

# Focus on **value creation** and profitable growth is central to Carlsberg's strategy

## GROWTH AND VALUE CREATION

Carlsberg's core business is brewing, marketing and selling beer.

However, it is also part of the Group's strategy to develop, produce and market other beverages such as soft drinks, cider, energy drinks and health drinks which can make a positive contribution to the business. This is coupled with a focused and well-defined innovation process intended both to deliver groundbreaking new products and to develop and improve the existing product range.

Carlsberg should be at the forefront of spotting and utilising new trends and opportunities in the outside world, and doing so better than our competitors. The keywords for the way that Carlsberg should work are efficiency and speed.

### Carlsberg's regions

Carlsberg's activities are focused on the markets where the Group has the expertise and the right products to secure a leading position. The business portfolio therefore consists of brewery activities in three geographical regions: Western Europe, Eastern Europe and Asia.

The beer markets in these regions vary widely, from the very mature markets of Western Europe to the emerging beer markets of Eastern Europe and Asia. There are big differences in growth rates, consumption per capita and the types of beer consumed, as well as whether beer is enjoyed at home or in restaurants, bars, cafés etc. Consequently, the regions' contributions to growth, earnings and development opportunities in the Group differ a lot, both now and in the longer term.

Western Europe is a particularly important asset in the business portfolio. Here, the priorities are value rather than volume and a constant focus on efficiency improvements in order to sustain a stable cash flow. The agenda is to stimulate enjoyment, partly by developing and marketing new products, including both beers and other beverages.

The priority in Eastern Europe is rapid, profitable growth both now and in the coming years.

In BBH, the most important challenge by far is still to exploit the immense growth potential to be found in the Russian market and a number of the other markets in the region. One important task is to strike the best possible balance between value growth and volume growth. This will mean, on the one hand, strengthening brand loyalty and sales of more expensive beers, and, on the other hand, supplying competitive and attractively priced beers which can capture customers and revenue from other beverages, in particular spirits.

Another goal is to develop the Asian business so that this region can take over as growth engine when the growth curve in Eastern Europe eventually levels off. In the less mature markets of Eastern Europe and the emerging markets of Asia, our efforts in the coming years will be largely concentrated on generating growth that is balanced between volume and value.

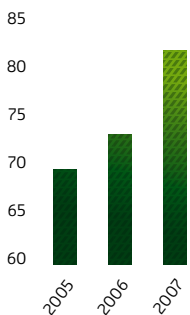
In countries where Carlsberg has no breweries, the Carlsberg Group sells its products through exports and licensing agreements. Carlsberg aims to establish and develop strong market positions for the international premium brands Carlsberg, Tuborg and Holsten through dynamic partnerships with licensing, export and duty-free partners around the world. Besides these well-known international premium brands, there is also a focus on sustaining the



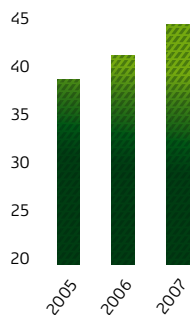
Carlsberg is closely associated with football at all levels. 2008 will be a big year for football in Europe, with the European Championship kicking off in Austria and Switzerland on Saturday 7 June. With Carlsberg as a main sponsor and the official beer of the championship, the tournament offers enormous potential on all markets worldwide.

Carlsberg's activities are concentrated on the markets where the Group has the expertise and the right products to secure a leading position.

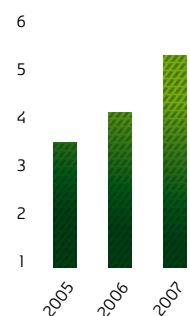
**Beer sales (pro rata)**  
(Million hl)



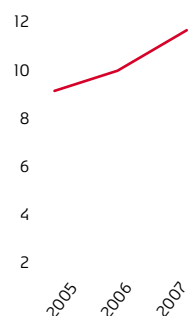
**Revenue**  
(DKKbn)



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



**Operating margin**  
(%)



particularly strong growth in exports of the alcohol-free beer brands Moussy and Holsten Non Alcoholic to the Arab countries, where these brands command market-leading positions.

#### Strategic initiatives

Value creation and profitable growth play a key role in Carlsberg's strategy. These objectives are to be achieved by a number of means, some offensive and some more defensive.

Recent years have brought a growing focus on offensive initiatives to increase revenue and generate growth, but activities and target areas vary from region to region and from market to market.

To realise this growth strategy, it will be essential to be in a position to respond quickly and effectively to new consumer trends. First and foremost, this will require a more systematic and targeted approach to innovation. As well as developing the product range locally, efforts will increasingly be concentrated on larger international launches.

Carlsberg will sharpen its focus not only on developing and launching new products but also on enhancements and innovations for existing products such as new flavours or new types of packaging in response to growing sales from convenience stores. In recent years, Carlsberg has developed and marketed a number of new products and initiatives globally in both beer and other beverages, and this work will be intensified in the future.

Sales and marketing will also be refined further in the years ahead. Sophisticated methods and intelligent tools have been developed and taken into use for analysing consumer behaviour with a view to improving product placement and sales in supermarkets, convenience stores, restaurants, cafés, bars and so on. We will also make more use of new media as a platform for advertising campaigns. For example, online commercials have already been used with great success as part of a more advanced approach to sales and marketing at Carlsberg.

The defensive part of the strategy centres on constantly adjusting and optimising Carlsberg's cost base, including the brewery structure, in all markets. In Western Europe, Carlsberg has implemented a number of Excellence programmes in recent years which have covered systematic streamlining of processes and procedures in areas such as production, procurement, administration and logistics.

The execution of these programmes has resulted in a wealth of experience which is now being used, in modified form, in the less mature markets so that the cost base can be optimised here also.

As a natural extension of the Excellence programmes, standardisation is the next phase in Carlsberg's ongoing work to increase the efficiency

of all parts of its business. One future area will be central procurement at Group level, to ensure the most favourable terms. The aim is to strike the best possible balance between, on the one hand, centrally defined ways of running the business regardless of national and departmental boundaries, and, on the other, respect and consideration for local markets, customers and consumption patterns.

This standardisation process will take a number of years. The first phase involves identifying and mapping the many operational and administrative processes in the Carlsberg Group with a view to designing and optimising uniform procedures and IT systems across the Group's companies. As with previous projects, the standardisation project will be rolled out first in the mature European markets and subsequently in the Group's other markets. Besides creating immediate synergies by reducing the complexity of the Group, standardisation will result in greater transparency across the Company, which will provide for new opportunities to optimise working methods and processes.

**Real estate**

As part of the ongoing optimisation of its brewery structure, Carlsberg has closed a number of breweries in recent years. The continued streamlining of the Group means that further brewery closures, and hence vacant brewery sites, can be anticipated. Carlsberg's goal is to maximise the value of such sites.

**Carlsberg and its employees**

Realising Carlsberg's ambitious commercial goals will ask a great deal of employees across the business, regardless of the differences between the three regions in the business portfolio. The Group

is therefore striving to enhance the skills of managers and other employees, and to develop a strong culture which pulls the Company together across national borders and functions, and promotes commitment in people's everyday work.

Currently, there is particular focus on the following areas:

- Further developing managers' skills
- Further strengthening employees' commitment and skills with a view to developing a strong winning culture
- Involving employees more in decision-making processes
- Attracting the right employees to every part of the business
- Developing a pay and incentive structure which motivates and reflects the individual's contribution
- Tailoring the organisational structure to commercial priorities
- Greater internationalisation

Continuous development of the Group's employees is an important part of everyday life at Carlsberg. This ongoing work is supplemented with a number of programmes spanning not only management development but also talent development, internal academies for production, procurement and marketing, and personal development programmes for both managers and other employees at various levels of the organisation.

All programmes are put together on the basis of the Group's need to increase the level of competence and strengthen the corporate culture, and with a view to aligning the individual employee's ambitions and capability for personal and professional development. The overall goal is for the organisation to be able to meet constantly changing commercial challenges.

	Western Europe	BBH and the rest of Eastern Europe	Asia
<b>Strategy</b>	Improved profitability through innovation and streamlining	Rapid growth and higher earnings	Long-term growth through building up market positions
<b>Group focus</b>	<ul style="list-style-type: none"> <li>• Innovation</li> <li>• Marketing and brand-building</li> <li>• Continuous streamlining</li> <li>• Corporate culture and management development</li> </ul>		
<b>Regional focus</b>	<ul style="list-style-type: none"> <li>• Maintaining and developing market positions</li> <li>• Marketing</li> <li>• Innovation</li> <li>• Focus on value</li> <li>• Streamlining at every level</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening and developing market positions</li> <li>• Increased focus on premium segment</li> <li>• Investment</li> <li>• Optimisation</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening the product range</li> <li>• Improving sales work</li> <li>• Strengthening existing market positions through organic growth</li> <li>• Establishing new market positions through acquisitions</li> </ul>

Carlsberg's goal is to develop its market position in Asia, so that the region can take over as growth engine when the growth curve in Eastern Europe eventually levels off.



## Streamlining and offensive marketing initiatives



### Accounting centre in Poland

In April 2006 Carlsberg announced that it was to establish an Accounting Shared Service Center in Poznan in Poland to provide bookkeeping and accounting services for companies in the Carlsberg Group. Parts of the bookkeeping and accounting function of Carlsberg's Polish subsidiary were transferred to the new centre in 2006, and in 2007 parts of the bookkeeping and accounting functions in Germany, Switzerland and the UK followed suit. Sweden and Denmark will be transferred in the first quarter of 2008, with Norway to follow in the second quarter.

The centre has been located in Poznan because cost levels there are lower than in Western Europe. The city also has a flourishing university, and so the potential workforce is well qualified and has good language skills. Having a centralised accounting function in Poland is a natural extension of the Carlsberg Group's ongoing effort to adjust its cost structure. Bringing together overlapping administrative functions from different countries also makes it easier to harmonise and standardise processes across national borders and to develop joint IT solutions.

### Commercial developed for YouTube™

On 15 January 2008 Carlsberg Denmark launched a new sports drink. Almost a week before the official launch, the commercial, which formed part of a massive campaign to launch the new sports drink, was released on YouTube™. The commercial runs for 38 seconds and was deliberately shot in a single take and with a hand-held camera to give it a more authentic YouTube™ look. A video clip like this is known as a viral. The viral universe is about finding and seeing something you have never seen

before. A good thing about virals is that they create a positive expectation about an upcoming product. Friends forward the clip to one another – it is not something they are forced to watch on television.

Releasing the clip on YouTube™ a week before the commercial was broadcast on TV was therefore a very deliberate strategy, as a viral loses its impact once it has been shown on TV. During its first five days on YouTube™ the viral was viewed by more than 43,000 people – without any further effort by Carlsberg.

### Virtual shopping – revolutionising the analysis of consumer behaviour

70-80% of purchasing decisions are made not back home at the kitchen table when drawing up our shopping lists but in the supermarket as we shop. It is therefore crucial to catch consumers' attention while they are in the store – and this presents a considerable challenge. Over the years, Carlsberg has used a variety of methods to build up considerable expertise in when people drink beer, on what occasions, which beers they buy, and where they buy them. However, real insight into how consumers behave can only be achieved by analysing actual behaviour in the store when purchases are being made. Over the last couple of years Carlsberg has therefore developed sophisticated software which makes it possible to send consumers out shopping in cyberspace, allowing Carlsberg to collect detailed information and acquire knowledge of behaviour, purchasing decisions, the impact of in-store advertising materials, and so on.



See also: [www.carlsberggroup.com/ar](http://www.carlsberggroup.com/ar)

## Carlsberg and society

Carlsberg's responsibilities to society and its stakeholders are an integral part of its business strategy. Responsibility is one of the Group's core values, and we work from a conviction that responsible business reduces risks, increases efficiency and contributes to a good reputation, which enhances value creation in the longer term.

At Carlsberg, responsible business spans areas such as the environment, health and safety, marketing, labour standards and human rights. The Group's approach has been translated into various policies and guidelines. These guidelines apply globally and can be found on the Group's website.

Carlsberg's management strategy has a local focus, which means that account can be taken of cultural differences and local customs when policies for responsible business are put into practice. For a global player, local adaptation is important to ensure that the spirit of Carlsberg's policies is reflected in concrete management behaviour.

The Carlsberg Group recognises the environmental responsibilities that go with its leading global position, and takes account of environmental issues in both the continued development of its existing activities and the establishment of new ones. Every second year Carlsberg publishes an Environmental Report with detailed information on the business's overall environmental impact. The most recent Environmental Report was published in 2007 and can be found on the Group's website along with previous reports.

## Financial goals

Carlsberg's ambition is sustained value creation. This is to be achieved through continuous positive development and strengthening of the business to ensure continued growth in earnings and profitability.

Against this background Carlsberg has set financial goals for earnings growth in Western Europe. This segment accounts for approx. 47% of operating profit from beverage activities (before unallocated expenses). The target published for Western Europe at the beginning of 2007 was to raise the operating margin to 10-12%. The results for 2007 show a continuation of recent years' marked improvement in the operating margin, which climbed from 7.7% in 2005 to 10% in 2007, an increase of 2.3 percentage points.

Carlsberg's activities in emerging markets – especially in Asia – are important for the future growth and development of the Group's business. Short-term earnings are therefore less of a priority in these markets.

Carlsberg aims to have an efficient capital structure. Carlsberg has been awarded investment-grade ratings by Moody's Investor Service and Fitch Ratings, and the Group aims to maintain healthy earnings and balance sheet ratios so that the criteria for these ratings continue to be met.