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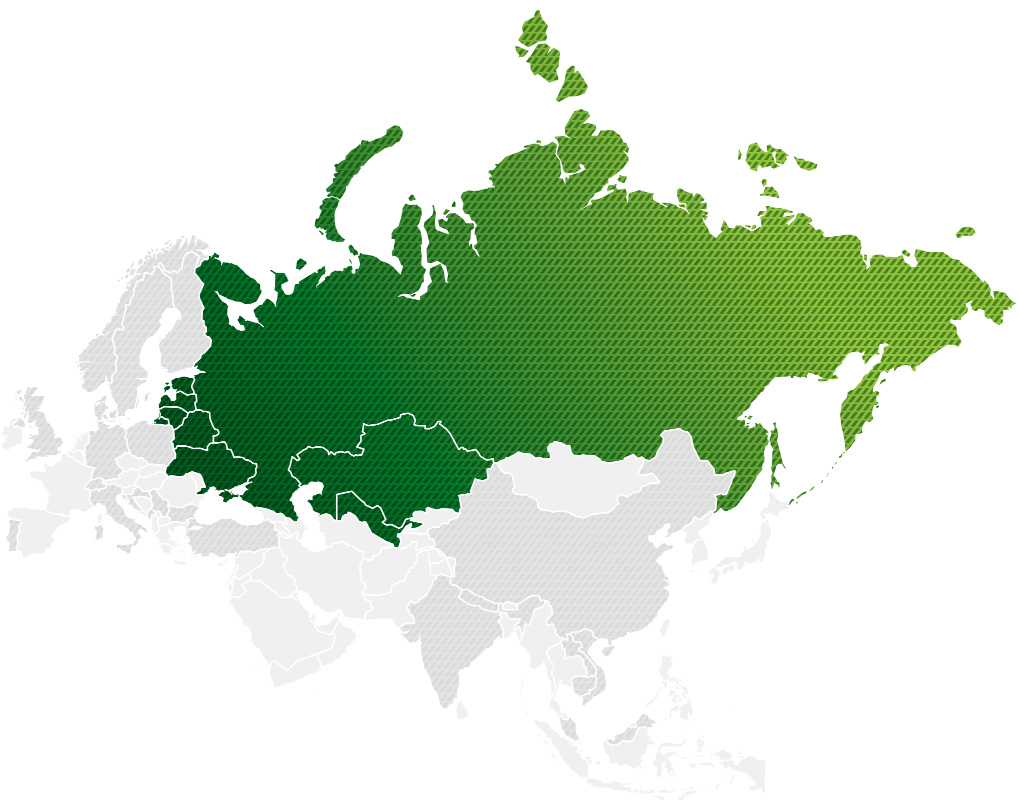


**Baltic Beverages Holding**
Russia, the Ukraine, Estonia, Latvia, Lithuania, Kazakhstan, Uzbekistan, Belarus.

## BALTIC BEVERAGES HOLDING

Baltic Beverages Holding (BBH) covers the growth markets of Russia and the Ukraine, the relatively mature markets of the Baltic States, and the emerging beer markets of Kazakhstan, Uzbekistan and Belarus. Several of these countries are expected to be among the world's fastest-growing beer markets in the coming years.

BBH has been the Group's most important growth engine for a number of years. Following consistently strong growth in recent years, BBH now accounts for 23% of Carlsberg's revenue and approx. 40% of its operating profit.

Russia is, and will remain, the largest and most important market for BBH, responsible for 79% of sales volumes and 86% of operating profit. A determined effort is currently being made – and will continue to be made in the years ahead – to ensure that other countries in the region come to play a more important role in BBH.

The management structure in BBH has been designed to promote close collaboration between the shareholders and the individual BBH markets. BBH's shareholders have extensive expertise from both mature and immature markets, and the management structure means that strong local management teams work closely with the shareholders to draw on their experience and know-how in a wide range of specialist areas, including production, logistics, sales channels, optimisation of the product range, sales, marketing and administration. Management development will also be on the agenda in the BBH countries in the coming years. This will take place in close collaboration with Carlsberg, which has worked strategically on management development and has a number of programmes which are being taken into use, in modified form, in BBH.

The overall strategy of BBH focuses on growth in both volumes and value, based on solid market positions and strong beer brands in the existing markets. The strategy also entails adding new products and new markets. Investment levels are high, as a conscious effort is being made to invest ahead of market developments.

In Russia in particular, the focus is gradually shifting away from growth in volumes and production capacity in favour of value, modern sales and marketing tools, innovation and development, new sales channels and distribution. In the Baltic States, BBH has successfully pursued a strategy covering a total beverage portfolio in recent years – in other words, a product range which includes not only beers but also soft drinks, mineral water, energy drinks, cider and so on. As beer markets mature, consumption patterns evolve, and marketing and advertising methods must change. This evolutionary process is reflected in growing demand for beers in the premium segment and foreign beers produced under licence. The Carlsberg Group's premium brands have an important role to play here, and the Tuborg brand is now by far the most important international premium brand in BBH's portfolio (11% of revenue), followed by the Carlsberg brand (2% of revenue).

In the Ukraine, a number of steps have been taken to generate faster growth and strengthen BBH's position in the mainstream segment alongside an already strong position in the premium segment. The results have been positive, and investment is now being made in additional production capacity. Besides the Carlsberg and Tuborg brands, Holsten has also been introduced in the Ukraine.

In the other markets in the region, the strategy is to generate volume growth, but also with the aim of developing the beer market. To begin with, this entails targeted work to strengthen local brands in the mainstream segment. Later on it means expanding the premium and licence segments in order to generate value growth and maximise overall earnings.

Growth in BBH is dependent on significant investments. An aggressive investment strategy has been pursued over the years, putting BBH in a favourable position and allowing it to meet the constant growth in demand. The strategy will remain the same in the coming years, ensuring that BBH continues to lead the way in developing the market. Investments will therefore be made not only in production capacity, infrastructure and logistics but also in building strong beer brands with the help of innovation, product development and advertising.

# The overall strategy of BBH focuses on growth in both volumes and value, based on solid market positions and strong beer brands.

### Development in 2007

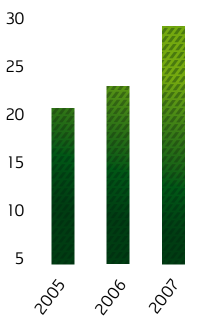
The Russian market experienced an extraordinarily positive development in the first half of the year, with growth of 23%. As expected, growth in the last two quarters was more moderate, at 9% and 10% respectively, giving a full-year figure for market growth of 16%. Innovation and the introduction of new products played an important role in the continued substitution of spirits with beer and, in combination with price increases, this helped to ensure higher average selling prices.

The other BBH markets also showed a generally positive trend, with total market growing 19% in the Ukraine, 15% in Kazakhstan and 1% in the Baltic States.

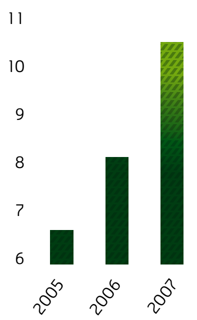
In the light of these market conditions, total sales of beer in BBH rose by 22%, with a pro-rata increase of 25% to 29.1m hl as a result of continued high growth, particularly for the Tuborg brand (+70%) to 3.4m hl.

Net revenue climbed 31% to DKK 10,435m (DKK 7,953m in 2006), with this increase resulting from an improved price/mix contribution of approx. 11% and exchange rate movements of approx. -3%. Despite a strong increase in the level of activity, higher raw material and distribution prices meant that costs developed in parallel with revenue, resulting in operating profit of DKK 2,338m (DKK 1,804m in 2006), an increase of 30%. The operating margin was 22.4% (22.7% in 2006).

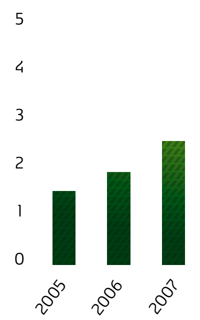
**Beer sales (pro rata)**
(Million hl)



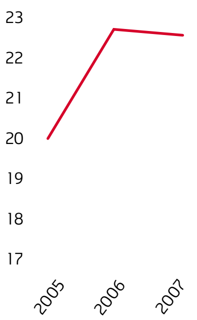

**Revenue**
(DKKbn)




**Operating profit before special items**
(DKKbn)




**Operating margin**
(%)



## Innovation, relaunch and beer festivals

### DLIGHT in the Baltic States

BBH's breweries in the three Baltic States – Estonia, Latvia and Lithuania – were brought together under the BBH Baltic umbrella in 2004 to meet the need for greater integration of these three relatively small markets and so achieve a number of synergies right along the value chain from procurement through production to sales and marketing. BBH Baltic also serves as a centre of excellence for strategic development, innovation, management development and more.

When BBH Baltic was created, Carlsberg was the only beer brand that was sold in all three countries. This situation has changed significantly: in 2007 BBH Baltic marketed and sold nine brands in all three Baltic States. One of them is the new DLIGHT.

DLIGHT was developed for the interesting consumer segment of young people not looking for traditional beers. DLIGHT is a light beer in the premium segment which comes in a range of flavours and has been positioned as a premium lifestyle beer for young people. DLIGHT has been a hit with consumers and won an impressive – and higher than budgeted – share of the market in its first year.

### Relaunch of Irbis in Kazakhstan

In 2004 the Irbis brand from the brewery of the same name was a mainstream beer with unsatisfactory earnings. The Irbis team decided to change this, and make it the highest-priced local premium beer in Kazakhstan and associate it with national pride. In fact, Irbis is also the name of the rare snow leopard which inhabits the mountains of Kazakhstan and is a national symbol.

The relaunch of Irbis began in 2004 and included new bottles and new, experimental marketing. The latter was partly due to the highly restrictive rules on beer advertising in Kazakhstan. By 2007 Irbis was the strongest beer brand in its segment and growing at five times the market average, making it the fastest-growing beer brand in its segment as well as the biggest.

### Beer festivals in Russia

What do you do when the cost of TV advertising has risen by 1,500% in the last eight years, when highly restrictive rules on beer advertising have been introduced, and when 75 commercials an hour are broadcast during the prime time for beer advertising? BBH's Russian brewery Baltika decided to reach out to consumers directly by holding a series of massive beer festivals – and with great success.

In 2007 Baltika organised 20 of these beer festivals in 16 cities, from Moscow in the west to Vladivostok in the east. All of Baltika's key brands – 15 in all – had exposure at these festivals. Each brand had its own area with activities tailored to that particular beer's image and target group. For example, there was a GreenFest area for Tuborg, a football pitch for Carlsberg, beach volleyball for Tuborg Twist, a jazz festival area for Nevskoye, and a disco with disc jockey for Baltika Cooler. Some 615,000 people attended the festivals in 2007, and 650,000 litres of beer were sold.

See also: www.carlsberggroup.com/ar

## Russia

In 2007 BBH further strengthened its position in Russia, realising a market share of 37.6% (36.4% in 2006) for the year as a whole. This development was driven by a strong trend for the Baltika brand, particularly Baltika Cooler, and for the Tuborg brand in the premium segment. Tuborg and Carlsberg are now number 2 and 9 respectively on the list of BBH's biggest brands in terms of value, and are an important element in BBH's current and future success.

## The Baltic States and Ukraine

The positive trend in the Baltic States continued, with market share increasing to 45.2% (44.9% in 2006). The continuing success of the product strategy, with ongoing innovations within both beer and other beverages, made a positive contribution to the trend, and strong growth in other beverages compensated for stagnation in the beer markets in Estonia and Lithuania. Work on the long-term turnaround continued in Ukraine, with the Slavutich and Tuborg brands in particular showing a positive development. Market share increased by 2.3 percentage points to 20.6%.