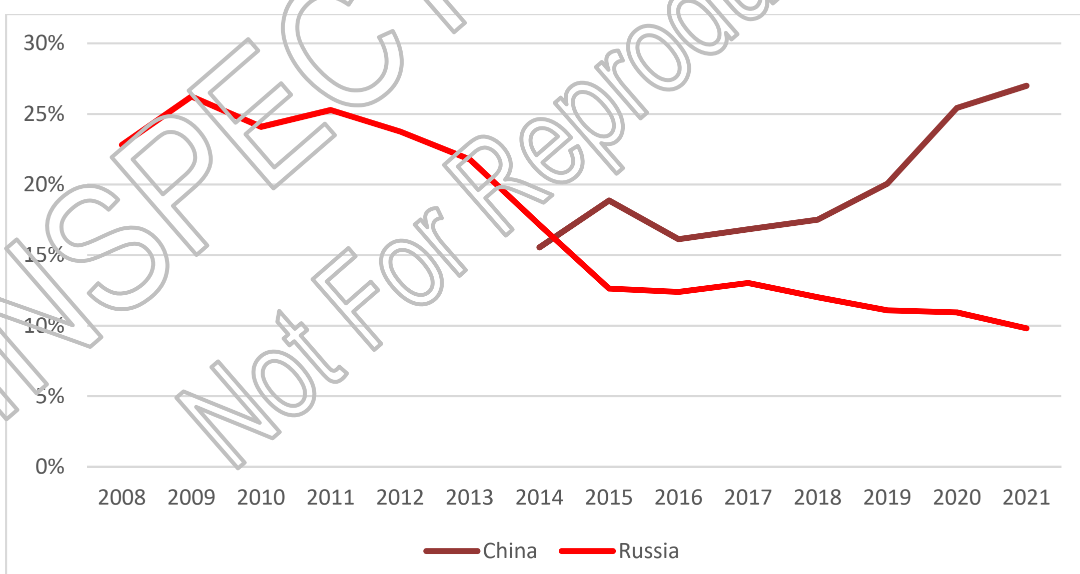
Source: Case authors' calculations based on data from "World Bank Open Data," The World Bank, accessed April 8, 2022, data.worldbank.org.

EXHIBIT 5: CARLSBERG BREWERIES MARKET SHARE IN SELECTED COUNTRIES



Source: Case authors' calculation using data from Carlsberg Group, Annual Report, 2008–2021, available at "Report Listing," Carlsberg Group, https://www.carlsberggroup.com/reports-downloads/.

EXHIBIT 6: SHARE OF RUSSIA (AND CHINA) IN CARLSBERG BREWERIES GLOBAL SALES



Source: Case authors' calculation using data from Carlsberg Group, Annual Report, 2008–2021, available at "Report Listing," Carlsberg Group, https://www.carlsberggroup.com/reports-downloads/.

EXHIBIT 7: CARLSBERG BREWERIES KEY FINANCIALS (IN DKK)

DKK million	**2009**	**2012**	**2015**	**2018**	**2021**
Net revenue	59,382	66,468	65,354	62,503	66,634
Gross profit	29,185	32,637	31,925	31,220	31,327
EBITDA	n/a	13,812	13,213	13,420	15,474
Operating profit before special items	9,390	9,793	8,457	9,329	10,862
Special items, net	−695	85	−8,659	−88	−253
Financial items, net	−2,990	−1,772	−1,531	−722	−381
Income tax	−1,538	−1,861	−849	−2,386	−2,219
Consolidated profit	4,167	6,245	−2,582	6,133	8,009
Regional performance					
Western Europe: Net revenue	36,434	37,727	38,811	36,151	31,547 [a]
Western Europe: Operating margin (%)	11.6%	13.6%	13.7%	15.0%	15.8% [a]
Eastern Europe: Net revenue	18,543	20,236	10,890	10,780	10,010 [a]
Eastern Europe: Operating margin (%)	28.5%	21.3%	17.5%	20.6%	19.2% [a]
Asia: Net revenue	4,224	9,114	15,339	15,530	19,459
Asia: Operating margin (%)	15.8%	18.5%	18.2%	20.4%	24.5%

Note: DKK = Danish krone. EBITDA = earnings before interest, taxes, depreciation, and amortization. (a) = Data refers to the year 2020; due to a change in accounting practices, regional segment data in the company's 2021 annual report are not comparable to earlier years.

Source: Case authors' calculations using data from Carlsberg Group, *Annual Report*, 2009, 2012, 2015, 2018, 2020, and 2021, available at "Report Listing," Carlsberg Group, https://www.carlsberggroup.com/reports-downloads/.

EXHIBIT 8: CARLSBERG BREWERIES EXECUTIVE COMMITTEE AND SUPERVISORY BOARD

Carlsberg Executive Committee

Cees t'Hart Chief Executive Officer Dutch	**Søren Brinck** EVP, Strategy and Digital Danish	**Joris Huijsmans** Chief Human Resources Officer Dutch
Heine Dalsgaard Chief Financial Officer Danish	**Leo Evers** EVP, Asia Dutch	**Lars Lehman** EVP, Central and Eastern Europe Danish
João Abecasis Chief Commercial Officer Portuguese	**Graham Fewkes** EVP, Western Europe British	**Victor Shevtsov** EVP, Supply Chain Russian

Carlsberg Supervisory Board Members

Flemming Besenbacher Chair Professor of Nanoscience and Physics Representing Carlsberg Foundation Danish (announced retirement at AGM)	**Henrik Poulsen** Deputy Chair Independent Director Danish (proposed as new chair at AGM)	**Hans Anderson** Employee Representative Danish
Majken Schultz Professor of Management and Organization Studies Danish Representing Carlsberg Foundation (proposed as new deputy chair at AGM)	**Magdi Batato** Independent Director Swiss EVP, Nestlé SA	**Eva Vilstrup Decker** Employee Representative Danish
Carl Bache Professor of Language and Communication Danish Representing Carlsberg Foundation	**Lilian Fossum Biner** Independent Director Swedish Multiple Non-Exec Directorships	**Finn Lok** Employee Representative Danish
Søren-Peter Olesen Professor of Molecular Cardiology Danish Representing Carlsberg Foundation	**Richard Burrows** Independent Director Irish Chair of the Board, Pepco Group NV	**Erik Lund** Employee Representative Danish
Lars Stemmerik Professor of Geology Danish Representing Carlsberg Foundation	**Lars Fruergaard Jorgensen** Independent Director Danish Chief Executive Officer, Novo Nordisk A/S	**Peter Pedersen** Employee Representative Danish

Note: The Carlsberg Foundation controls the majority of votes at the annual general meeting. EVP = executive vice-president; AGM = annual general meeting.
Source: Carlsberg Group, *Annual Report 2021*, February 4, 2022, https://www.carlsberggroup.com/media/48855/carlsberg-goup-annual-report-2021.pdf.

ENDNOTES

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