

# Eastern Europe

REGIONAL OBJECTIVE	Ensure profitable growth
REGIONAL MID-TERM TARGET	Operating margin 23-25%
REGIONAL STRATEGIES	<p>Focus on portfolio and mix</p> <ul style="list-style-type: none"> <li>• Balance value and volume</li> </ul> <p>Assessing multi-beverage portfolio</p> <ul style="list-style-type: none"> <li>• Leverage strengths with non-beer categories</li> </ul> <p>Roll-out of Excellence programmes</p> <ul style="list-style-type: none"> <li>• Realise synergies</li> </ul> <p>Continued build-up of smaller markets and new markets</p>

COUNTRIES AND SELECTED BRANDS

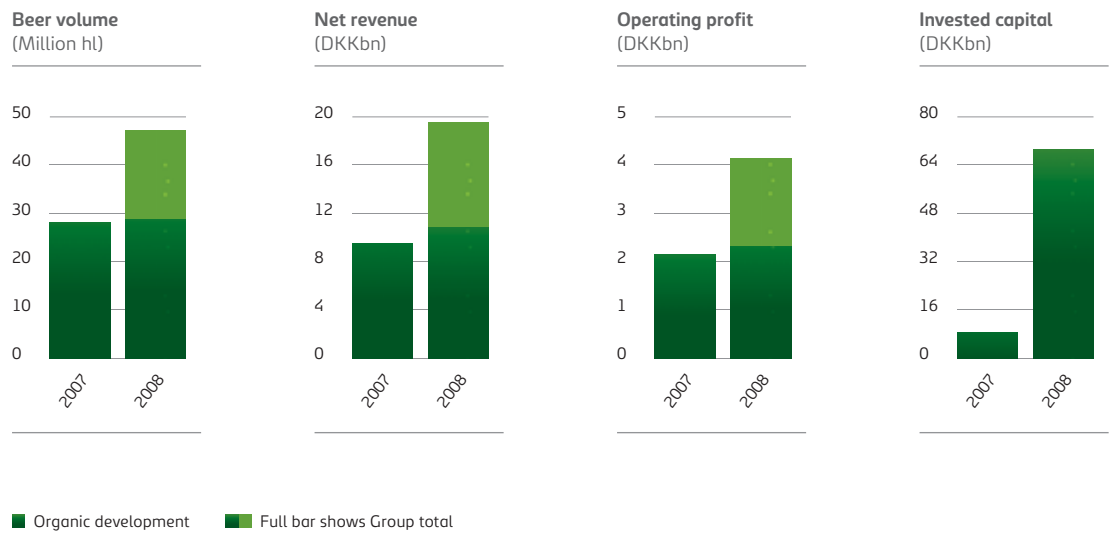
Russia	Baltika, Tuborg, Arsenalnoye, Nevskoye, Yarpivo
Ukraine	Slavutich, Lvivske
Kazakhstan	Derbes, Irbis
Uzbekistan	Tuborg, Sarbast
Belarus	Alivaria
Azerbaijan	Xirdalan, Bizim

PORTFOLIO



The brands shown are only a small selection of the Eastern European beer brand portfolio.





**EASTERN EUROPE**

The full ownership of Carlsberg's Eastern European activities following the partial acquisition of Scottish & Newcastle has further increased the importance of this region in Carlsberg's business portfolio, and the region now accounts for 32% of Group revenue and approximately 48% of operating profit (before not allocated expenses).

**Markets**

Russia is, and will remain, the largest and most important market in the region, accounting for 82% of regional sales volumes and 85% of net revenue. However, a determined effort is being made to ensure that other countries in the region come to play a more important role, thus adding a geographic angle to the pipeline of future growth opportunities. In the Ukraine for example, a turnaround plan with the aim of accelerating growth and strengthening the position in the mainstream segment has successfully been implemented, and the market share increased to 23.8% in 2008. Carlsberg Uzbekistan has achieved a number one market position after just 18 months' operations.

**Synergies**

The full ownership of the Eastern European assets has eliminated the previous holding structure and has brought management resources in Carlsberg and Baltika in particular much closer together. In connection with the acquisition, a significant amount of hard synergies was announced. The synergies are to be realised by implementing Carlsberg's well-proven Excellence programmes. The extensive expertise of Carlsberg coupled with strong local management teams provide the optimal requisite for achieving efficiency gains in production, logistics, route to market, and optimisation of the product range, sales, marketing and administration. However, the most important source of savings is procurement where significant benefits will be achieved, as it is now possible to share information between Carlsberg and Baltika which previously was not possible.

**Continued growth**

Apart from realising synergies, the overall strategy of the Eastern European business focuses on growth in both volumes and value, based on solid market positions and strong beer brands in existing markets. The strategy also entails adding new products and new markets. In Eastern Europe – and in Russia in particular – focus is gradually shifting away from growth in volumes and production capacity in favour of value, modern sales and marketing tools, innovation and development, logistics and distribution.

This is a natural consequence as consumption patterns evolve. This evolutionary process is reflected in

growing demand for beers in the premium and licence segment. The Carlsberg Group's premium brands play an important role in meeting new consumer preferences, and the Tuborg brand is now by far the most important international premium brand in Eastern Europe.

Growth in Eastern Europe has been dependent on significant investments. An aggressive investment strategy has been pursued over the years, putting Baltika and the other Carlsberg Group companies in the region in a favourable position and allowing them to meet the constant growth in demand.

The strategy will remain the same in the years to come, ensuring that Carlsberg continues to lead the way in developing the markets.

**Development in 2008**

The acquisition of the S&N assets provided Carlsberg with full control over the former BBH business, which has been and will remain a key driver of long-term value for the Group. In times of greater economic weakness the unique strengths of our Baltika business are accelerating its differentiation and outperformance from the rest of the market. Baltika is now more than twice the size of its nearest competitor and in the fourth quarter of 2008 the rate of market share growth increased further. Its brand portfolio, invested production footprint and cooperation with top tier distributors position the business to take advantage of this period of economic downturn with the greatest visibility on, and control over, the changing dynamics of the market.

Following only moderate growth in the first half of the year, the Russian beer market growth was expected to accelerate in the second half of the year. Unseasonably rainy and cold weather in late third quarter significantly affected outdoor consumption and led to a decline in overall market growth. In the fourth quarter the market slowed down further and declined by 5.4% as concerns on wider macroeconomic development affected consumer spending, resulting in full-year Russian beer market growth of -0.4%. Against this background, Baltika's volumes grew by 1.4% in Russia.

Premiumisation continued to be strong as Russian consumers trade up to more premium products such as Baltika and Tuborg. Disposable income growth has slowed in the second half of the year, but premiumisation in the beer category has still taken place in each and every one of the four quarters of 2008 compared to 2007.

The Russian business achieved a full-year market share of 38.3% (37.6% in 2007). In the fourth quarter Baltika outperformed the market, achieving flat volumes despite a drop in market volume of 5.4%. Full-year performance was driven by strong growth for the Baltika brand (especially Baltika 7 and Baltika Cooler) which achieved a volume increase

## Russia is the most important market in the region

# 18%

Organic operating profit in local currencies increased by 18%.

of 15%, and similarly positive growth for the Tuborg brand, with growth of 20%, whilst Kronenbourg grew by 35%.

Inventory levels are closely monitored and Baltika's distribution model focuses on high consistency and visibility. At year-end 2008, inventory levels (measured as days of sale) at distributors/wholesalers were on par with end 2007. Given Baltika's cooperation with the premium distributors/wholesalers, the business has not experienced any unusual bad debts at distributors in 2008 and days outstanding to distributors at the end of 2008 were in line with those in 2007.

Capacity expansion projects were to a large extent finalised in the first half of 2008, including investments in the greenfield brewery in Novosibirsk in Russia, which started production in the spring. Total production capacity in Russia is now c. 50m hl, leaving Carlsberg's Russian operations well positioned to capture further growth in the market without significant additional investments in capacity. Furthermore, the integrated nationwide production and logistic network in our Baltika business model allows for very flexible cross-brewing and distribution to accommodate variations in demand between regions, segments and packaging formats.

In 2008 the emerging markets in the other Eastern European countries showed a mixed picture with volume growth in Uzbekistan (+11%) and in Belarus (+10%), a flat market in the Ukraine, and market decline in Kazakhstan (-4.8%). Market developments have been affected overall by weaker economies by the end of the year but severe flooding also affected the beer market in the Ukraine in the important third quarter.

Although the growth in the Ukraine has slowed significantly, the business has performed well, driven by last year's relaunch of Slavutich, growth in the Baltika brand and the much improved business model. Total beer volume increased by 17% compared to 2007, leading to a significant volume market share gain of 3.1 percentage points to 23.7%. In both Kazakhstan and Uzbekistan, the businesses continue to win market share. Market shares are now at 47.9% (up 4.0% against last year) and 38.7% (in the first year in business) respectively, which already now makes Sarbast the no. 1 brand and Carlsberg Uzbekistan the no. 1 brewer in Uzbekistan.

During the fourth quarter, Carlsberg continued to gain share in every market thus partly offsetting the negative market development.

Total beer volumes in the Eastern European business increased to 46.8m hl equal to growth of 69%. Organic volume growth amounted to 6%. Fourth-quarter organic beer volume of 5.9m hl was in line with last year, despite market declines in most countries.

Net revenue was up 98% to DKK 19,137m (DKK 9,658m in 2007) with acquisitions contributing net revenue of DKK 8,114m. Organic growth was 20% (14% in DKK) driven by continued strong value focus (mix and price) and volume growth. The growth in net revenue is due to the strong performance of the Baltika and Tuborg brands relative to overall market growth. Price increases contributed c. 11% and mix a further c. 3%, whilst exchange rate movements impacted reported net revenue negatively by c. 6%.

In 2008 higher net revenue per hl was also driven by innovation and new product launches, price increases and mix improvement, reflecting the ongoing strong focus on balancing volume and value growth, offsetting higher costs for key inputs like malt, hops and glass bottles.

Operating profit was DKK 4,109m (DKK 2,134m in 2007) with organic growth amounting to 18% (13% in DKK) primarily driven by continuously strong results in Russia. Operating margin was 21.5% against 22.1% last year. This includes amortisations on additional value from purchase price allocation (PPA) of the S&N transaction (with no impact on cash flow) amounting to DKK 246m. Excluding this, the profit margin would have been 22.8% against 22.1% last year (in the fourth quarter 18.3% against 16.7% in the same period last year).

Despite the short-term impact of the economic weaknesses, the medium-term growth drivers for the Russian beer market remain very attractive and in line with our previously stated average growth rate assumption of 3-5% per annum, with further increases driven by higher per capita consumption, on-going premiumisation and development of the on-trade segment.