

Corporate governance

CORPORATE GOVERNANCE IN CARLSBERG

Carlsberg's Board of Directors and Executive Board strive constantly to ensure that the Group's management structure and control systems are appropriate and working satisfactorily. A series of internal procedures have been developed and is regularly maintained in order to ensure active, reliable and profitable management of the business.

With few exceptions, Carlsberg's corporate governance complies with NASDAQ OMX Copenhagen A/S's recommendations for good corporate governance. These exceptions are presented on page 61.

The basis for the Group's corporate governance includes the Danish Companies Act, the Danish Financial Statements Act, IFRS, the Danish Securities Trading Act, NASDAQ OMX Copenhagen A/S's rules and recommendations for issuers, the Company's Articles of Association and values, and good practice for companies of Carlsberg's size and global reach.

Shareholders and Carlsberg

Carlsberg aims to provide information and opportunities for dialogue with the Company's shareholders. This takes the form of regular publication of news, interim reports and annual reports, and General Meetings. The Company's website is continuously updated with published information. Regular teleconferences and meetings are also arranged with professional investors.

The Board of Directors regularly assesses whether the Company's capital structure is in the interests of the Group and its shareholders. The overall goal is to ensure a capital structure which supports long-term, profitable growth. The capital structure is part of the Group's strategy.

The Company's Articles of Association contain no limits on ownership or voting rights. Should a bid be made to take over the Company's shares, the Board of Directors will consider it in accordance with applicable legislation and the Carlsberg Foundation's Charter.

Carlsberg's share capital has been divided into two classes for many years. All shares have the same nominal value (DKK 20), but while an A share carries 20 votes, a B share carries two votes but is entitled to a preferential dividend. Both classes of share are listed on NASDAQ OMX Copenhagen A/S, and so investors can choose which class they wish to invest in. The Board of Directors is of the opinion that the division into A shares and B shares, combined with the Carlsberg Foundation's position as majority shareholder, has been and will remain advantageous for all of the Company's shareholders, as this structure enables and supports the long-term development of the business.

The General Meeting

The General Meeting is the Company's supreme governing body. The Board of Directors attaches importance to shareholders receiving detailed information and an adequate basis for the decisions taken at the General Meeting.

Notice of a General Meeting is given at least eight days before it is held so that shareholders have an opportunity to prepare. All shareholders have the right to take part and to vote in person or by proxy at a General Meeting, cf. the Company's Articles of Association, and have an opportunity to put forward proposals for consideration. Shareholders may give proxies to the Board of Directors or others for each individual item on the agenda.

THE CARLSBERG FOUNDATION

The Carlsberg Foundation's ("the Foundation") holding in Carlsberg A/S is long term and strategic. The Foundation is therefore an active, demanding but also supportive shareholder. The Foundation supports the efforts of Carlsberg's management to create value for shareholders and other stakeholders by furthering the Company's growth and strengthening its profitability.

In 2007 the Foundation obtained approval for the amendment of its Charter. Subsequent to the amendment, the Foundation must at all times hold at least 51% of the votes and more than 25% of the share capital of Carlsberg A/S. Previously the Foundation was required to hold at least 51% of the Company's share capital. The amendment of the Charter allowed the Company to implement a capital increase in 2008 as part of the Scottish & Newcastle transaction.

At the end of 2008 the Foundation held 30% of the Company's share capital. Due to the combination of A shares and B shares held by the Foundation, it had 73% of the votes at that same time. The Foundation's Executive Board makes up an important part of Carlsberg A/S's Board of Directors, of which the Chairman of the Foundation is also Chairman.

The Foundation's Charter and Statutes lay down a number of obligations and rights with respect to Carlsberg A/S. Thus the Carlsberg Laboratory, which is a department of the Foundation and an independent unit within the Carlsberg Research Center, receives a grant from the Foundation, but the Company is required to meet its running costs. The Company also has an obligation to preserve various historical buildings on the brewery's site in Valby, Copenhagen.



See also: www.carlsbergfondet.dk

Stakeholders and the Company

Carlsberg aims to develop and maintain good relations with its stakeholders as such relations are considered to be important and positive for the Company's development.

Against this background, the Company has formulated policies for a number of key areas, such as communications, human resources, the environment, and responsibility to customers and society in general. One element of the Board of Directors' work is to ensure both compliance with and regular adjustment of these policies to reflect developments both inside and outside the Company. The communications policy and related procedures serve to ensure that information of importance to investors, employees, authorities etc. is made available to them and published in accordance with applicable rules and agreements.

Communication with investors and equity analysts is handled by the Company's Executive Board, supported by the Investor Relations department. This dialogue includes a broad programme of activities in Denmark and abroad, and complies with the rules of NASDAQ OMX Copenhagen A/S. All investor information is published simultaneously in English and Danish, and is also distributed directly to shareholders and others who have requested it immediately following publication. Investor presentations are normally made available on the Company's website at the same time as the presentations are given.

The composition of the Board of Directors

The General Meeting elects the Board of Directors. The Board of Directors has eight members elected by the General Meeting and four members elected by employees in accordance with the Danish Companies Act.

The employee-elected members have the same rights and obligations as the members elected by the General Meeting and are elected for a term of four years. The most recent employee elections took place in 2006.

Thus the Board of Directors has a total of 12 members. The Board of Directors finds this number of members appropriate.

Five of the members elected by the General Meeting are affiliated to the Carlsberg Foundation, the Company's principal shareholder, and have an academic background, while three have a business background. This composition ensures appropriate diversity and breadth in the members' approach to their duties, and the Board of Directors is of the opinion that this helps to ensure high-quality deliberation and decisions.

The members of the Board of Directors are elected individually. At each Annual General Meeting the four longest-serving shareholder-elected members step down. They may be reelected. Members must also step down at the first General Meeting after reaching the age of 70.

Carlsberg aims to develop and maintain good relations with its stakeholders

When recommending candidates for election at the General Meeting, the Board of Directors distributes in advance a presentation of each individual candidate's background, relevant competences and any other managerial positions or demanding positions of responsibility, and the Board of Directors justifies its recommendations on the basis of the criteria which the Board of Directors has laid down for recruitment.

A description of the composition of the Board of Directors and the individual members' particular competences with respect to the work of the Board of Directors can be found in a separate section of this Annual Report.

The work of the Board of Directors

The Boards of Directors of the Parent Company, Carlsberg A/S, and other companies in the Group ensure that their Executive Boards observe the goals, strategies and business procedures established by the Boards of Directors. Information from the Executive Boards of the various companies is provided systematically at meetings as well as in written and oral reports. These reports cover such areas as external developments and the companies' performance, profitability and financial position.

The Board of Directors of Carlsberg A/S meets according to a set schedule at least six times a year. An annual strategy meeting is usually held where the Company's vision, goals and strategy are discussed. In between its ordinary meetings, the Board of Directors receives regular written information on the Company's operations and position, and extraordinary meetings are convened if the situation calls for it. The Board of Directors held nine meetings in 2008. The Board of Directors decides on issues such as acquisitions, major investments

and divestments, the size and composition of the Company's capital base, long-term obligations, significant policies, control and audit issues, and significant operational matters.

The Board of Directors' Rules of Procedure set out the procedures for the Executive Board's reporting to the Board of Directors and for other communication between the two bodies. The Rules of Procedure are reviewed annually by the Board of Directors and adjusted to the Company's circumstances as required.

The Chairman and Deputy Chairman of the Board of Directors constitute the Chairmanship, which, among other things, organises meetings of the Board of Directors in cooperation with the Company's Executive Board. The particular duties of the Chairman and – in his absence – the Deputy Chairman are set out in the Rules of Procedure.

Each year the Chairman of the Board of Directors heads a structured evaluation of the Board's work, accomplishments and composition. This evaluation also covers the cooperation between the Board of Directors and the Executive Board, and the work, accomplishments and composition of the Executive Board.

The Board of Directors regularly – and at least once a year – considers whether there is reason to update or strengthen its members' expertise with respect to their duties.

The Board of Directors may appoint committees for specific purposes but has not yet found it necessary to establish any permanent committees. None of the members of the Board of Directors are involved in the executive management of the Group.

The Executive Board

The Board of Directors appoints the CEO and other members of the Executive Board. Led by the CEO, the Executive Board is responsible for the preparation and implementation of strategic plans.

The members of the Executive Board are not members of the Board of Directors but do attend meetings of the Board.

Remuneration

In order to attract and retain managerial expertise, the remuneration of the members of the Executive Board and other senior executives is determined on the basis of the work they do, the value they create, and conditions at comparable companies. This remuneration includes incentive programmes which are to help align the interests of the Company's management and shareholders, as these programmes support both short-term and long-term goals.

The remuneration of the Executive Board comprises salary, car, cash bonuses and share-based payments. The members take out their own pension plans, which are to amount to a set minimum as agreed with the Board of Directors.

Neither the Executive Board nor the Board of Directors receive a bonus on completion of a takeover bid. The Executive Board's terms of notice change on completion of a takeover bid.

The remuneration of the Executive Board and the Board of Directors is presented in note 13 to the consolidated financial statements. Guidelines for incentive programmes for the Executive Board were approved at the Annual General Meeting on 10 March 2008. The Guidelines are published on Carlsberg's website. The Board of Directors of Carlsberg A/S is not included in the Company's incentive programmes.

A share option programme for the Group's Executive Board and a number of other senior executives in the Group has been running since 2001. The programme entitles these individuals to purchase B shares in Carlsberg A/S between three and eight years after the options are granted. The exercise price is the market price during the first five days following the publication of the financial statement for the year. The number and value of share options granted and outstanding are presented in note 14 to the consolidated financial statements.

The option programme is supplemented with performance-related bonus schemes covering a proportion of the Group's salaried employees.

CARLSBERG'S DEPARTURES FROM NASDAQ OMX COPENHAGEN A/S'S RECOMMENDATIONS

It is recommended that at least half of the members of the Board of Directors elected by the General Meeting be independent. Any person who has close links with a company's main shareholder is not regarded as independent (V, 4a).

Five of the eight members of Carlsberg's Board of Directors elected by the General Meeting have close links with the Company's principal shareholder, the Carlsberg Foundation, as they make up the Foundation's Executive Board. Thus these members are not independent as defined in the recommendations. This has been the situation for many years. The Board of Directors is of the opinion that the combination of members with an academic background and members with a business background ensures appropriate breadth in the members' approach to their duties and helps to ensure high-quality deliberation and decisions.

It is recommended that information be provided on managerial positions and directorships at Danish and foreign companies and any other demanding organisational tasks performed by members of the Board of Directors (V, 4d, 2).

In accordance with section 107 paragraph 1 of the Danish Financial Statements Act, Carlsberg provides information in its Annual Report on managerial positions at other Danish companies held by members of the Board of Directors. Information is also provided on other significant managerial positions and other organisational tasks performed in Denmark and abroad.

It is recommended that information be provided on shares and options held by the individual members of the Board of Directors in the company in question, and on any changes in these holdings during the financial year (V, 4d, 3).

The members of the Board of Directors do not hold any options in the Company. The section on shareholder information in the Annual Report contains information on the Board of Directors' total holding of shares in the Company, but the Board of Directors does not consider it useful to disclose information on individual members' holdings. Trading in the Company's shares by members of the Board of Directors is reported to the Danish Financial Supervisory Authority and published via NASDAQ OMX in accordance with the provisions of the Danish Securities Trading Act, and information on this is also available on the Company's website.

It is recommended that the annual report contain detailed information on remuneration policy and the remuneration of the individual members of the Board of Directors and the Executive Board (VI, 2-3 and 6).

Carlsberg's Annual Report presents information on the Group's remuneration schemes, the components of remuneration, and the total remuneration of both the Board of Directors and the Executive Board, cf. section 69 of the Danish Financial Statements Act. It is not considered useful or reasonable to publish information on the remuneration of individuals. Remuneration schemes (including severance arrangements) and remuneration are believed to be in line with comparable companies.

It is recommended that the exercise price for options granted be higher than the market price at the time they are granted (VI, 4).

In the current scheme, the exercise price corresponds to the market price during the first five days following the publication of the financial statement for the year.



It is regularly assessed whether the capital structure is in the interest of the Group and its shareholders

Risk management

The Board of Directors reviews the overall risk exposure and the individual risk factors associated with the Group's activities (see separate section of this Annual Report). Such reviews are performed as required and at least once a year.

The Board of Directors adopts guidelines for key areas of risk, monitors developments and ensures that plans are in place for the management of individual risk factors, which include commercial and financial risks, insurance and environmental matters, and compliance with competition legislation.

Auditing

To safeguard the interests of shareholders and the general public, an independent auditor is appointed at the Annual General Meeting following a recommendation from the Board of Directors. Before making its recommendation, the Board of Directors undertakes a critical evaluation of the auditor's independence, competence etc.

The auditor submits a written report to the assembled Board of Directors twice a year and also immediately after identifying any issues of which the Board of Directors should be informed.

Internal control

The Group's executive management sets out general requirements for business processes and internal controls in the financial area at subsidiaries. In the case of joint ventures, these requirements are set out in conjunction with the partners in each venture.

The internal control system includes clearly defined organisational roles and responsibilities, reporting requirements and authorities.

Each month the Group's companies report financial data and comments on financial and commercial developments to head office in Copenhagen.

This information is used to prepare consolidated financial statements and reports for the Group's executive management. As part of this process, the accounting information reported by all of the companies in the Group is reviewed both by controllers with regional links and in-depth knowledge of the individual companies, and by accounting experts. The most important companies in the Group also have their own controllers with extensive commercial and/or accounting know-how.

The governance structure for financial procedures, including the specification of responsibilities for each management level and the financial organisation, is regulated with the help of a manual which ensures consistent and structured management of the entire Group.

Commercial and financial developments and the associated risks are also discussed by the Group's Executive Board, regional management teams and the individual companies' management teams at meetings three times a year.

Internal Audit

Carlsberg has set up an Internal Audit department reporting to the Group's CFO to ensure objective and independent assessment of the adequacy, efficacy and quality of the Group's internal controls.

Internal Audit's most important role is to assess whether the Carlsberg Group has well-established accounting practices, written policies and procedures in all important business areas, and adequate internal control procedures. This includes assessing whether there are satisfactory controls in relation to key IT systems, and whether these comply with the IT policy.

Internal Audit conducts an annual review of business risks. On the basis of this and input from the Board of Directors and senior executives in the Group, an audit schedule is drawn up for the year. Internal Audit is responsible for planning, executing and reporting on the audit performed. This reporting includes observations and conclusions, together with suggestions for improvements to the internal controls in each area audited.

NASDAQ OMX Copenhagen A/S's recommendations

Since 2005 a number of recommendations for corporate governance have formed part of the rules for companies listed on NASDAQ OMX Copenhagen A/S. As in other European countries, companies must either comply with the recommendations or explain departures from them.

As discussed above, Carlsberg's corporate governance largely complies with these recommendations, but with a few exceptions. These are presented and explained on page 61 (references in brackets are to the relevant sections of the recommendations).

Northern & Western Europe comprises the mature beer markets in Carlsberg's business portfolio with stable or modestly declining volumes. Carlsberg has no. 1 positions in many markets and sufficient production capacity in the region.