Carlsberg A/S

2021 Financial Statement

Conference Call

4 February 2022

with:

Cees ’t Hart, CEO and
Heine Dalsgaard, CFO

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Carlsberg's Financial Year 2021 Financial Statement. For the first part of this call, all participants are in a listen-only mode. Afterwards, there'll be a question-and-answer session. [Operator Instructions] This conference call is being recorded.

I will now hand it over to the speakers. Please begin.

Cees 't Hart, CEO

Good morning, everybody, and welcome to this conference call. My name is Cees 't Hart, and I'm joined by CFO, Heine Dalsgaard, and Vice President of Investor Relations, Peter Kondrup. I hope you and your families are safe and well.

Yesterday, we announced our new SAIL'27 strategy. Due to our new long-term financial targets, we had to publish these announcements as soon as the board had approved them, hence the announcement yesterday afternoon. Today's call will, therefore, be different than our usual full-year conference calls. We will start off with the full-year results and 2022 outlook, and then we will go through the headlines of SAIL'27. We expect the call to last 1.5 hours, split between our prepared remarks and the Q&A.

We will hopefully meet many of you during the coming road show where we can answer any additional questions. In September, we will host a Capital Markets Day where we will present SAIL'27 in more detail, and you will get the opportunity to meet our leadership team.

Please turn to slide 3 and key financial strategic highlights of the year.

The group delivered a strong set of results, while navigating a very turbulent environment as most markets being impacted by COVID-19 and related restrictions. Total volumes grew organically by 7.4%. Compared with the pre-pandemic 2019 level, volumes were up by 5%. Operating profit was DKK 10.9 billion. This was 12.5% organic year-on-year improvement. Total cash returns to shareholders amounted to DKK 6.8 billion, up almost DKK 800 million compared with 2020.

We continued to deliver strongly against our SAIL'22 priorities despite continued lockdowns and restrictions, craft & speciality volumes were up by 15%. Alcohol-free brews continued the strong momentum and grew by 17%, driven by strong growth in both Western Europe and Central & Eastern Europe. E-commerce is becoming an increasingly important sales channel. Our total e-commerce revenue amounted to DKK 4 billion in 2020, up by more than 50% versus 2020. Our business-to-consumer e-commerce revenue was up by around 40%, while business-to-business through our own Carl's shop was up by around 60%.

Please turn to slide 4, and Western Europe. The region has a very volatile year. H1 was impacted by on-trade restrictions, while H2 benefited from less restrictions in Q3 and easy comparables in Q4. Our on-trade volumes for the year grew by 12% but were still only at index 65 compared to pre-pandemic levels, although improving to around index 80 in Q4. Compared with 2020, on-trade volumes more than doubled in Q4.

The total volumes grew organically by 4.2%. Acquisitions added around 2.5 million hectoliter and the total reported volume growth was 10.7%. Other beverage volumes grew faster than the beer volumes due to a strong performance for the Nordic CSD businesses. Alcohol-free brews grew by around 15% and now accounts for more than 5% of the regional beer volumes. Craft & speciality grew by around 5%, supported by the on-trade improvement.

Revenue per hectoliter increased by 2%. There was a strong improvement in the H2 due to a positive channel mix. The operating profit grew in most markets, supported by the recovery in H2. In addition, the profit benefited from cost savings in 2020 and 2021.

The operating margin, excluding acquisitions, improved by 40 basis points. The reported margin declined by 80 basis points due to the acquisitions of Marston's brewing activities and Wernesgrüner, both of which had lower margins than the regional average.

Slide 5 and a few market-specific comments. In the interest of time, I will, for all three regions, focus my comments on the larger markets and the most important events.

Our Nordic markets performed very well and the volumes grew by high-single-digit percentages, with a double-digit growth in Denmark and Norway. In Denmark, we benefited from the early removal of the restrictions and the reopening of the Danish-German border. In Norway, the growth was supported by domestic tourism and good growth for brands such as our strong local power brand, Frydenlund, and Tuborg. Craft & speciality, alcohol-free brews, and CSD delivered particularly strong growth.

In the UK, the key focus in 2021 was the integration of Marston's brewing activities. It was executed very well, and we are achieving the expected synergies. We remain very optimistic for the opportunities for the combined businesses, both in terms of synergies and commercial upsides. However, 2021 was a challenging year for the business due to its significant on-trade exposure. After a tough H1, the business rebounded strongly in H2 when on-trade restrictions were relaxed. Our international lager brands, Carlsberg Danish Pilsner and Poretti, and some of our license brands performed very well.

In France, our volumes declined slightly. Revenue increased due to positive channel and brand mix, the latter driven by very good growth for our alcohol-free brand, Tourtel, and craft & speciality. Our market share declined, mainly due to our mainstream brand, Kronenbourg, which declined in line with the category. In Germany, the Wernesgrüner acquisition was integrated very fast, and is delivering the expected financial benefits.

Please turn to slide 6 and Asia, that delivered a very good year despite all markets being impacted by restrictions, albeit with very different levels of severity and timing. Although vaccination rates are increasing and restrictions are gradually being removed, there is still a risk of continued volatility in the region for the coming quarters.

Total volumes grew by 12.1% mainly driven by China and India. H2 volume growth was slower than in H1 mainly due to high comparable numbers in China. Other beverages saw good growth due to the soft drink and energy drink businesses in Cambodia and Laos.

Revenue per hectoliter grew by 3%, positively impacted by channel and brand mix that more than offset country mix. Operating profit grew strongly by 23.9% and operating margin improved by 140 basis points to 24.9%. The improvement was mainly driven by strong volume growth, higher revenue per hectoliter and tight cost control and achieved despite higher marketing investments.

Slide 7 and a few market specific comments. The Chinese markets grew by an estimated 5%. Our volumes grew by 15%, well ahead of the market and driven by strong growth for our international and local premium brands. 1664 Blanc grew by 36% and Wusu by 34%. We expanded our big cities, both in terms of adding new cities and strengthening our position in existing cities. We are now in 41 cities with our international premium brands.

Q4 volumes in China declined slightly due to tough comparables as volumes grew by 15% in Q4 2020. Compared with 2019, Q4 volumes were up by 12% and full year volumes by almost 20%. The sell-in to the

Chinese New Year celebrations did not take place in Q4 but is happening now in January, which means that we are looking at a very good volume development in China at the beginning of 2022.

In India, the year was impacted by restrictions at various times. For the full year, we saw very good recovery. Volumes were up by more than 30%, although they remain below 2019 levels. Revenue per hectoliter increased due to growth of the premium Carlsberg brand, price increases in some states, and a positive packaging mix.

Laos is among the Asian markets being hardest hit by restrictions, including alcohol bans. Our volumes declined by around 5%. Soft drinks and water business performed better than beer due to fewer restrictions for non-alcoholic products. Revenue per hectoliter remained solid due to price increases while there was a negative brand mix due to strong growth from our local economy beer brand Lanexang, as the weakening of the local economy has impacted consumer spending.

Slide 8 and Central & Eastern Europe. The region delivered a solid set of results. Volumes were flat or grew in all markets and market shares improved in 12 out of 16 markets. Other beverages grew by 20% due to strong growth for our energy brand, Flash Up, that is available in several markets in Eastern Europe. Alcohol-free brews did very well, growing by 19%, significantly ahead of the overall category as we estimate it. Russia and Ukraine are actually our two largest markets for alcohol-free brews. Revenue grew organically by 10.1%. Revenue per hectoliter was up by 4%, impacted by price increases in some of the Eastern European markets and the on-trade recovery in some South-Eastern markets.

Revenue for hectoliter accelerated in Q4, as were able to take price increases in several markets in the region. In parts of the region, we were already in H2 impacted by high input and logistics costs. We have not yet been able to offset this by higher revenue per hectoliter, and therefore, operating profit grew organically by 1% and operating profit margin declined by 140 basis points. Operating margin was also impacted by the continued difficult competitive environment in Russia.

Slide 9, please. In a slightly growing Russian market, we delivered 5% organic volume growth. Revenue per hectoliter increased by mid-single digit percentages, with an acceleration towards the end of the year due to the price increases of around 4% in September, less promotional volumes in Q4 and a very healthy brand mix. Our market share improved slightly for the year, but weakened in Q4 as we increased our value focus and saw some customer delistings in the quarter.

The key focus in Russia is further premiumization, and we saw very good growth for key premium brands. Crafts & speciality grew by more than 40%, with 1664 Blanc as a key contributor. The development in Southeast Europe mirrored the one in Western Europe. This positive impact from fewer restrictions and consequently a positive channel mix as on-trade started to recover. Some markets, such as Greece and Italy benefited from tourists coming back.

The geographically very diverse Export & License business performed very well, delivering around 10% volume growth. Carlsberg and Tuborg grew in several European markets. 1664 Blanc and Somersby in Asia Pacific and Canada, and alcohol-free brands in the Middle East.

With that, I will hand over to Heine who will take you through the financials and outlook.

Heine Dalsgaard, CFO

Thank you, Cees, and good morning, everyone. Please turn to slide 10 and a few comments on the financials. In the interest of time, I will also focus on the key highlights. The full-year announcement contains a detailed description of all financials and so does the annual report, which will be published later today.

Revenue increased organically by 10% and 13.8% in reported terms. The positive revenue per hectoliter of 3% was due to positive channel mix in many markets and more premium and alcohol-free products. Revenue was 1% above pre-pandemic 2019 levels. The acquisition impact was due to the acquisition of Marston's brewing activities in the UK and Wernesgrüner in Germany.

Gross profit increased organically by 9% and 10.5% in reported terms. The gross margin decline of 140 basis points was mainly due to acquisitions. Excluding acquisitions, gross margin declined by 60 basis points due to higher input costs in some Central & European markets and also negative country mix. Gross profit per hectoliter improved organically by 1%.

We have been very satisfied with our operating cost management tool which enables us to execute tight and flexible cost control. Total OpEx grew organically by 8t%, mainly driven by higher marketing and also higher admin costs. Admin costs were particularly impacted by acquisitions, currencies, and certain one-off provisions in addition to higher variable pay accruals because of the strong financial performance for the year. Despite this, the ratio of SG&A to revenue declined by approximately 60 basis points to 14%. For the year, marketing increased by 11% organically and amounted to 7.6% of revenue.

Operating profit grew organically by 12.5% and in reported terms by 12%. Reported operating profit for 2021 was 4% above 2019, thanks to many mitigating initiatives and also strong performance in China and some of our European markets. The operating margin was 16.3%. Excluding acquisitions and in particular, the Marston's acquisition in the UK, operating margin increased by 30 basis points to 16.9%.

Slide 11, please. Special items were positively impacted by reversal of provisions made purchase price allocations in previous years in China and in Cambodia. These amounted to more than DKK 1.2 billion and were related to excise taxes and employer obligations that have been settled or not realized. On the cost side, we made impairment and write-downs of the Tibet Lhasa brewery and on the Baltika brand due to higher Russian interest rates and higher COGS. Special items were impacted by the decision to deconsolidate the Nepalese business at the end of 2021. This was due to actions taken by our local minority shareholder with a related party to a 33% shareholder in Carlsberg South Asia. We elaborate further on the partnerships in the full year announcement and also in the annual report. With respect to the deconsolidation, accounting wise, as of 2022, the Nepalese business will move from fully consolidated to being an associate. The impact on operating profit will be approximately DKK 50 million and on revenue around DKK 500 million. The impact on net profit and also earnings per share will be very limited.

Net financial items amounted to DKK 381 million, or DKK 319 million excluding currency gains and losses. Financial items were positively impacted by the reversal of a previous impairment of a loan to our JV partner in India and Nepal. This was partly offset by higher provisions related to accrued interest on tax cases in certain markets.

The effective tax rate improved to 21.7%. This was impacted by tax-exempt and non-deductible special items. Excluding these, the effective tax rate was 23.5%.

The increase in non-controlling interest of DKK 385 million was particularly due to strong operating results in China but also due to PPA adjustments in China and contingent considerations in the UK. Adjusting for the impact of special items, non-controlling interest would have been DKK 1,082 million, which is the number you should use as the base when modeling 2022 and onwards.

Net profit improved by 14%. Adjusted for special items after-tax, net profit increased by 9%. Adjusted EPS increased by 11% supported by the share buybacks. Compared with 2019, adjusted EPS was up by 18%.

Slide 12, please. Free cash flow improved significantly and was very strong at DKK 8.9 billion. This was driven by higher EBITDA, which was up by 10% in reported terms, a significant cash inflow from trade working capital, as well as last year's acquisitions. CapEx amounted to DKK 4.2 billion. This was an increase of DKK 625 million versus last year when excluding the purchase of the Brooklyn brand rights in 2020.

Trade working capital to revenue was strong at minus 18.4%, which is the level that we're very satisfied with. ROIC improved by 140 basis points to 10.3% due to higher profits and also the lower tax rates. Excluding goodwill, ROIC improved by 430 basis points to 27.5%.

Due to the strong free cash flow and despite paying DKK 6.8 billion in dividends and share buybacks, our financial leverage declined to 1.24 times. This is more conservative than in recent years, and it is to ensure the financial flexibility to potentially acquire our partner's 33% shareholding in Carlsberg South Asia, which is the holding company owning our Indian and Nepalese business.

The announced buybacks in 2021 was DKK 4 billion. DKK 3.6 billion were cash out in fiscal 2021 and the remainder in January 2022. For 2022, we will continue with quarterly share buybacks due to the continued business uncertainty related to the pandemic and also input costs and general consumer sentiment. Quarterly programs give us the higher level of flexibility during the year.

The share buyback launched this morning amounts to DKK 1 billion and runs until April 2022. The size of subsequent buybacks will, as we did in 2021, be determined quarter-by-quarter, and we will come back with more information on the next quarterly share buyback at the Q1 announcement on April 28. It will be proposed to the AGM to increase the dividend per share by 9% to DKK 24. This corresponds to a payout ratio of 49%, in line with our capital allocation principles.

And now please turn to slide 13 and the outlook for the year. 2022 is expected to be yet another challenging year. In many markets, the pandemic will be a headwind in the first part of the year. And although vaccination rates are going up and restrictions are being relaxed, we are expecting the on-trade channel to be impacted well in the first half. In addition, input costs have been increasing during the second half of 2021 and continue to do so. This will impact cost of goods sold and logistic costs in 2022. Our current estimate is that COGS per hectoliter will increase organically by 10% to 12% and logistic costs by 4% to 5%. This may change during the year due to changes in the spot prices on unhedged input costs as well as transactional FX.

Inflation is also picking up in many markets. This may have an impact on consumer sentiment and subsequently on beer consumption, on brands and on channel mix. We believe that we are well prepared for the challenges and the volatility of 2022. We are aiming at offsetting the higher cost in absolute terms through higher revenue per hectoliter. This will come from a combination of price increases, channel, product and pack mix, and other value management initiatives. In addition, we will continue our tight operating cost focus. Together, these actions will help us mitigate the higher costs and expected also higher marketing spend in 2022.

Based on all of this, we expect an organic operating profit growth of 0% to 7%. Detailed assumptions per region can be found in the full-year announcement. We assume a currency impact on operating profit of plus DKK 250 million, particularly impacted by the Chinese, the Swiss and the Norwegian currencies. Net finance cost excluding FX is assumed to be DKK 550 million, tax rate around 22% to 23% and CapEx around DKK 5 billion.

Those were the comments on the full year results. We will now begin the second part of the call, where we will present our new strategy SAIL'27. Please go to slide 14.

Before handing over to Cees for a review of SAIL'27, let me sum up the financial achievements of SAIL'22.

We have, since the beginning in 2016, measured the financial success of SAIL'22 using three KPIs; organic operating profit growth, ROIC improvement and optimal capital allocation. We have performed very well on all of these, even with the recent two years of significant COVID-19 disruption. Average organic operating profit growth since 2015 has been 7%. The operating margin has increased by 340 basis points from 12.9% in 2015 to 16.3% in 2021. Excluding the dilutive impact from, in particular, the Marston's acquisition in 2020, the increase would have been 400 basis points to 16.9%, which is very much in line with the 17% margin that we articulated in the beginning of the SAIL'22 strategy period.

ROIC, as you can see, improved by 470 basis points compared to 2015 to now 10.3%. The financial leverage has been reduced from 2.3 times in 2015 to now 1.24 times, while at the same time significantly increasing cash returns to shareholders. Dividend per share was DKK 9 in 2015 and DKK 24 for 2021. Including this January, we have carried our share buyback amounting to DKK 11 billion. Total [annual] cash returns to shareholders have therefore increased from DKK 1.4 billion in 2016 to DKK 6.8 billion in 2021.

At the same time, we've also done some acquisitions, such as Cambrew in Cambodia, the Brooklyn brand rights, Marston's brewing activities in the UK, Wernesgrüner in Germany, as well as increasing our economic stake in in Super Bock in Portugal. So all in all, very good financial performance since the launch of SAIL'22 and Funding the Journey in 2016.

Now, we will continue on the next theme of our journey, SAIL'27. Over to you, Cees.

Cees 't Hart, CEO

Thank you, Heine. Please turn to slide 15. As SAIL'22 is coming to an end this year, we announced our new strategy, SAIL'22, yesterday evening.

We are very pleased with our SAIL'22 achievements during the past six years. In many of our markets, we have delivered on our ambition of becoming the most successful, attractive and professional brewer, and we have been able to significantly improve the Group's strategic organizational and financial health.

While setting the overall direction for the Group, SAIL'22 has also been a living strategy, continuously being adjusted to reflect our learnings and also the changing market environment, particularly during COVID-19. We have obtained key learnings for growth models, such as driving category growth, with alcohol-free brews being a good example, and scaling brands across markets using repeatable models with 1664 Blanc and Somersby being good examples of this. The key strength of SAIL'22 has been our ability to leverage scale well, remaining close to local consumers and customers.

We have achieved a good balance between being purpose-led and performance-driven, the latter by significantly strengthening our performance management culture. We have also achieved a good organizational balance between markets, regions, and central functions.

With SAIL'27, we are building on these strengths and successes. We are setting a new and exciting long-term direction for Carlsberg with higher ambitions for top- and bottom-line growth. SAIL'27 was developed as a collaborative, company-wide effort, engaging more than 200 employees from over 30 different markets and functions. In this way, we could incorporate the learnings from SAIL'22 and ensure that the strategy will be strongly embedded across the organization, and from the beginning.

With SAIL'27, we want to remain an attractive company for our investors, societies, and employees. We want to keep and sharpen our existing strategy, organizational, and financial focus. At the same time, we want to make sure that our direction-setting is refreshed and that we incorporate expected global, regional, and local trends. In other words, SAIL'27 incorporates the learnings from the past and our assumptions on the future, blended together.

As you can see on the slide, we will focus on five strategic levers: portfolio, geographies, execution, culture, and funding the journey. For each of these, we have made distinct choices to be clear on the focus of our efforts and the allocation of resources. It is important to emphasize that, just as with SAIL'22, the strategic levers and choices are an integrated set of activities which together will drive shareholder value.

I will now briefly present the SAIL'27 priorities. You can find a more thourough recap in yesterday's announcement.

Slide 16 and our portfolio choices.

The momentum in premium beer is very positive and across our regions. The premium category is growing three to four times faster than mainstream beer. Historically, our business has been built from local power brands and consequently skewed towards mainstream. Therefore, we have a gap to close in several of our markets.

We see this as a significant opportunity. We have an attractive, diverse brand portfolio and liquids and the right tools to allow us to really step up and improve our performance in the premium category. We will sharpen our approach to how we develop and grow premium brands. This includes a higher level of differentiation versus core mainstream brands in terms of sales execution, value management, marketing investments and resource allocation. We have proven successes to build upon such as craft & speciality, which has delivered average annual volume growth of 11% and increased its share of beer revenue from 7% in 2016 to 14% in 2021. 1664 Blanc, the jewel in our premium portfolio, has grown by more than 15% per year to more than two million hectoliters. We have identified three distinct opportunities for which we will have clear guidance for market on how to drive growth and prioritize brands and investments.

Firstly, we will grow in super premium. A key priority here is to further build and scale 1664 Blanc. We will also drive growth for our local craft brands and selectively scale our super premium brands such as Grimbergen and Brooklyn.

Secondly, we will selectively use Tuborg and Carlsberg, which we believe we can expect more volume and value growth, particularly in Asia. And, thirdly, we will further grow and scale our strong local premium brands that often are regarded as national treasures using repeatable models with proven success. Good examples are brands such as Jacobsen in Denmark, Frydenlund in Norway, and Valaisanne in Switzerland that all have strong momentum.

Slide 17. The mainstream beer category continues to be very important in shaping the overall image of the beer category and for recruiting new consumers. We estimate that more than 60% of total beer category value is generated by mainstream beer. Local mainstream power brands are a significant part of our total portfolio. These brands have strong local roots and histories and fulfil the continued consumer demand for local and authentic brands. Mainstream core beer is the backbone of our business, and it is important that we continuously ensure the relevance and strength of our brands.

We see good opportunities for value growth, for example, by expanding innovations and repeatable commercial models across markets and brands. Our local power brands also offer opportunities for premium line extensions and entry points into other categories, for example alcohol-free beer. We will apply a structured and disciplined approach to manage our local brands, clustering them into four groups in order to determine the level into four groups in order to determine the level of marketing investments needed, criteria for innovations, opportunities for geographical expansions in or outside their home markets and specific value management efforts. So, we are taking a more rigorous approach on how we manage our mainstream core brands. And despite the category is under pressure from premiumization, the category offers appealing long-term revenue growth opportunities for us.

Slide 18 and a well-known priority for us. Alcohol-free brews will remain in focus, also in SAIL'27 as it is among the fastest growing beer segments, particularly in Europe. We have delivered strong growth of 14% CAGR in alcohol-free brews during SAIL'22 and in many markets, and Western Europe and Central & Eastern Europe, we hold strong number one market positions.

Our portfolio is right and includes traditional alcohol-free beer, beer mixes, flavored non-alcoholic beers and non-fermented malt beverages. Our ambition is to continue our strong growth momentum. We will do so by accelerating volume growth in Western Europe, further scale our alcohol-free brews portfolio in Central & Eastern Europe and seeding the category in Asia, leveraging our strong local power brands, our international premium brands, and stand-alone alcohol-free brands. Our ambition is to more than double our alcohol-free brew volumes.

Slide 19 and a new priority in SAIL'27. Alcoholic categories beyond beer, such as ciders, hard lemonade, hard seltzers and RTDs are becoming increasingly popular in some of our markets. This is due to sweeter taste and more fruity and flavored variants appealing to some consumer groups. We see a very appealing growth opportunities in this space with already existing and proven brands. The two key brands will be Somersby and Garage that have developed very strong growth in some markets in recent years. From being local priorities, we will now make them global or regional priorities, with the required attention and investments. Those brands have proven to be scalable, and by applying repeatable global models and expanding into new markets, we believe they can deliver a sizeable growth. We will use existing liquids but also expand into other categories, such as hard seltzers or premixes.

These were our portfolio choices. Let me just summarize. We see very appealing long-term value growth opportunities by increasing focus on and investments in the growing premium category, continuing our double digit growth in alcohol-free brews and expanding beyond beer. For core beer, we see value growth opportunities by applying the right frameworks and being disciplined on focus and investments.

Slide 20 and our regional priorities. We have an attractive footprint with widespread regional exposure and 22 number one or number two market positions across the Western Europe, Asia, and Central & Eastern Europe. While market dynamics are different within and between our three regions, they all offer a long-term revenue and earnings growth opportunities. The portfolio choices that I just went through are exactly the same for all markets and regions, but they'll be executed differently market by market, subject to local dynamics. As with our mainstream brands, we will cluster our markets into groups based on their growth opportunities and we will allocate resources accordingly.

In Western Europe, focus will remain on driving value growth through premiumization and improving margins by also continue our rigid focus on efficiencies and cost. Our approach will differ by market. To mention a few interesting but different opportunities. In Switzerland, beyond beer is an opportunity with the new Pepsi franchise. In France, we underindex in premium, which is a key value growth opportunity. And in the UK, we will expect the benefits from the Marston's acquisition.

In Asia, we continue to see both volume and value growth opportunities. As in SAIL'22, we will particularly focus on China, India and Vietnam. Our Chinese business has delivered very impressive performance during the past six years, more than tripling operating profit. Going forward, we will continue our successful big city strategy and strengthen our position in the growing modern retail and e-commerce channels. In India, we will continue our growth momentum in the mainstream category, while further investing in premium and super premium growth. In Vietnam, we will accelerate our growth momentum, also outside our core central region.

Central & Eastern Europe consists of very diverse markets. This is very different market dynamics. Generally, we aim to strengthen our premium portfolios and sales execution capabilities, as well as pursue growth opportunities beyond beer, for which we will leverage Garage and Somersby as just mentioned on the previous slide.

In Export & License business that account for some 20% of the region, we see opportunities for building scale in specific segments across markets in Europe, Middle East and Asia Pacific, using brands such as Somersby, 1664 Blanc, Carlsberg and alcohol-free brews.

And slide 21, please. Excel in execution was a key priority in SAIL'22 and will remain so in SAIL'27. The key reason for the success of SAIL'22 has been the execution and alignment of our priorities at group, regional and market level. We have progressed very well with respect to execution but there is still more to do. Therefore, we will continue to improve our capabilities and focus more intensively on embedding them everywhere.

We will focus on three areas in particular. Firstly, we must excel at the point of purchase by further embedding our well-proven sales execution and value management tools and technologies and by offering winning portfolios. Secondly, we will master digital, data and processes to secure our competitiveness. Important areas include digital marketing, e-commerce and data and analytics, as well as continuously develop processes and leverage technology to improve efficiencies and our ways of working.

Thirdly, we will continue to optimize our supply chain by developing common tools, processes and capabilities across markets. We will in particular focus on end-to-end demand, material and supply planning expertise.

Please turn to slide 22 and our winning culture, which has become very well embedded across the group during the past six years. We are a very strong team, and our winning culture will continue to focus on people, behaviors and our contribution to societies at large in order to deliver on our ambition of being the most successful professional and attractive brewer in the markets where we operate.

Our purpose of brewing for a better today and tomorrow remains unchanged. We have a strong foundation in our performance-driven culture, which we will further amplify. We will maintain what has work very well, including our Triple-A behaviors, which stands for Alignment, Accountability, Action, while we will sharpen leadership expectations, strengthen talent pipeline and accelerate our diversity, equity and inclusion journey. It goes without saying that we will continue to live by our compass and high ethical standards in order to mitigate risks and protect our reputation as a responsible brewer.

Slide 23 and a few words on ESG and how this continues to be an integrated part of our strategy, also in SAIL'27. Carlsberg was among the first companies to introduce science-based climate targets in 2017, when we set ambitious targets for carbon, water, health and safety and responsible drinking as a part of our ESG program Together Towards ZERO.

Compared with our 2015 baseline, we have reduced our relative brewery carbon emissions by 40% and our relative water usage by 21%, with steady progress achieved in 2021 as well. The accident rate has been reduced by 35% since 2015, although we saw an increase in 2021 due to acquisitions.

In SAIL'27, we will build on our momentum and performance, while expanding the scope and raising our ambitions. This is why we will launch an expanded ESG program, which we call Together Towards ZERO and Beyond. The new program will focus on our existing four priorities: carbon, water, responsible drinking and accidents. In addition, we will introduce sustainable agriculture and packaging as specific focus areas. We will provide more details on the expanded program, including updated targets and ambition levels for carbon and water and a thourough introduction to our new focus areas, including specific and measurable targets. And we will do that in April.

And now I will hand over to Heine, who will explain how we will fund our SAIL'27 journey and continue to deliver shareholder value. Heine, over to you.

Heine Dalsgaard, CFO
Thank you, Cees. Please turn to slide 24. Funding the Journey has served us extremely well since we first launched the program. From 2016 to 2018, we delivered DKK 3 billion in savings; of which we reinvested more than DKK 1 billion into SAIL'22 priorities. Since then, Funding the Journey has become an integrated part of our ways of working and living in Carlsberg. We will now take the next steps, renaming Funding the Journey to Funding *our* Journey, emphasizing that everyone in the Carlsberg group work together to free up resources so that we can invest in our brand, our markets, our capabilities, and also offset inflationary pressure. In other words, Funding our Journey will enable us to invest even more in specific markets and brands and innovations.

We see particular scope for further efficiencies within supply chain and also operating costs. In addition, we will maintain our strong focus on cash, including areas such as trade working capital and CapEx. We will continue our rigorous performance management approach, applying our Golden Triangle as a key management tool, keeping the drumbeat with our monthly performance reviews and further leveraging our Operating Cost Management tool, OCM, to track progress and manage phasing and pacing of individual efficiency initiatives. We have set clear principles and tracking to ensure that the whole organization remains fit and right-sized.

Please turn to slide 25 and the output of SAIL'27 and how it all translates into value for our shareholders. We believe that with SAIL'27, we can successfully capture long-term growth opportunities, and we are, therefore, increasing our financial and sustainability ambitions. We target organic revenue growth of 3% to 5% per year as an average, with reported 2022 as the base.

The key building blocks will be growth in premium, alcohol-free brews and beverages beyond beer. Geographically, Asia is expected to deliver disproportionate growth, led by China, India and Vietnam both in terms of volume but also in terms of value, while Western Europe and Central & Eastern Europe are expected to deliver value growth across all markets, with some markets also delivering volume growth.

Organic operating profit is expected to grow faster than revenue. This will be driven by growth of premium products and alcohol-free brews, where profit per hectoliter is higher than average, but also country mix and continued cost and efficiency improvements from Funding our Journey. Funding our Journey will be used to keep costs under control and to ensure the required investment levels. It goes without saying that we will continue our ROIC focus, and ROIC will remain the key internal KPI when evaluating investment opportunities. We expect an effective tax rate of 22% to 23% and we will maintain a strong focus on working capital and CapEx.

As Cees talked about, we will also raise the bar for our sustainability efforts. In April, we will reveal our Together Towards ZERO and Beyond program, including new and ambitious targets.

Please turn to slide 26 and our capital allocation principles. These principles have served us very well, and they will therefore remain unchanged. We will invest in the organic growth of our business to drive long-term value creation. We will maintain a conservative balance sheet with a financial leverage below 2 times. We will keep our payout ratio of adjusted net profit at around 50%, and we will distribute excess cash to shareholders through share buybacks and/or extraordinary dividends. We will only deviate temporarily from this if value-enhancing acquisition opportunities arise.

With that, over Cees for a final comment.

Cees 't Hart, CEO
Thanks, Heine. And before opening up for Q&A, let me summarize. 2022 will be a year of transition from SAIL'22 to SAIL'27. It will also be a year where our business will have to cope significantly higher input costs and continued impacts from COVID-19. Nevertheless, our financial situation remains strong. We are well-prepared to continue the positive earnings growth trajectory. SAIL'22 has enabled us to increase the cash

returns to shareholders by almost fourfold. Since 2016, we have returned DKK 27.4 billion by steadily increasing dividends and doing share buybacks. In addition, we have advanced far on our sustainability journey and are well on track to reach our 2022 intermediate targets for carbon and water.

With SAIL'27, we are building on the foundation, strengths and momentum of SAIL'22 and we are setting a new aspiring and ambitious long-term direction for the group.

Please observe that we, again this time, will limit the number of questions to two per person to ensure that as many as possible get a chance to get through. After your questions, you are welcome to join the queue again.

And with that, we are ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question is from the line of Edward Mundy from Jefferies. Please go ahead. Your line will now be unmuted.

<Q – Ed Mundy – Jefferies International Ltd.>: Morning, Cees. Morning, Heine. Two questions from me, please. The first is on your revenue per hectoliter going into 2022. Clearly, you flagged COGS headwinds and how much do you hope to claw back through revenue per hectoliter initiative including pricing, revenue growth, management, channel mix, product mix, and your suite of tools there? And where you have taken price? Have you seen a noticeable impact on beer consumption? That's the first question.

And the second question is on your degree of visibility for 2022 and your COGS per hectoliter guidance of 10-12%. Could you remind us sort of how well hedged you are and where are the sort of the parts of the P&L where you're less well hedged?

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Ed, and good morning. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Good morning, Ed. So on the revenue per hectoliter for 2022, as we also say, it is really a combination of many things. It's channel, it's product mix, and then it's also – as you say, price increases. As you know, in some markets, we have already increased our prices and we've seen no sort of significant impact on beer consumption. So that was the first part.

The other part on the COGS, and the COGS development and what the key assumptions are, and how well we are hedged. Just to take a step back, so the rule of thumb for COGS, as you know, at group level is that approximately 25% of the COGS are raw materials, such as malt and unmalted, barley and also wheat, rice, sugar. The largest raw material is malt, which is around 40% of the total. If we look at malt, then specifically approximately 50% is barley and 50% is conversion cost.

Approximately, 45% – so on top of the 25% of the COGS – are packaging materials, which includes aluminum, glass, and PET, paper, and cardboard, and so on. The largest packaging category is cans, accounting for around 40% of our packaging costs. For cans, around 50%, as said before, are then aluminum and 50% are conversion costs.

The remaining around 30% of the COGS are non-material costs, such as labor, utilities and depreciation.

If we look at our hedging, then at this time, we feel that we are well hedged on the commodities that we actually can hedge. That include barley, it includes aluminum, it includes sugar and so on. Some inputs and some of the ones we've just been through are not easy or even impossible to hedge and can change during the year as there are changes. Approximately 20% of our COGS, which is the one we've just been through, are hedgeable. And of those, we have hedged around 80% to 90% of our needs for 2022. The other 80% are mainly non-material costs and also conversion costs as some of the commodities and also some of the packaging cannot be hedged. But overall, we feel that we are well hedged for what we can hedge going into 2022.

<Q – Ed Mundy – Jefferies International Ltd.>: Thanks, Heine. Just on the first question, I mean, how much of this COGS inflation do you hope to be able to recapture through revenue per hectoliter initiatives?

<A – Heine Dalsgaard – Carlsberg A/S>: So if you talk about 2022, then the plan is that we will be able to cover the COGS increase per hectoliter with revenue per hectoliter increases. And that is then spread across mix, products, channels, price mix – price increases, and also, as I said before, other value management initiatives.

<Q – Ed Mundy – Jefferies International Ltd.>: Great. Thank you.

Operator: Thank you. The next question is from the line of Trevor Stirling from Bernstein. Please go ahead. Your line will now be unmuted.

<Q – Trevor Stirling – Sanford C. Bernstein>: Morning, Cees and Heine. So my two questions. So, one, talking more of 2022, one looking forward. First on 2022, in the press release, you strike to caution around the potential volume elasticity. But it sounds, Heine, like you're saying that no impact yet on volumes. If you look at where you think the squeeze might come – I suppose there are three lenses. There's brands. There's competitive [indiscernible] that competitors didn't follow. There's volume – category elasticity in terms of if prices go up and consumers drink less beer or there's just a general inflationary squeeze on the disposable income? Are you worried about all three or maybe just a bit more color on where, you think, the squeeze could come?

And the second question would be a bit more forward, China and China's role in SAIL'27. It looks like revenue per hectoliter growth slowed a little bit in 2021 compared to prior years. Is that an indication that the growth has mobilized a little bit in China between premium and mainstream or maybe just a little bit of color on how you expect revenues – revenue per hectoliter to play out in China in the coming years?

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Trevor, and good morning. With regards to the impact of pricing on volume, frankly, we're at the beginning of the year, we cannot see any, let's say, trend in that. It all depends, of course, whether, first of all, the competition follows, whether the channels will translate our price increases on the shelf and also, of course, disposable income. You can imagine that disposable income is more squeezed in countries like Russia and Ukraine, rather than in Western Europe. So the impact of the price increases across different sectors will impact the consumers there more. On the other hand, we have a very strong premium proposition where the price sensitivity is lower.

So in general, when I look at our own internal budget, we see that our regions are very much focused on taking prices and obviously cater in value management, that means also the way we push our products in promotions through different channels, using different packaging formats led by that combination of factors, we think we can basically make sure that also 2022 will continue to be a growth year for us.

With regards to the second part of the question, Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: So China and revenue per hectoliter outlook, while positive on the outlook for China when it comes to revenue per hectoliter, and it's mainly coming from basically more or less the same factors as we've described before, it is product or premium, it is channel, and it is also the power of our brands makes it more easy for us to get through with price increases.

<Q – Trevor Stirling – Sanford C. Bernstein>: Super. Thank you very much, Cees and Heine.

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Trevor.

Operator: Thank you. The next question is from the line of Pinar Ergun from Morgan Stanley. Please go ahead. Your line will now be unmuted.

<Q – Pinar Ergun – Morgan Stanley Securities Ltd.>: Good morning. Just a follow-up to Trevor's question on China. What level of growth are you assuming for China within your 0% to 7% group organic EBIT guidance? And in previous calls, you sounded confident that China could maintain an EBIT margin at around 20%. Would that still be the case for 2022? Or should we expect a bit of pressure?

And then my second question is on SAIL'27. You mentioned that you're looking to premiumize and increase margins in Western Europe. Can you please elaborate on that? Would you expect Western Europe margins to catch up to other regions? And would you expect premium brands to continue outperforming in an inflationary environment? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Pinar, and good morning. Heine, for you, China?

<A – Heine Dalsgaard – Carlsberg A/S>: So, good morning, Pinar. So on China, well, the level of growth going forward, we're positive on the outlook. We're not guiding specifically, as you know, for China for many reasons. One, we don't do it and, secondly, Chongqing is a listed company. So we don't guide specifically on the level of growth we see going forward. But we are positive on the outlook and the formula that we've used so far in terms of premium international brands, premium local brands, continue our big city approach and rollout. It is exactly the same strategy as we've had in the past as also going forward. So we remain positive on the outlook of growth from China.

In terms of EBIT margin, yes, we are – as you're saying, we are, at right now, in the mid-20s, and we expect to be able to keep that level.

<A – Cees 't Hart – Carlsberg A/S>: With regards to Western Europe, we have a quite a good portfolio by which we think we can premiumize. And also with the focus on further decreasing the cost in the supply chain, we think that, in totality, we can improve further the margin, the margin in Western Europe. To add a bit on the portfolio investment with regards to premium brands, we have, as you know, the 1664 Blanc proposition. We also have a premium lagers like Poretti. We have the Frydenlund brand, Jacobsen brand. So we have also premium local brands that do very well. And on top of that, we see potential in the rollout of the Brooklyn brand.

So we have quite a lot of assets that we can use to premiumize and we also think that despite maybe some inflationary pressures, the consumer – and that's what we see in the market – really are appealed by different choices also in the premium segment. So two messages for SAIL'27 for Western Europe is that indeed we will premiumize and we intend to increase further our margin in Western Europe.

<Q – Pinar Ergun – Morgan Stanley Securities Ltd.>: Great. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Pinar.

Operator: Thank you. The next question is from the line of Andrea Pistacchi from Bank of America. Please go ahead. Your line will all be unmuted.

<Q – Andrea Pistacchi – Bank of America>: Yeah. Good morning, Cees and Heine. So two questions, please. The first one and probably in part connected with what you've just said on premiumization. If I look through SAIL'22, your marketing as a percentage of sales has remained broadly stable, slightly below 8%. With SAIL'27, it looks as if you got a sort of broad set of growth priorities. So how should we think about reinvestment levels going forward? Is around 8% still the right level?

And then, please, following up on – so it was very helpful you're saying on hedges and the COGS breakdown you gave. Can I ask you, please, on glass, how higher energy costs feed into your glass costs and how your contracting – whether you are open to potentially movements, further movements in energy costs over the next few months or you're covered through the year on glass? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Andrea. Good morning again. With regards to your first question, we expect to invest more than the historically marketing investment as a percentage of revenue. That was, as you said, around 7% to 8%. So going forward, we will invest more. The funding of the higher marketing spend will be the savings and efficiency improvements that we were talking about with regards to Funding our Journey.

And with regards to your second question, Heine?

<A – Cees 't Hart – Carlsberg A/S>: Yeah. Hi, Andrea. So with respect to glass and energy costs impact, well, it is clear that there will be an impact on glass from energy. Part of it, we are covered for with our contracts. And part of it will remain and is remaining open, and that is also part of the guidance range that we just gave.

<Q – Andrea Pistacchi – Bank of America>: Okay. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Andrea.

Operator: Thank you. The next question is from the line of Sanjeet Aujla from Credit Suisse. Please go ahead. Your line will now be unmuted.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Morning, Cees, Heine. A couple from me, please. You've very helpfully given the COGS guidance, but just wondering if you could just help us a little bit more with the OpEx outlook. I think you spoke about logistics cost inflation of 4% to 5%, but specifically for 2022, how should we be thinking about marketing? I think 2019 you were 8.5% of sales. Should you be aiming to get back there this fiscal year? And then, on admin expenses as well, would appreciate any color there. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you. Good morning, Sanjeet. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Good morning, Sanjeet. So on OpEx 2022 and in particular double-clicking on marketing, we're closing, as you know, 2021 with a marketing spend of 7.6%. It was more or less in line with our expectations, taking into account the restrictions and lockdowns in Q4. For 2022, we will invest more into marketing to support top line growth. And we will do that and fund the funds via additional focus on general OpEx, where as said, we do see further opportunities for saving.

And that's then also a comment of the admin expenses. There is still something to go for in – on admin in general. You can see in 2021 that admin costs are up and there really are few specific reasons for that, including acquisitions, but also the impact from higher bonus accruals as we are hitting our sales targets and our earnings targets.

Going forward, we expect to see further improvements within the SG&A to revenue ratio. We're right now at 14%. If you go back a few years, we were at 17%. So we have improved SG&A relative to turnover quite a lot. And we do see opportunities also going forward. It's really not sort of big one-offs that we see. It is more applying the logic and the rigor from OCM continuously, also going forward. So just continuously challenging our cost spend and by that being able to be more efficient.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Thank you.

Operator: Thank you. The next question is from Tristan van Strien from Redburn Partners. Please go ahead. Your line will now be unmuted.

<Q – Tristan van Strien – Redburn Partners>: Good morning, gentlemen. Two for me, please. Just the first one, you mentioned the issues in Nepal and your partners in South Asia, Nepal and India as well. Can you just expand on that a little bit just in terms of what's happening there? It looks like you're keeping some firepower to potentially buy out the minority share as well? But just expand on why you decided to deconsolidate Nepal as well?

And then, the second question on SAIL'27. I guess, the question is, what have you decided not to do? What's been on the edge? So in particularly do you still discuss energy drinks as a growth driver in 2021? But it doesn't appear on your SAIL'27 plan. Is there anything else around that and why have you not decided to do that? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Tristan. Good morning. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Good morning, Tristan. So on Nepal, so, you're right, at the end of 2021, we decided to stop consolidation of the Nepalese business. And that is really due to the actions taken by our local minority shareholder in Nepal that holds 10% of the shares. This local partner is, as I commented, a related party to our partner in the Carlsberg South Asia, which is the holding company for our Indian and Nepalese business.

The local shareholder is limiting our influence on our operations, which we think is in violation of our legal and contractual rights. And we are contesting these actions in Nepal through the local courts. And we expect the operations of the management of our business in Nepal to be normalized again. So that is the logic behind the deconsolidation.

<Q – Tristan van Strien – Redburn Partners>: Is that a risk as well for India?

<A – Heine Dalsgaard – Carlsberg A/S>: No, it's a bit of a different structure in India, Tristan. As you remember, we own two-thirds of the Carlsberg South Asia business, which holds 90% of the shares in Nepal. So this local minority shareholder that I'm talking about has the 10%. In India, it's a different structure in the sense that Carlsberg South Asia controls 100% of India.

<Q – Tristan van Strien – Redburn Partners>: Got it. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: And then, with regards to your second part, the not to dos. Basically, when we talk about grow beyond beer, we – in SAIL'27, we'll extend our focus to other beverages that are not beer. Beyond beer will then be in adjacent categories like cider, hard seltzers and hard lemonades. And we are focusing on propositions we think that can be global and for which, at this point of time, we have assets that we can roll out. So we continue to build on Somersby and Garage. And that's the – let's say, for the first part of SAIL'27, there'll be a focus for further rollout, Tristan.

<Q – Tristan van Strien – Redburn Partners>: Sorry. And how many countries has Garage at the moment?

<A – Cees 't Hart – Carlsberg A/S>: Garage, I think that will be a five to six countries. Very much, let's say, in part of Nordics and Eastern Europe. And that's a proposition that travels fast. With regards to the energy drinks, we're not at all discontinuing this, but basically, that's more regional or local for the time being. And, again, we focus on Somersby and Garage.

<Q – Tristan van Strien – Redburn Partners>: Thank you. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Tristan.

Operator: Thank you. The next question will be from the line of Fredrik Ivarsson from ABG. Please go ahead. Your line will now be unmuted.

<Q – Fredrik Ivarsson – ABG Sundal Collier AB>: Thank you very much. Good morning, gentlemen. Question on the 2022 guidance. You mentioned that you expect the beginning of the year to be difficult in terms of restrictions and Western Europe you say is down 20% or index 80% versus last year or pre-pandemic levels. So, what's the sort of best and worst case assumptions for the on-trade channel in Western Europe?

<A – Cees 't Hart – Carlsberg A/S>: With regards to the restrictions, we see additional sign that they are lifted in many of the European countries. So, we assumed, let's say, an 80% index for Q1 and then we also assumed for the remainder of this year, the on-trade will come back in terms of being fully opened. Whether that means also that the consumers come all back to the on-trade that needs to be seen, but Q1 index 80 was our assumption when we talked about the guidance.

<Q – Fredrik Ivarsson – ABG Sundal Collier AB>: Perfect. Thanks. And then, second one on price/mix in Asia. That looks slightly negative in Q4. Could you clarify whether that's primarily a country mix?

<A – Cees 't Hart – Carlsberg A/S>: Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Good morning, Fredrik. So, the price/mix in Asia, negative price mix in Q4 is related to China and it is a one-off from last year that we also described. So, we had a one-off income in last year Q4 which is driving the negative price/mix. Corrected for that, it is positive.

<Q – Fredrik Ivarsson – ABG Sundal Collier AB>: Right. So, purely the accruals. Got it. Okay. Perfect. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Fredrik.

<A – Heine Dalsgaard – Carlsberg A/S>: You're welcome.

Operator: Thank you. The next question will be from the line of Laurence Whyatt from Barclays. Please go ahead. Your line will now be unmuted.

<Q – Laurence Whyatt – Barclays Investment Bank>: Morning. Thanks very much for the questions. Two from me, please. At the beginning of the presentation, you gave some impressive stats on your e-commerce business. I was wondering if you could give us a further split of how much e-commerce is now a percent of sales across the business and if, at all possible, add a little bit further between sort of B2B, B2B2C and D2C parts of that e-commerce business?

And then secondly, on your balance sheet. Your net debt/EBITDA is materially below many of your peers set and I appreciate you like taking a conservative view on the balance sheet but is there a level of net debt/EBITDA that you would consider too low or perhaps inefficient in the business that you would prefer not to go below? Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thank you very much, Laurence. Basically we have DKK 4 billion turnover in 2021 with regards to e-commerce. It's basically two-fold. One is business-to-consumer and the other is business-to-business. The business-to-business is in total DKK 3 billion and business-to-consumer is DKK 1 billion and they are growing fast in both [note: transcript corrected].

With regards to the business-to-business, it's the Carl's Shop. We are now in 10 countries and the impact of that is not only, of course, a better connection with our customers and the better service, but also an improved revenue per hectoliter. By the way, we nudged up and the business-to-consumer frankly that is very much still China. However, we see it, albeit from low levels, we see it coming up also now probably also spurred by the COVID situation in Western Europe. So, our focus for the coming years is to invest more in that in building the capability, learning also from China, understanding what kind of technology we need to use in order to do this in efficient way. And therefore it is an important part of SAIL'27.

<A – Heine Dalsgaard – Carlsberg A/S>: And on the – good morning, Laurence. On the leverage side, you're right that we are below peers. We like – I don't know whether we like to keep it like that, but for sure we like to have a conservative balance sheet. Our guidance, as you know, is to be below 2 times and 1.24 certainly is below 2 times. Our ambition is to stay with what we call our own actions and what we decide ourselves around 1.5 times plus/minus, so we have the flexibility to gear up. With the current uncertainties from COVID-19 and other factors, we prefer to stay a little bit on the low side of the 1.5 times. Hence, let's say, right now, we are 1.24.

<Q – Laurence Whyatt – Barclays Investment Bank>: Thank you very much. I was wondering if I could just follow-up on the first question on e-commerce. Previously I guess Carl's Shop was quite closely linked to DraughtMaster and I couldn't see any reference to DraughtMaster in the SAIL 2027 document. Has that been a little bit lower – put into a lower priority basket or is there anything else that we should draw from the lack of the DraughtMaster inclusion? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you. Thank you. Laurence, it's a valid question. Basically we have rolled it out in the Nordics and a number of other countries. It depends a bit on the route to market where we can easily further invest in that. We've just – we also have invested now in a line in China and are rolling that one out. It has been – in total this was postponed if you like or delayed by the impact of COVID. We now see it as one of our commercial tools in the on-trade, but it's not specifically the focus of SAIL'27 but an important part of the commercial weapons we have in on-trade.

<Q – Laurence Whyatt – Barclays Investment Bank>: Understood. Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Laurence.

Operator: Thank you. The next question would be from the line of Richard Withagen from Kepler Cheuvreux. Please go ahead. Your line will now be unmuted.

<Q – Richard Withagen – Kepler Cheuvreux SA (Netherlands)>: Yes. Good morning all and thanks for the question. Yeah, I want to follow-up on Laurence's question on Carl's Shop. I mean can you say what are the key benefits that Carl's Shop offers customers compared to the traditional systems? And Cees, you talk about nudges, are they driven by the data insights that you get from working with Carl's Shop? And then the second question I have is on SAIL'27. Could you share perhaps some thoughts on M&A in general as part of the strategy and would M&A also be a tool to accelerate expansion in beyond beer?

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Richard, and good morning. With regard to the Carl's Shop, as said, we have now it in 10 countries. The last was in Laos. What we've seen there is that we have been able to significantly increase our net revenue per hectoliter just by offering a broader portfolio engaging, based on data indeed, more with our or better with our customers. We can also be more tailor-made in our proposition based on – and the data and the portfolio. So, that serves us well. And, by that, we are going to roll Carl's Shop out further in all our other markets where appropriate because it also, of course, depends on the structure of the route to market.

With regards to M&A, you can imagine that we don't say too much about it. But, yes, we are – we have the funds for M&A. On the other hand, SAIL'27 is an organic program, we focus on that, and it's a bit like the last couple years, at the moment that we see and good opportunity that is in line with our strategy and is also in line with our financial requirements and also our objectives, then and we are open for that. However, again, SAIL'27 is very much about an organic strategy.

<Q – Richard Withagen – Kepler Cheuvreux SA (Netherlands)>: Yeah. Thanks. Thanks, Cees.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Richard.

Operator: Thank you. The next question will be from André Thormann from Danske Bank. Please go ahead. Your line will now be unmuted.

<Q – André Thormann – Danske Bank A/S>: Yeah. Thanks a lot. Hi, Cees and Heine. Two questions from me, please. First of all, in terms of China, both in 2022 and also towards 2027, what's your target for the new big cities here, both in 2022 and towards 2027? And then the second thing is in terms of the tax rate of 22% to 23%. Is this the new sustainable level from 2022 onwards, and what has been the main driver of this quite fast reduction in tax rate? Thanks.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, André. I will take the first question with regards to the big city. The big city approach, we will strengthen that in SAIL'27 and we are going to merge the existing big cities where we sell our international premium brands with the so-called Wusu cities that only sell Wusu Red, so that was a kind of promising development by the strong request from distributors in all kind of cities for selling Wusu Red. These are in total 76 cities in 2021. So, that means that where appropriate and where – let's say, where we can strengthen our distribution, we will expand to more cities and have those IPBs [international premium brands] and Wusu in portfolio. So, we will expand into new cities faster than the five – on average, five per year we did in recent years. We will define that portfolio to local city dynamics, because you can imagine, of course, that it also depends a bit on the competitive environment and also the desire of the distributors to have the full portfolio, but we see a big opportunity merging these cities, moving towards the 76 cities.

<A – Heine Dalsgaard – Carlsberg A/S>: And good morning, André. With respect to your question on tax rate and whether 22% to 23% is a sustainable level going forward, then the answer is, yes, that's our firm belief. And to the other part of your question, which is related to the drivers, the short answer from our point of view is really focus, and we strongly believe that by focusing on tax, we are able and have been able both to improve our compliance within tax but also, at the same time, to reduce our tax rate. So, it's really focus. It's discipline, having people working on both compliance and also the effective tax rate on a continued basis, discussing it, following up on it and then continuously having – and that's what we've had for the last five years – about 5 to 10 specific initiatives every year that we're working on across the globe to improve compliance and to reduce our effective tax rate.

<Q – André Thormann – Danske Bank A/S>: Thanks a lot.

<A – Heine Dalsgaard – Carlsberg A/S>: Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you and good morning again.

Operator: Thank you. The next question will be from Simon Hales from Citi. Please go ahead. Your line will now be unmuted.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Thanks, gentlemen. A couple from me as well, please. Firstly, can you just share a little bit more detail and color around the levels of pricing you've actually been able to take in recent months, so maybe especially in some of your European markets? And then in association with that perhaps comment on so how some of the ongoing negotiations with retailers are progressing across the region? And then secondly just on SAIL'27, I just want to make sure I understand the Funding our Journey initiative. Heine, should we really be expecting the efficiencies you generate from that really to all be reinvested back into the business and, therefore, some of the margin uplifts that you're targeting as part of SAIL'27 to really be driven by the portfolio initiatives that you're taking within the business?

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Simon. Thanks for the questions and good morning. With regards to the status of customer negotiations with Western Europe, we are currently, as you can imagine, in the annual customer negotiations and these are usually concluded during Q1. Due to the significant increase in COGS and logs, we are aiming for a sizable increase in revenue per hectoliter to offset the higher costs as Heine explained earlier. And as we said earlier, it is – they'll be driven by price increases, channel mix, pack mix and other value mentioned initiatives. So these are all parts of the customer negotiations.

Overall, you can imagine the negotiations are challenging due to the overall inflationary pressure. And there's a usual risk of some customer conflicts if you cannot find an agreement that suit both of us. However, we – and I think that's what we need to highlight –before the summer last year, we started already to prepare for this. We were well prepared going into the negotiations. Customers saw this was coming also because of pre-talks with them. And we are cautiously optimistic that we can conclude agreements that are mutually beneficial for both us and our customers. We have concluded the annual agreements in some markets with some customers, but we cannot, of course, comment specifically on individual markets or customers. And with that, over to Heine.

<A – Heine Dalsgaard – Carlsberg A/S>: Morning, Simon. So on Funding our Journey and the efficiency and what we are going to use the efficiencies for going forward, you should not expect that everything will be reinvested, but you should definitely expect that part of it will be reinvested back into our brands, into our capabilities, into digital, into ESG and also into other areas of the business. So the logic we've had so far of the 50-50 split has actually served us well. Also internally in terms of creating motivation for Funding our Journey, it's not a mathematical sort of formula, that we say DKK 100 and then DKK 50 goes to EBIT and DKK 50 goes to reinvestments, but more sort of a as a mentality that we all in Carlsberg are focused on staying disciplined and efficient in our cost. And by that, we have the funds to invest into top line growth initiatives, into ESG initiatives and so on, and also to improve our profit. So, it's really a continuation of what we have done, I'd say, relatively well so far, also into 2027.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: That's correct. Can I just follow-up on a couple of things? Can I just check are there any markets like in Scandinavia where you have actually taken pricing at the beginning of the year that you can actually put any numbers around at this point? And then just coming back to your comment, Heine, on the Funding our Journey, you talked about some cash improvements as well. How do you think about the scale of some of the sort of the cash conversion benefits that we could see coming through as part of SAIL'27?

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Simon. Nice try, but as earlier said, we cannot comment specifically at this moment in time on individual markets and customers Heine.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. On the top of it, the cash part, Simon, you are right, cash has been a significant part of Funding the Journey. Cash will remain a significant part of Funding our Journey going forward. I would say that where we are right now in terms of our cash measures, with the trade working capital of, let's say, minus 18.4%, that is a level we are satisfied with. So, there will be, at a point in time, a negative country mix effect. We're working hard to make sure that we have the measures, the initiatives and the gap-closing plans and actions being implemented to make sure that we can stay at the level on trade working capital where we are right now. CapEx, we will stay around 7% relative to turnover.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: That's great. Very helpful. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Simon. And could we have the last question, please?

Operator: Thank you. The last question will be from Fintan Ryan from JPMorgan. Please go ahead. Your line will now be unmuted.

<Q – Fintan Ryan – JPMorgan Securities Plc>: Hey. Good morning, Cees. Good morning, Heine. Thanks for the question. And just two, please. First is just both related to SAIL'27. Just following on from Simon's last question, just in terms of the anticipated margin delivery in the mid-term, I appreciate that the SAIL'22 ambition was somewhere around 17% EBIT margin and raw materials absolutely play their part and maybe may not a bit of a stretch. Do you think on sort of on the normalized 2022 base that 2023 onwards do you have any sort of specific ambition in terms of what EBIT – percentage EBIT margin to go for or a target margin with expansion part of the equation.

And then secondly with regard to your CapEx funds, do you – as part of the SAIL'27 ambitions, are there any significant capacity requirements? And I'm thinking particularly of China and India. Are any of those projects going to be kicked off this year, or could they be more backend weighted versus your sort of 2027 plans? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Fintan. Your line was not that clear, but we got it. It's about margin ambition and the CapEx plan for SAIL'27. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Good morning. So, on SAIL'27 and in terms of EBIT margin, we will continue the logic we also had in SAIL'22 which is that we're not really not giving any long-term or mid-term margin guidance. We will not do that for SAIL'27 either. What we will say is that we will grow the top line 3% to 5% and that we will grow our profit – EBIT profit above that level. So that means that there will be a margin progression. How much, when and stuff like that is really not part of our market guidance. So, that is the same as we had for SAIL'22 and it has served us very well.

When it comes to CapEx for SAIL'27, we don't see any new sort of very significant project or requirements going into the new strategy window. We are already now investing quite a lot more into China than what we did just a few years ago and that is already embedded in both 2021 and 2022 numbers. So – and that will continue, by the way, but no significant change versus where we are today.

<Q – Fintan Ryan – JPMorgan Securities Plc>: Great. Thank you very much.

Cees 't Hart, CEO, Carlsberg A/S
Thank you. Thank you for your question. And that was the final question for today. Thank you all for listening in and thank you for your questions. We are really looking forward to meeting you now personally during our roadshow in the coming days and weeks. Until then, have a nice day.

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