

Trends in the global beer markets

THE GLOBAL BEER INDUSTRY

Brewing has historically been a local industry with only a few companies having a substantial international presence. However, the last couple of decades have seen increasing consolidation within the industry, a development which initially took off in Western Europe and North America. More recently, the consolidation began to include brewing companies in the growth markets of Eastern Europe, Asia and Latin America.

The global consolidation process has accelerated in the past ten years. The top 10 brewers accounted for 34% of the global beer market in 1998. In 2008, this figure had grown to 59%.

In 2008, two major acquisitions took place in the global brewing industry:

- The acquisition of Scottish & Newcastle by Carlsberg and Heineken
- The acquisition of Anheuser-Busch by InBev

Following the acquisitions this year, Carlsberg is the fourth largest brewer in the world with an approximate world market share of 5%.

ON-TRADE AND OFF-TRADE

Beer consumption is described as being split between on-trade and off-trade consumption. On-trade refers to beer purchased in a bar or restaurant. Off-trade refers to beer purchased at a retail outlet. The relative importance of the on-trade or off-trade segments varies from country to country.

The dynamics of beer consumption vary significantly across the world. In mature Western European markets volumes are broadly stable or declining modestly. In contrast, less mature or emerging beer markets in Asia and Eastern Europe are growing, with some countries even showing quite rapid growth rates.

Volume drivers and trends

Global beer volumes are primarily being driven by growing disposable income, improvements in the quality of beer, marketing and advertising activities, and a steadily growing beer-consuming population base.

An ongoing trend evident in emerging and growth markets is the substitution of beer in place of traditional, local spirits. This trend is driven by rising incomes and increasing responsiveness towards brands and marketing. In addition, demographic shifts towards urbanisation and increasing westernisation of tastes among younger generations have supported the shift towards beer. In mature markets, consumption rates vary based on product differentiation, and marketing and promotional activities.

Beer consumption is also affected by a range of other factors, including seasonality, weather, demographics, tax and duties, perceived health effects, responsible-use programmes, rules and regulations and the consumption of substitute products.

Consumption patterns

There are clear differences across markets in the types of beer consumed depending upon, among other things, the historical brewing traditions within a given country and the market's maturity level. In most markets, there are one or more mainstream lager brands as well as discount brands at the lower end of the market. At the higher end of the market, there are premium brands, super-premium brands and imported brands.

Because beer is often consumed in a social setting, brand image is very important. Marketing plays a major role in creating and reinforcing a brand's image and typically becomes increasingly important in highly differentiated markets. Domestic and regional brands can establish a strong base while the premium brand category becomes popular as consumers look for a better image or new tastes.

NORTHERN & WESTERN EUROPE



Northern & Western Europe comprises mature markets as well as less mature markets in the eastern part of the region.

EASTERN EUROPE



Eastern Europe covers the growth markets of Russia and the Ukraine and a number of emerging beer markets.

ASIA



Asia comprises old, mature Carlsberg markets and new emerging beer markets in China, Vietnam and India, amongst others.

Carlsberg is the second largest brewer in the region with market leader positions in a large number of countries and significant market positions in other countries.

The region comprises mature markets like the Nordic countries, the United Kingdom, France, Germany, Switzerland and Italy, where growth rates are expected to be flat or slightly declining. The region also comprises markets like Poland, the Baltic States and countries on the Balkan Peninsula, where long-term beer consumption is still expected to grow.

Volumes are generally supported by a well-established retail structure, a strong tradition of beer consumption in most of the region and consumers who are receptive to innovation.

The competitive landscape varies from country to country. For example, in the Nordic region Carlsberg competes mainly with local players and local beer brands, while in the United Kingdom and France Carlsberg is up against large international brewers and international brands.

The Eastern Europe region covers the growth markets of Russia and the Ukraine and the emerging beer markets of Kazakhstan, Uzbekistan, Belarus and Azerbaijan.

Carlsberg's Russian brewery, Baltika, is a strong market leader in Russia, and in the Ukraine Carlsberg holds a no. 3 position. In both countries, the competition primarily comes from international brewers.

The beer markets in this region are still expected to show positive growth rates as an average trend in the coming years.

The region is characterised by a long tradition of alcohol consumption, strong domestic brands, rapidly modernising distribution systems and increasing disposable income. The emergence of an aspirational middle class looking to differentiate itself from prior generations that consumed low-quality, high-alcohol-content spirits has also had a positive effect on beer consumption, not least in the premium and licensed segments.

Carlsberg's activities in Asia comprise the mature markets in Malaysia, Hong Kong and Singapore, and emerging markets in China, Vietnam, Cambodia, Laos and South Asia, including India.

The Asian beer markets are characterised by large populations, growing economies, rising per capita incomes and improving infrastructure.

In the region's emerging markets beer consumption per capita is generally low but with high projected growth rates in the coming years.

The presence of international brewers in the region is high. In many cases, the exposure of the international brewers to the region is through joint venture arrangements or investments in local brewers.

Market overview

Our markets

Our breweries

	Population (million)	GDP/capita (USD) ¹	GDP growth (%) ²	Market maturity	Market growth 2008-13	Breweries	Employees
Northern & Western Europe							
Denmark	5.5	37,200	0.2	●●●	↓	1	2,246
Norway	4.6	56,850	1.8	●●●	↔	3	1,547
Sweden	9.0	37,620	0.6	●●●	↓	1	996
Finland	5.2	37,190	1.6	●●●	↔	2	1,003
Baltic States ⁴	7.4	19,180 ⁷	-2.3 -4.4	●●	↔	4	1,454
United Kingdom	60.9	36,310	0.7	●●●	↓	2	1,985
Germany	82.4	35,150	1.4	●●●	↓		
Northern Germany ⁵						4	1,398
Switzerland	7.6	42,250	2.0	●●●	↓	2	1,425
France	62.2	35,130	0.9	●●●	↓	1	2,238
Italy	58.2	31,370	-0.4	●●●	↔	1	687
Greece	10.7	31,220	2.6	●●●	↔	1	287
Portugal	10.7	22,550	0.4	●●●	↔	1	775
Poland	38.5	17,770	5.1	●●	↑	3	1,325
South East Europe ⁶	22.0	14,181 ⁸	2.5-6 ⁸	●●	↔	4	1,552

Eastern Europe

Russia	140.7	16,330	7.0	●●	↑	11	12,266
Ukraine	46.0	7,600	4.5	●●	↑	3	1,927
Kazakhstan	15.3	11,440	3.5	●	↑	1	919
Uzbekistan	27.3	2,660	8.6	●	↑	1	349
Belarus	9.7	12,470	10.3	●	↑	1	476
Azerbaijan	8.2	11,820	13.1	●	↑	1	284

Asia

Malaysia	25.3	14,110	5.6	●●●	↔	1	671
Singapore	4.6	43,590	2.2	●●●	↓	-	66
Vietnam	86.1	2,830	6.1	●	↑	5	723
China	1,330.0	6,170	9.1				
Western China				●	↑	19	5,107
India	1,148.0	2,950	5.6	●	↑	4	131

¹ PPP; ² 2008 ³ Real terms, 2008E ⁴ 2008F ⁵ Estonia, Latvia, Lithuania ⁶ Schleswig-Holstein, Hamburg, Lower Saxony ⁷ Bulgaria, Croatia, Serbia

⁸ Weighted average ⁹ Weighted average. Serbia not included ⁹ Carlsberg estimate

Northern & Western Europe, Eastern Europe and Asia

Our position

Consumption characteristics³

Market position (no.)	Market share	Competitive climate (international/local)	Approx. on-trade share of market	Per capita beer consumption (litres)	Per capita pure alcohol consumption (litres)	Beer: share of total alcohol consumption (%)
1	63.0	Local	22	81	9.6	42.2
1	54.2	Local	24	59	5.6	52.5
1	37.7	Local	21	53	6.3	42.3
1	46.9	International	19	87	8.7	50.0
1	43.5-46.1	Local	5-10	67-95	8.7-14.3	33.1-38.2
4	13.3	International	54	87	9.9	44.2
	4.9		33	108	10.0	54.0
1		International				
1	41.8	International	47	62	8.9	34.5
1	33.3	International	27	31	11.3	13.7
3	6.4	International	40	32	10.1	15.6
2	-	International	65	42	7.0	29.7
1	49.8	International	65	63	8.9	34.8
3	13.2	International	21	97	9.0	54.2
2-3	16.3-26.7	International	31-66	61-86	8.7-14.3	41.1-70.1
1	38.3	International	18	87	10.5	37.0
3	23.8	International	21	71	8.3	42.5
1	47.9	International	-	39	-	-
1	38.7	Local	-	8	-	-
2	28.2	International/local	-	50	-	-
1	72.4	Local	-	6	-	-
2	43.2	International	71	5	0.3	67.3
2	22.6	International	73	18	1.4	66.5
4	11.0	International	65	21	1.1	93.1
		International	45	32	3.3	48.5
1	59.0	Local		17 ⁹		
-	-	International	37	1	1.7	3.5

Sources: Economist Intelligence Unit (GDP data), CIA World Fact Book, Canadean and Euromonitor (Consumption characteristics).

Brand portfolio

Four brands in Carlsberg's portfolio are among the top 10 in Europe

STRONG LOCAL AND INTERNATIONAL BRANDS

The Carlsberg beer portfolio includes more than 500 brands. They vary significantly in volume, price, target audience and geographic penetration. The brand portfolio includes the well-known international brands Carlsberg, Tuborg, Baltika and 1664, and strong local brands such as Ringnes (Norway), Feldschlösschen (Switzerland), Lav (Serbia) and Wusu (Western China).

Following the acquisition of assets from Scottish & Newcastle, Carlsberg has full control over the Russian brand Baltika and the French brand 1664. Consequently, Carlsberg has revised its brand portfolio objectives and priorities to include these strong brands in the overall portfolio strategy.

An important strength of Carlsberg's brand portfolio is highlighted by the fact that four brands (Baltika, Carlsberg, Tuborg and Kronenbourg) are among the ten biggest brands in Europe with Baltika as number one.

Portfolio segmentation and strategy

Beer brands can be segmented along a number of variables such as consumer needs, consumer groups and occasions. Beer is generally priced according to four broad segments: discount, mainstream, premium and super-premium. The size of the different price segments varies from market

to market. For example, France has strong large premium and super-premium segments, whereas in Germany discount brands have a much greater market penetration.

The objective of the Carlsberg Group's portfolio strategy is to premiumise the product mix. This is done with Carlsberg's own premium and super-premium brands, such as Carlsberg, Tuborg, 1664, Grimbergen and Jacobsen, as well as with complementary super-premium brands of other brewers. Notwithstanding this objective, Carlsberg sees it as a strength to have a broad portfolio that covers all consumer needs. In times of economic downturn, Carlsberg will assess and adjust the product portfolio in line with consumer demand to capture and secure shares not only in the premium and mainstream beer segments but also in the economy segment in markets where consumers choose to trade down.

Local power brands

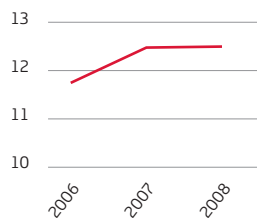
Local power brands play, and will continue to play, an important role in Carlsberg's portfolio. In each of Carlsberg's European markets, a local mainstream brand has been developed as a power brand. The role of this power brand is to be the key driver in the local mainstream segment.

The allocation of resources is focused on leading and developing the beer market from a local perspective. It is Carlsberg's ongoing ambition to use the strong platform of the local power brands to offer trade-up opportunities to the consumer by introducing new packaging or line extensions (such as flavour variants or reduced-calorie versions). This is part of the strategy of portfolio premiumisation.

Power brand management, ranging from product development to sales and marketing, is carried out locally but in order to achieve synergies across markets, a power brand network has been established at Group level, where ideas and experiences are shared.



Volume (m hl)



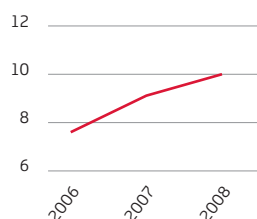
CARLSBERG

Carlsberg Pilsner was launched in 1904 and is the flagship in the Carlsberg Group's portfolio of beers. It is an all-malt premium lager beer spiced by the unique Carlsberg Aroma Hop. Green Label is the centre piece of the Carlsberg portfolio but across markets a number of line extensions exist in order to broaden the brand franchise.

Carlsberg is the beer of sports, in particular football, and it has a long heritage of impressive local as well as international football sponsorships, for example UEFA EURO 2008 and Liverpool Football Club.



Volume (m hl)



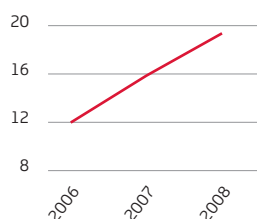
TUBORG

Tuborg Brewery brewed Denmark's first pilsner-type beer in 1880 and packaged it in bottles with a distinctive green label. It became instantly popular with the Danes but is today a real cosmopolitan, present in more than 70 different countries.

Tuborg is the youth brand in Carlsberg's international portfolio and is as such a catalyst for fun and partying. This is often associated with music and therefore Tuborg is involved in several music sponsorships around Europe.



Volume (m hl)



BALTIKA

Baltika is the only truly national beer in Russia, brewed in many locations and sold across the entire country. Baltika was introduced in 1992 and from the very beginning, Baltika beer was exclusively conceived as a beer of the very highest European quality brewed according to classic technology. Today, Baltika is the largest European brand in terms of volume.

The Baltika brand family consists of a number of line extensions differentiated by numbers. No. 3 is for example the large mainstream brand whereas No. 7 is the most popular Russian premium beer.



2.6

million hl in 2008

1664

1664 was included in Carlsberg's beer portfolio following the partial acquisition of S&N and thus Brasseries Kronenbourg in 2008. 1664 is a strong, traditional beer named after the year the Hatt family, the founders of the original brewery, first started commercial brewing.

1664 is associated with French art and pleasure and is a super-premium brand in Carlsberg's international beer portfolio.

See also: www.carlsberggroup.com/brands

International premium brands

Carlsberg's premium brand portfolio includes the Group's international brands Carlsberg, Tuborg, Baltika and 1664, the last being positioned in the international super-premium segment, as well as local brands, which are often brand extensions as described above, sold at premium prices.

The management of Carlsberg's international brands is carried out centrally at Group level to ensure both the correct prioritising and streamlining of the international portfolio and to build strong brand platforms and growth models for each international brand in order to optimise profits. Strong implementation of the strategies and marketing tools is secured through the local organisations.

Strategy

Group

AMBITION	Create value for our shareholders and all other stakeholders
OBJECTIVE	Build the fastest growing global beer company Be a significant player in the markets we choose to compete in
DEFINING THE NEW CARLSBERG	<p>GEOGRAPHY Northern & Western Europe, Eastern Europe and Asia</p> <p>PRODUCTS & INNOVATION Beer is core, but expansion from core where it makes business sense</p> <p>BRANDS Focus on local power brands and international premium brands</p>
STRATEGIES	<p>STEP CHANGE INNOVATION – bigger, better, faster</p> <p>COMMERCIAL EXECUTION – brands, categories, route to market</p> <p>EFFICIENCY – group, regional, local</p> <p>WINNING BEHAVIOURS – leadership and organisation</p>

Regions

NORTHERN & WESTERN EUROPE

EASTERN EUROPE

ASIA



OBJECTIVE	Improve competitiveness and earnings	Ensure profitable growth	Build growth platform
MID-TERM TARGET	Operating margin 14-16%	Operating margin 23-25%	
STRATEGIES	<p>Increase efficiency</p> <ul style="list-style-type: none"> · Excellence programmes · Network optimisation · Business standardisation <p>Value creation</p> <ul style="list-style-type: none"> · Strengthen local power brands and develop international brands · Premiumise portfolio · Innovate · Expand portfolio · Improve category and value management 	<p>Focus on portfolio and mix</p> <ul style="list-style-type: none"> · Balance value and volume <p>Assessing multi-beverage portfolio</p> <ul style="list-style-type: none"> · Leverage strengths with non-beer categories <p>Roll-out of Excellence programmes</p> <ul style="list-style-type: none"> · Realise synergies <p>Continued build-up of smaller markets and new markets</p>	<p>Strengthen brand portfolio</p> <p>Build stronger platform in Western China, Vietnam and India</p> <p>Further value creation from other strongholds</p> <p>Commitment to add to existing positions through M&A activities</p>

Defining the new Carlsberg

GEOGRAPHY

The new Carlsberg effectively spans two continents: Europe and Asia. These continents are where the Group has the expertise and the right products to secure a leading position.

The business portfolio is split into three geographical regions:

- Northern & Western Europe
- Eastern Europe
- Asia

PRODUCTS & INNOVATION

Carlsberg's core business is beer. However, Carlsberg will expand from the core business where it makes sense:

- Malt-based beverages: Carlsberg aims to take the lead in the development of this segment
- Other beverages such as soft drinks, water and cider: Carlsberg intends to work in partnerships where this fits the local portfolio and makes a positive contribution to the business

BRANDS

Carlsberg will remain focused on developing and strengthening its brand portfolio based on a combination of local power brands and international brands. An essential part of the brand strategy is premiumisation of the portfolio. Wherever possible, Carlsberg will be the brand owner of premium products, but where this is not possible, Carlsberg will engage with partners to increase premiumisation.

Group strategies

STEP CHANGE INNOVATION

Carlsberg will excel in step change innovation and value engineering. The aspiration is for fewer but more efficient and visible "product news" across more countries. This will be within the beer category as well as within malt-based beverages but also includes packaging, marketing and execution. 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.

COMMERCIAL EXECUTION

Outstanding commercial execution entails areas such as:

- Consistent brand execution
- Converting unique shopper insights into actionable strategies
- Deploying sales and marketing resources with highest possible effectiveness
- Excellence in value management
- Converting deep customer understanding into value creation
- Ensuring optimised route-to-market control in all markets

EFFICIENCY

Carlsberg will continuously adjust and optimise the cost base, including the brewery structure, in all markets.

In recent years, a number of Excellence programmes have covered systematic streamlining of processes and procedures across the whole value chain in areas such as production, procurement, administration and logistics. Carlsberg will continue to execute these in the commercial area, in production, procurement, logistics and in administration.

As a natural extension of the Excellence programmes, standardisation across functions and geographies is the next phase and the new enabler in the ongoing work to increase the efficiency of all parts of the business.

WINNING BEHAVIOURS

Carlsberg is committed to enhancing the skills of managers and employees, and to developing strong winning behaviours, which pulls the Company together across national borders and functions, and promotes commitment in people's everyday work.

A set of shared winning behaviours will guide the way business is done across markets and regions. The winning behaviours include:

- All decisions are based on the needs and preferences of consumers and customers
- Employees are empowered to promote a work environment where good ideas and passion to deliver are recognised and rewarded
- Despite the local market position, Carlsberg acts as an entrepreneur: fast, proactive and action-oriented

Carlsberg's ambition is founded on one key principle: creating value for our shareholders and all other stakeholders

VALUE CREATION

The acquisition of assets from Scottish & Newcastle was one of the most significant events in the history of the Carlsberg Group, representing an important step into a new league. By diversifying market exposure, Carlsberg created a new and stronger balance between mature and growth markets, and the company is well positioned for profitable growth in the years to come.

Business portfolio

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 consists of brewery activities in three geographical regions: Northern & Western Europe, Eastern Europe and Asia.

The beer markets in these regions vary widely, from the very mature markets of Northern & Western Europe to the emerging beer markets in 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 and cafés. Consequently, the contributions to growth, earnings and development within the Group differ according to region, both currently and in our longer-term projections.

In countries where Carlsberg has no breweries, the 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, Baltika and 1664 through dynamic partnerships with licensing, export and duty-free partners around the world.

Northern & Western Europe

Northern & Western Europe is a particularly important region in the business portfolio with the overriding short-term goal of generating free cash flow for the Group while developing long-term equity through strong consumer loyalty. This is done by focusing on value rather than volume and a constant focus on efficiency improvements within and across markets. The efficiency agenda has

been delivered through the Excellence programme in all functions. The value growth agenda focuses on obtaining and using better consumer insights, and improved in-store execution with both beers and other beverages.

Eastern Europe

The priority in Eastern Europe is profitable growth now and in the coming years. The most important challenge is to exploit the growth potential of the Russian market as well as of a number of the other markets in the region. A key task is to strike the best possible balance between value growth and volume growth. On the one hand, this means strengthening brand loyalty and sales of more expensive premium beers, whilst on the other hand, it means supplying competitive and attractively priced beers which can capture consumers and sales from other beverages, in particular spirits. The Eastern European region is the growth asset in the business portfolio despite an expected short-term slowdown in overall market growth due to the current macroeconomic environment. Eastern Europe will continue to grow and the necessary investment will be made in the region to capture future growth opportunities.

Asia

The goal of the Asian region is to continue to develop this business so that the region can supplement Eastern Europe as an additional growth engine for the Group. In the less mature markets of Asia, efforts in the coming years will be largely concentrated on generating growth that increasingly will be more balanced between volume and value.

Value creation

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

Commercial initiatives

In recent years there has been a growing focus on commercial initiatives to increase value and generate growth, but activities and target areas vary from region to region and from market to market.

To realise the growth strategy, it is essential to be in a position to respond quickly and effectively to new consumer trends. First and foremost, this requires a systematic and targeted approach to innovation. As well as developing the product range locally, efforts will increasingly be concentrated on larger international launch concepts. 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 internationally in both beer and other beverages, and this work will be intensified in the future. To further improve these capabilities, a new integrated innovation organisation and structure was implemented in early 2009.

Commercial execution will also be on the agenda in the years ahead. An example within this area is the development of sophisticated methods and intelligent tools that have been taken into use for analysing consumer behaviour with a view to improving product placement and sales in locations such as supermarkets, convenience stores, restaurants, cafés and bars.

Efficiency initiatives

The efficiency initiatives are about constantly reducing the cost base across the Group. They are also about optimising the brewery and distribution structure and as a result of this, the proposed closure of the brewery in Leeds, United Kingdom, by 2011 was announced in 2008. This announcement follows plant closures in recent years in Denmark, Portugal, Switzerland, Italy and Finland. Closures continue to be on the agenda in the coming years.

In recent years, Carlsberg has implemented a number of Excellence programmes which have covered systematic streamlining of processes and procedures in areas such as production, logistics, procurement and administration. Excellence initiatives will continue in Carlsberg. In mature markets where the first wave of these programmes has already taken place, second-wave initiatives are now being rolled out, building on the experience and knowledge acquired through the execution of the first round. In less mature markets, Excellence programmes are being rolled out in a modified form so that the cost base here too can be optimised. Major programmes were initiated in Eastern Europe during the second half of 2008.

An important initiative is the continued work on globalising and centralising procurement at Group level to ensure the most favourable terms and conditions. Central procurement will be implemented across the cost categories of the business.

Another area that is being scrutinised is how to optimise the route to market in order to improve the service provided to our customers and consumers.

This work is being done market by market to recognise the differences across markets.

Standardisation is the next phase in Carlsberg's ongoing work to increase the efficiency of all parts of its business.

The aim of standardisation is to strike the best possible balance between centrally defined ways of running the business regardless of national and departmental boundaries, and respect and consideration for local markets, customers and consumption patterns.

This standardisation process will take a number of years. The first phase has involved 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 new opportunities to optimise working methods and processes. This will also be a key lever for more accurate and faster decision-making.

People

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.

2009

Carlsberg's long-term business strategy remains intact. However, recognising that 2009 will be a year of lower visibility and greater uncertainty, action plans are in place to ensure that Carlsberg emerges from 2009 as an even stronger business. Please see page 10.
