A new Carlsberg

THE TRANSFORMATION

2008 was a truly special year and marked a milestone in Carlsberg's history. The acquisition of Scottish & Newcastle together with Heineken was by far the largest transaction in Carlsberg's history, immediately increasing Carlsberg's beer sales by 33% (pro rata). Carlsberg is now a much larger player in the global brewing industry with a strong position as the world's fourth largest brewer. More importantly, Carlsberg holds a strong position in virtually all of the markets in which we have chosen to compete.

The acquisition has transformed Carlsberg into a far larger player with new ambitions and goals, full control over key parts of its business, and a much clearer growth profile than before. Our business portfolio is now more exposed to growth markets, especially Eastern Europe. Our operations in Northern & Western Europe still provide a mature and stable foundation for the portfolio, while Asia provides Carlsberg with exposure to additional long-term growth and development.

The process leading up to the takeover date was lengthy, demanding an extraordinary effort from many people in our organisation. In order to be well prepared, Carlsberg set up internal working groups well before the takeover agreement was signed to plan and implement the subsequent major task of welcoming the acquired businesses and integrating them into the Carlsberg Group. Thus 2008 was a year in which the focus was mainly on ensuring seamless integration and on working and delivering on the opportunities that the new, bigger Carlsberg has to offer by combining the best of the acquired businesses with the best of the former Carlsberg Group.

In May and June Carlsberg successfully carried out a rights issue. We raised new capital of around DKK 30bn to help finance the Scottish & Newcastle transaction, which amounted to a total of around DKK 57bn. Unfortunately, since the rights issue the share price has been heavily impacted by the global economic recession.

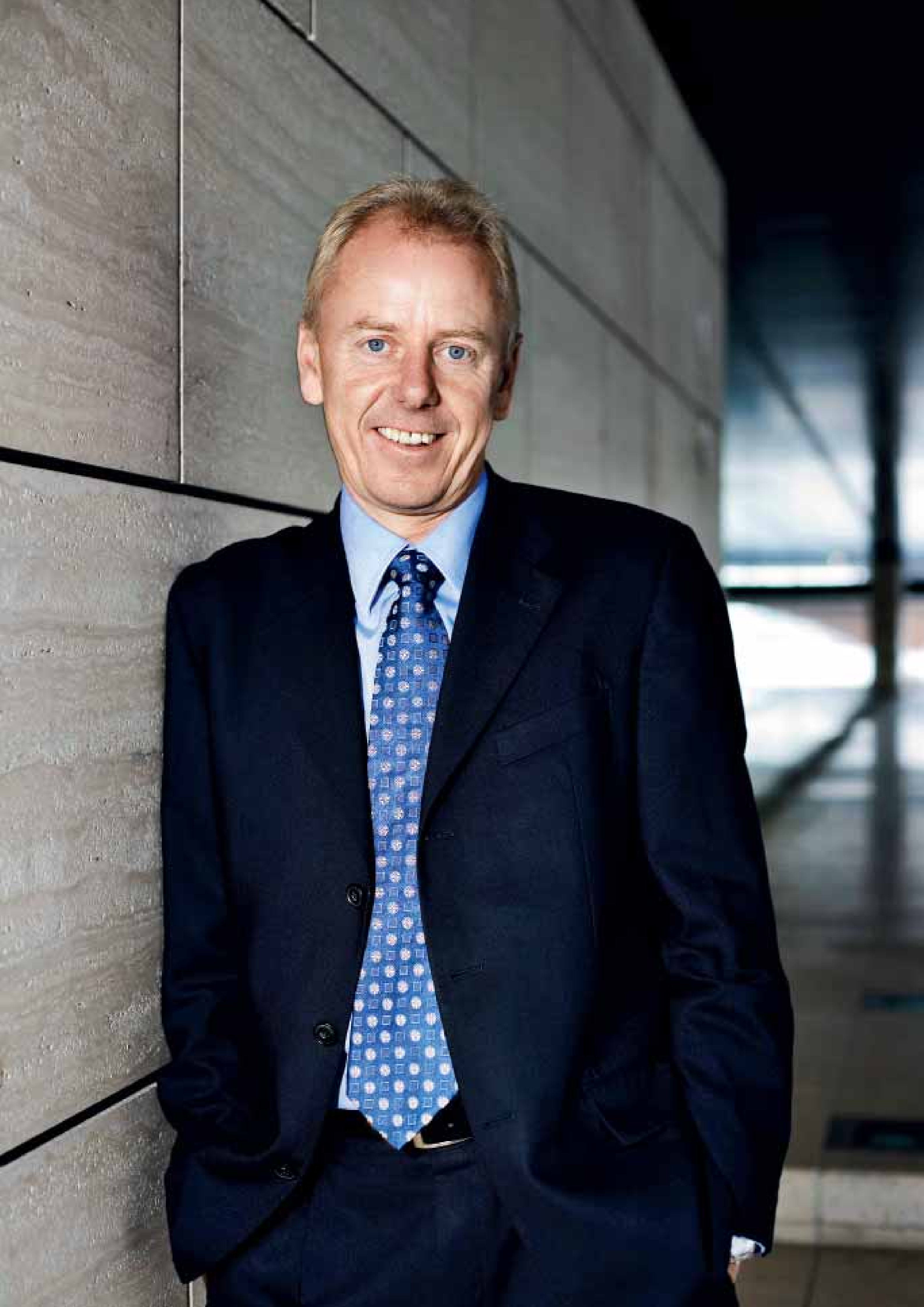
Business development

2008 was a year of substantial business integration following the acquisition of assets from Scottish & Newcastle. It was also another year of significant progress and strong results. During the year Carlsberg continued to develop its business in line with its stated strategy, building on its strong brand portfolio and execution skills throughout the Group.

Although not immune, the beer category is resilient to economic recession. However, market conditions softened further in the fourth quarter of the year. In Northern & Western Europe, consumer spending declined in both the third and fourth quarters

S&N ACQUISITION

28 April 2008 brought formal approval for Carlsberg's acquisition of Scottish & Newcastle together with Heineken. Carlsberg acquired the remaining 50% of Baltic Beverages Holding (BBH), the French brewer Brasseries Kronenbourg, the Greek brewer Mythos, a stake in Chinese brewer Chongqing, and a new joint venture in Vietnam.



resulting in market growth being lower than trend volume development. However, the impact of the recessionary environment did not impact all markets equally and significant individual factors impacted some markets. The United Kingdom, Denmark and the Baltic markets in particular were severely hit by sharp declines in consumption driven by the on-trade in the United Kingdom, a significant increase in promotional price points in Denmark and severely deteriorating economies across the Baltic States.

Growth in the markets in Eastern Europe also decelerated in the second half of the year as the expected recovery in the Russian beer market failed to materialise, initially due to extremely poor weather and then due to increasing uncertainty about the economic outlook. In Asia, growth continued throughout the year with beer markets only marginally affected by the weaker economic outlook.

Carlsberg Group beer volumes were up 33% to 109.3m hl of beer (calculated pro rata) versus 82.0m hl in 2007. Organic growth accounted for 3% of this increase and acquisitions for 30%.

OTHER ACTIVITIES

In addition to beverage activities, Carlsberg has interests within sale of real estate, primarily at its former brewery sites, and the operation of the Carlsberg Research Center. These activities generated net operating profit of DKK 374m in 2008 against DKK 261m in 2007.

Monetising the value of redundant assets, including brewery sites which are no longer used in operations, remains an important focus to provide additional capital to the rest of the Group and enhance return on invested capital. The move from Valby and the realisation of capital from this substantial site in central Copenhagen remain on track, notwithstanding the changed economic environment. In January 2009, the City of Copenhagen gave the necessary approval for the redevelopment of this site. This approval provides for 600,000 sqm of redeveloped space. Carlsberg will continue to work to release capital from this site during 2009 and all capital expenditures to transfer production facilities to Fredericia were completed prior to the end of 2008.

Net revenue climbed 34% to DKK 59.9bn (DKK 44.8bn in 2007), organic growth amounted to 8% (5% in DKK). Strong focus on brand-driven value growth through pricing and mix continued, and price increases were implemented throughout the year. However, above-average volume growth in low-priced markets capped the net effect of growth on net revenue per hl beer at 5%.

Operating profit before special items increased by 52% to DKK 7,979m (DKK 5,262m in 2007) with organic growth of 9% (6% in DKK). Beverage activities generated operating profit of DKK 7,605m (DKK 5,001m in 2007), an increase of 52%, of which 7% was organic growth (4% in DKK). This improvement was driven by continued growth in Eastern Europe and Asia. Other activities, including the sale of real estate, generated operating profit of DKK 374m (DKK 261m in 2007).

Net profit climbed 15% to DKK 2,631m (DKK 2,297m in 2007). The average number of shares in circulation increased during the year from adjusted 94.5m to 118.8m due to the rights issue, and earnings per share were DKK 22.2 (DKK 24.3 in 2007).

Earnings for the year were therefore in line with the updated expectations published in connection with the financial statement for the third quarter released on 5 November 2008.

A stronger Carlsberg

Carlsberg is now a stronger business, and the acquired businesses will play a key role in the future development of the Carlsberg Group. Successful integration of the acquired assets is key to our goal of building stronger regional units. Previously announced plans for securing transaction synergies are on track and being implemented in France and the former BBH business. Full control over the former BBH business allows us to respond more quickly to changing market conditions and to ensure the unique strengths of this business can be exploited versus competition in the region.

During the course of 2008 a series of initiatives was implemented to continue to optimise the production network. In Denmark, the brewery in Valby, Copenhagen, was closed as planned at the end of the year. In Italy, production has been concentrated at the Varese brewery north of Milan, and production has ceased at Ceccano. In Portugal, it has been decided to close the brewery in Loulé. In the United Kingdom, Carlsberg has proposed the closure of the brewery in Leeds. The brewing network will be further consolidated over the next few years.

Carlsberg also sold its 95.6% shareholding in the Turkish brewery Türk Tuborg and its 20% stake in Israel Beer Breweries in order to continuously maximise returns for shareholders.

For the Group as a whole, the aim for 2009 is to build an even stronger and more competitive Carlsberg with even better market positions

Despite beer being a non-cyclical consumer product, the turbulent global economic climate has created a more challenging business environment. Against this background, Carlsberg is further intensifying its focus on significant efficiency initiatives. In late 2008 and in early 2009 Carlsberg announced major restructuring programmes, including headcount reductions of more than 500 employees and downsizing of operations.

In early 2009 Carlsberg also announced the strengthening of its Executive Committee with the appointments of Khalil Younes, Senior Vice President, Group Innovation, Sales & Marketing, and Nils Østbirk, Senior Vice President, Western Europe. Both will add further international experience in branding and commercial execution for fast-moving consumer goods to the Carlsberg Group.

Ambitions

The new, bigger Carlsberg also has new, bigger plans. An ever more international business needs a strong and international organisation with skilled managers and workers at every level. Carlsberg's organisation is ready for these new challenges.

For the Group as a whole, the aim for 2009 is to build an even stronger and more competitive Carlsberg with even better market positions. Although 2009 will see a sharp focus on efficiency, cost reductions and cash flow, the year will also bring reinforcement to the innovation process at Carlsberg in order to safeguard future growth.

The expansion of our business in Northern & Western Europe to include Kronenbourg in France and Mythos in Greece will enable us to reap further economies of scale in a wide range of areas, including sales, marketing, innovation and production.

Our operating margin target of 14-16% in Northern & Western Europe still applies. Many of the things that need to be done to achieve this target have to do with internal efficiency at Carlsberg and are not therefore directly dependent on external developments. For more than five years now, Carlsberg has had a proven track record of improving its profitability through its Excellence programmes. Consequently, we have high hopes for the next generation of Excellence programmes and, as an extension of this, our standardisation project.

In Eastern Europe, growth will remain the driver in the coming years, although 2009 is expected to be a challenging year. Our established operating margin target of 23-25% in Eastern Europe still applies. We are firmly convinced that there is huge potential to rescope the cost base in Eastern Europe by realising synergies resulting from the Scottish & Newcastle transaction. In particular, procurement synergies will be significant, but implementation of best practice from the Northern & Western European Excellence programmes will add value too.

Thank you

On behalf of Carlsberg, I would like to thank all of our employees for their extraordinary efforts over the past year. I would also like to thank our customers, suppliers and other partners for a rewarding business relationship. Last but not least, I want to thank our shareholders for supporting our strategy.

Our aim is still to be the world's fastest growing global brewery group and to ensure that our consumers get the best beer in the world.

Jørgen Buhl Rasmussen