Carlsberg Conference Call
Carlsberg A/S
Jørgen Buhl Rasmussen
Jørn P. Jensen
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Operator: *Good morning ladies and gentlemen and welcome to the Carlsberg Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. I would now like to turn the call over to your host, Jørgen Buhl Rasmussen, President and CEO.*

J. Buhl Rasmussen: Good morning everybody and welcome to this conference call on our third quarter results. My name is Jørgen Buhl Rasmusssen, and I'm together here with Jørn P. Jensen, our CFO. The agenda for today's call is divided into three different topics. Firstly, I will walk you through our strategy, then I will focus on the operational development, and finally Jørn will do the numbers, and at the end we will repeat previous statements on the consortium approach to S&N.

I need you to turn to Slide 4 please. This is my first result announcement after I took over as CEO. I just want to reassure everybody that the Carlsberg strategy will stay the same. It has been a great ride over the years and no reason to change Carlsberg. The strategy has naturally evolved starting with the consolidation of our market positions back in 2001 when we made the first deal with Orkla, a deal that secured a strong player in the Nordics and exposure to growth in Eastern Europe. High on the strategic agenda, it has been and still is, has been to secure control over the operations and thereby buying out minorities. That was what Orkla transaction number II was all about; that was what termination of our Asian joint venture was all about, and also ultimately the merger in Baltika. It is really about focusing on those areas which add value to Carlsberg in the short and longer term; therefore, as a consequence, sale of those assets where the group is not able to be, or to best grow shareholder returns. From around 2004, strategic focus, you could say, have been targeted more increased efficiency and top line improvements. To drive this agenda, a number of group excellence projects like Operational Excellence, Production Excellence, and Commercial Excellence have been initiated. Most of the projects have been done by market or by function. But since earlier this year, or 2007, our strategic agenda is increasing the focus upon what we can do cross-functions and cross-countries and make excellent the way we do business. So fundamentally nothing in our strategy is about to change but will continue to evolve.

Then turn to Slide 5, and as most of you know, in essence our value drivers are and will continue to be ambitious return targets for Western Europe where improved earnings will be delivered from a combination of efficiency improvements and top line improvements, with increased focus on what we can do across countries and functions in rather mature markets. Secondly, BBH has been a growth engine for a number of years and also the other Eastern European operations are now delivering improved results, an agenda we will continue. Thirdly, it is Asia for the long-term. It is about investing capital to secure a footprint in a high growth region where Carlsberg's expertise and brand can build value for shareholders. Fourth, restructuring involves sometimes closing down breweries. At some locations there might be a potential for developing real estate; and in those cases, we want to make sure that we optimize the value for the benefit of the company and the shareholders.

Then to Slide 6: The overall portfolio thinking is important for Carlsberg. Although we are talking or taking on measures to control risk, then we would very much like to balance our portfolio between mature markets and growth and emerging markets. If you take a look at our volume split, our pro rata volume split, that's close to 40/60, the 60% volume in emerging or our growth markets. But with Western Europe net sale is per hector litre, somewhat higher than group average, this region still accounts for two-thirds of revenue and the growth market in BBH and Eastern Europe accounts for another 28% and the emerging markets in Asia for 6% only. If you look at profit, the breakdown is somewhat different, Western Europe accounting for 52%, a number that is declining as the rate of growth in Eastern Europe has been very fast for a number of years.

That was all I wanted to kind of say about strategy and reassure you all it's not changing but only evolving.

Now to results and group performance, and if you turn to Slide 8, kind of summarizing the key messages: First of all, we're still doing very well, and we have strong development and it continues the way we have seen now for a couple of years. Our market share positions have strengthened in all key markets, like Denmark, Sweden, U.K., Russia, and Ukraine. Despite our margin is down year-on-year and Q3 in Western Europe driven by not least increased input costs, our margin improvement is on track for the full year. Strong growth continues in BBH, the growth ahead of total market trends. At the same time, the total market growth has decreased as expected in quarter three compared to the first six months in Russia. Turborg and Carlsberg as brands are significant growth drivers in BBH. In Russia alone, Tuborg has grown by 79% year-to-date and is today the second largest brand in BBH by value. Carlsberg will be ranked as number nine. An approximated 25% of the growth in net revenue in Russia in the first nine months of 2007 is due to higher volumes of Tuborg and Carlsberg. Eastern Europe continues to deliver strong growth generated by Poland and all the markets in South East Europe. Our gross profit margin in 2007 has been negatively impacted by rising input costs, and we expect this pressure to continue while price increases will be a necessity in all markets. To insure we keep delivering on our margin targets, we have a lot of focus on efficiency improvements and cost reductions, confirmed by the fact that Western Europe is down 4% in operating expenses for the first nine months of 2007 compared to 2006. Then and last, guidance is unchanged; we have already delivered two upgrades this year, and we are still expecting full year EBIT to be around DKK 5 billion. In this number is organic growth in earnings from brewing activities up 18% to 20%.

So in a few figures on Slide 9, you see that our total beer volume grew by 14% for the first nine months where Q3 in isolation was 9%. Year-to-date growth has been driven by BBH, Eastern Europe, and Asia; and only 1 percentage point is from acquisitions. However, volume growth in Western Europe has been 1%, which is better than total market development.

On Slide 10, you can see growth in net sales was 11% organic, but after exchange 10%. All regions have an increase in net sales per hectolitre except Asia, driven by a correction phase in Malaysia in the first half of the year. The fact that net sales is up less than volume is clearly due to a change in the relative breakdown of revenue between the individual regions. Operating profit is up by 20% or 22% organic, this substantial improvement in Western Europe, Eastern Europe, and BBH and driven by a combination of a growth and excellence programmes.

Now to Western Europe, Slide 12: Total market in Western Europe we estimate to be down by 4% in quarter three impacted by a rainy summer in Northern Europe and therefore now a little over 2% down year-to-date, and I'm talking total markets. However, as referred to earlier, we have been able to strengthen our market position in key markets and grown beer volumes by 1% and well ahead of total market trends. In the same period, we increased net sales per hectolitre in Western Europe by 1%, and this has been achieved through innovation like the new LITE products in Norway, Cardinal Eve in Switzerland, and then DraughtMaster in a number of markets. On top of this, an approach to category management being more and more systematic and backed up by commercial excellence and a strong focus on in-store execution. The increase in input cost on malt, aluminium, packaging, which is a trend we expect to continue for some time, will clearly necessitate price increases on beer in Western Europe going forward and a challenge faced by the whole industry. We have continued to grow the bottom line in Western Europe well ahead of top line growth through our significant focus on cost reductions and efficiency gains. Operating expenses were down by 4% year-on-year driven by all functions and in particular in administration and distribution.

Then Slide 13, in Q3 share gains were achieved in key markets like Denmark, Sweden, U.K, Germany, and Switzerland, so nearly in all our European markets, once again driven by innovation, new products, and execution focus. Positive momentum in terms of improved share and earnings have continued in U.K. not least driven by off-trade and efficiency improvements. Earlier this year we announced that we have put Ceccano in Italy up for sale, and now Unicer in Portugal will close down its brewery in Loulé in line with strategy to optimize plant structure in Western Europe. Our EBIT margin is 10.2% for the first nine months versus 9.4% in the same period last year. Improvement in margin in Western Europe has to a great extent been driven by cost initiatives and a 12-month rolling basis our EBIT is 9.5% and we are on track for the full year, and we do believe our 10% to 12% target is within reach.

If you turn to Slide 14 where you see that net sales is up 2% for the first nine months while EBIT is up by 11% organically and 10% after foreign exchange impacts; so again, EBIT margin 10.2% for the same period and up 0.8% versus year ago.

Then turn to Slide 16 and BBH which continues to deliver strong performance with 33% growth in net sales driven by 27% volume growth, 9% from pricing and mix and then a negative 3% in foreign exchange impacts. EBIT is up 32% driven by strong top line, improved mix and pricing, but then adversely impacted by increasing input costs delivering an EBIT margin for the first nine months of 24% versus last year 24.1%. In latest Q2 to Q3, margin is down from 28.7% last year to 25.9% this year mainly again due to input costs and higher logistic expenses and also the fact new markets start constituting more to the bottom line. Then moving on to Russia, the total market growth in Russia moderated in Q3, but still year-to-date up 17%, which is a very high number now that consumption per capita is well above 70 liters. Growth in Q3 was 9% versus 23% in first half. Again, I'm talking total market growth. If you look at our brand portfolio, Baltika as a brand, we're still winning market share. I stated earlier, Tuborg and Carlsberg have grown to be very important and the growth year-to-date now accounts for approximated 25% of total net sales increase in Russia for the first nine months. Tuborg now ranks second and Carlsberg ninth on the BBH net sales chart, which is quite remarkable given that these are positioned as premium products. To focus portfolio management, most of the regional brands are also delivering strong profitable growth. Growth in EBIT in Russia has to some extent been offset by strong pressure on input costs and distribution costs. To insure we continue to be able to meet demand in Russia, we are having ongoing capacity expansion projects to support growth.

Then to some of the other markets, and Slide 17, and first the Ukraine: Strong market growth of 20% for the first nine months in Ukraine has been driven by primarily mainstream and premium segments and not least by our very successful re-launch of Slavutich in early Q2 in 2007. Our market share in Ukraine is for the first nine months now 20.2% versus only 18% last year in the same period and our turnaround plan continues to deliver progress according to plan, including improvement to profitability. In the Baltics, total beverage volume grew by 9% and with a continued strong focus on value and trading up our beer value share continues to rise slightly ahead of our volume share which is now 44.8% compared to 44.5% last year.

On Slide 18, you see in Kazakhstan the market grew by a strong 17% year-to-date but with our growth well ahead of markets with close to 50% volume growth which include export. We estimate our market share now to be around 43.6%. Tuborg was launched in Kazakhstan with success in Q1 '07 and has together with the local premium Irbis brand driven a positive development in mix. Uzbekistan, we are now fully operational from July in quarter three and it's all about building distribution and brand.

Turning to Slide 19 and BBH outlook: So although the market growth came down somehow in Q3 as expected, we now forecast the full year market growth to be around 13% to 15% versus previous 11% to 13%. We expect pressure on input costs to continue and our EBIT margin expectations are reduced to 22.5% versus previously approximated 23%. Last year full year margin was 22.7%, an increase in distribution and input costs is partly offset with operational leverage. Last, we now expect capex to be around €550 million to make sure we can meet demand going forward.

In summary and in numbers on Slide 20, organic net sales growth across BBH is 36% and 33% after exchange impacts and it's driven by all markets. Despite increasing input and distribution costs, operating profit is up by 32%.

Then turning to Eastern Europe on Slide 22, and I said earlier, performance and earnings trend in Eastern Europe continues to be very encouraging. After a change to the business model in Poland last year, their focus moved from selling in to selling out, we continue to deliver healthy performance slightly ahead of total market development. From a brand portfolio point of view, we successfully introduced the new Carlsberg Green brand followed by price increases early Q3 and activities supporting regional brands are increasingly tailored around specifics in the region and the uniqueness of the brand equity. South Europe East is still doing very well. The market share is year-to-date up by over 2 percentage point in Croatia, over 3 percentage point in Bulgaria, and over 4 percentage point in Serbia compared to the same period last year. The successful growth in this region is driven by our execution of go-to-market model and strong activities behind both Tuborg and local power brands. Earnings have more than doubled based on volume growth and pricing. Turkey continues to be challenging, although new products like Vole and Tuborg Fici have driven growth in market share in retail outlets. But challenges relate to lack of pricing opportunities and the fact that we have chosen to reduce trade inventories in a way similar to the model used in Poland last year.

So in terms of numbers for Eastern Europe on Slide 23, net sales are up by an impressive 23% and operating profit by DKK 245 million of which 63 million relate to gain on sale on assets in Poland. But another very strong Q3 in Eastern Europe.

Then to Asia on Slide 25 where it's all about building a platform for future success. Volumes are up by a strong 25% and to a great extent driven by China. Net sales by hectolitre are down due to change in country mix; and although the Malaysian business is stabilising, the earnings are up in Q3 versus last year following the change to the business model in the first half of 2007. Operating profit is still down for the first nine months versus a year ago, and that's primarily driven by Malaysian performance in the first half of the year. We keep expanding our activities and in Vietnam, our Greenfield in Phu Bai, we expect to be operational by year end; and on top of this, we have our joint venture with Habeco on Greenfield in Vung Tau.

On Slide 26, you see this being reflected in numbers and net sales in Asia are up by 12% but operating profit down by 16%, again primarily down to Malaysia.

Now I hand over to Jørn who will take us through the financial section.

Jørn P. Jensen: Thank you. So if you turn to Slide 28 and the first line net sales up organic by 11% and after adjustment up 10%. Western European markets up 2% driven by price as well as volume. BBH, the revenue growth was driven by both volume and better pricing mix, and in Eastern Europe the revenue growth was driven by the higher volumes. Gross profit, line two here, increased by 8%, i.e., a little less than the increase in revenue and the gross profit margin of 50.6% was therefore slightly lower than last year. I will talk more about that on one of the next slides. Total opex including brand marketing increased with 537 million, and that was solely driven by the growth markets and especially in BBH whereas we have seen a decrease in these costs in Western Europe of a little over 4%. This together with an improvement in other income of 84 million due to higher gains on real estate, as planned, led to an improvement in operating profit of 802 million, or an increase of 23% compared to last year. As you can see, the vast majority of the improvement comes from the brewing activities with an increase of 699 million or 20%. Special items net are 425 million lower than last year, and that was actually caused by last year's gain on sale of Hite shares contributing with approximately 600 million in Q2. Financial costs up 145 million, minus 32 on interest due to the higher interest level and the remaining minus 112 on other financial gains and losses. Minorities were in total more or less in line with last year, higher in BBH and lower in Malaysia, so all in all a net profit which grew by 296 million or 15%.

Next slide, 29, net sales: As mentioned before, the total net sales up 10% compared to last year and, as it appears on the chart, all regions contribute positively to the growth. Western Europe, again, up 2% driven by volume 1% and price 1% with a positive impact from innovations. Net revenue from Western Europe accounted for a little over 60% of the total net revenue. Growth in BBH continued with an increase of 33% driven by volume and improved mix in prices. Volume growth in BBH, as expected, will somewhat slow down in Q3. Eastern Europe up 23% positively impacted by a very strong performance in the Balkans as well as in Poland. The organic growth in net revenue in Asia was 12% whereas acquisitions contributed to the growth with an additional 4%. On top of that we saw a negative currency impact of another 4% which all in all brought the region to a growth of 12%. Organic volume growth in Asia was 14%.

Slide 30, gross profit: As discussed before we saw a decrease in gross profit margin from 51.7 last year to 50.6 this year. The margin decrease is of the magnitude in BBH and Western Europe in percentage points whereas we see improvements in Eastern Europe primarily caused by the volume increase in Poland and the Baltic countries starting to benefit from operational leverage driven by the top line. Asia is negatively impacted by the acquired low price volumes in China and channel stock production in Malaysia. Important drivers here are of course the increases in input prices and changed packaging mix. This also once again underlines the importance of insuring higher sales prices going forward.

Operating expenses on 31: Total operating expenses including brands marketing up 4%. This is caused by an increase in BBH of 27% which again is caused by a volume increase and increases for distribution beyond volumes due to fuel and other transportation costs. The costs in Western Europe have on the contrary declined 4% driven by excellence programmes within all functions; and especially in administration and distribution, we have seen a significant impact this year. Not allocated costs increased and this relates to costs for projects as discussed throughout this year. We of course continue to work aggressively on our cost base in order to get our margins up.

Operating profit on 32: Operating profit improved by 699 in the brewing activities. Western Europe saw an improvement of 188 adjusted for one-offs related to sale of assets 55 net and 105 million in gross provision last year, the underlying improvement in EBIT was 138 million which is achieved through a combination of increased net revenue and tight cost management. The increase in input prices and production has, of course, had a negative impact. Also, Eastern Europe have contributed to the improvement in EBIT with 246 million of which 63 million relate to the gain on sale on assets in Poland previously this year and taking this into account the increase in operating profit corresponds to 102% driven by increase in sold volumes. Operating profits for Asia 49 million lower than last year caused by the adverse effect in Malaysia, whereas the other markets in Asia either is growing or is kind of flattish.

Special items on slide 33 amounts to minus 184 versus plus 241 last year. Last year's gain on sale of Hite shares contributed with 616 million in Q2; excluding

Hite last year, the comparable amount was minus 375, i.e., special item this year excluding Hite last year was improved with 191 million.

On Slide 34, you see the development in return on invested capital in the brewing activities in the last nine quarters and our clear focus to increase earnings and at the same time work on our invested capital clearly shows a positive trend here, that indicated by the development in the green bars. Return on invested capital in the brewing activities have this year improved from 12.2% to 14.4% or plus 220 basis points driven by Western Europe, BBH, and Eastern Europe.

Cash flow on 35: Cash from operating activities up 274 million versus last year, driven by improvements from the operating result before depreciation, amortization, and impairment of 764 million countered by a negative change in the working capital of minus 722 million. Paid restructuring interests and tax were down compared to last year. Our ambition on working on reductions in working capital are still very high and we do expect to see a significant change here in Q4. Cash from investments were minus 3.1 billion compared to a cash inflow last year of 1.1 billion, a variance of 4.2 billion. The large variance is explained by proceeds from sale of Hite shares last year and an increase in operating investments by 1.1 billion this year due to higher investments in capacity expansion in BBH and investment in new production capacity in the existing plants in Denmark, Finland, and Italy due to the announced closures of plants and activities in these three markets.

Financial outlook on 36: The financial outlook for the full year is unchanged, which means that we expect net sales to grow with some 10% EBIT in the brewing activities to amount to approximately 4.75 billion and net profit to amount to approximately 2.2 billion.

Finally from me on 37, EPS: Development and a consequence of the net profit outlook is of course that EPS is expected to increase and is shown here with approximately 15% to 20% which as we have it is quite respectable.

So with that, over to you again Jørgen.

J. Buhl Rasmussen: Thank you Jørn. As stated to begin with, just to give you a kind of summary of where we are on the consortium approach to S&N, but also as I'm sure you're all aware here we are kind of very restricted on what we can say according to U.K. rules. But basically as background, the consortium of Carlsberg and Heineken submitted a proposal to the Board of S&N on October 25. The proposal at Carlsberg would acquire 50% of BBH, S&N's French and Greek operations, and its interest in China. We believe the consortium approach delivers strong strategic fit and materially reduces funding requirements. Also, it's worth highlighting, we are approaching this transaction with a disciplined approach. In terms of value of the proposal, the potential cash offer for S&N of 720 pence per share based on a fully diluted share capital of 974.2 million shares. The 720 pence per share represent a 7 billion equity value and a 9.4 billion enterprise value and Carlsberg's contribution, economic contribution would be around 54%.

On Slide 40, in terms of our financing arrangements, we have committed new debt facilities in place underwritten by Lehman Brothers, BNP, Danske Bank, and Nordea Bank. The facilities will include a 31 billion equity bridge loan to a rights issue, and it's structured to ensure Carlsberg's debt facilities remain investment grade. Pre-conditions for the deal are very limited. First of all limited due diligence, also have recommendation of the S&N Board required, and then assurance from trustees of S&N's U.K. pension schemes regarding level of future contributions by Heineken.

In terms of legal claims and legal disputes, S&N announced initiation of arbitration proceedings following alleged breaches of BBH shareholder agreement. Carlsberg has received clear advice that there is no foundation to the S&N's claims. S&N's legal claims are spurious and without merit and is really a distraction to advancing discussions. We reserve our position with regards to claim for material damages. So in summary, we urge S&N to engage rather than pursuing a legal distraction. We as a consortium together with Heineken are confident our structure will avoid substantive anti-trust issues; and then again due to the U.K. Takeover Codes, we can't really make further comments on the consortium approach to S&N.

So to the last slide, 43, before we open up for questions, a summary of what we've been talking about today. Firstly, and I believe that's very important, we are 100% loyal to our strategy. It has proved itself to be a successful strategy and has delivered strong results over the last couple of years both in terms of improved growth and operational performance as well as generating attractive returns to our shareholders. Secondly, this quarter demonstrated that we are winning in the markets. Across the board we are taking share points in the markets. Thirdly, we are however operating in markets where input cost pressure needs to be offset to increase prices to our customers. This combined with continued focus on the backbone will enable us to improve profitability. Finally, we stick to our guidance. We're confident that we will succeed in improving operating profit in Western Europe, BBH and Eastern Europe and put this together will result in operating profit for the brewing activities increasing with 18% to 20% for the full year.

That's all in terms of presentation and now we're ready to open for questions.

Operator: *Thank you. We will now begin the question and answer session. If you have a question, please press star/one on your touchtone phone. If you wish to be removed from the queue, please press the hash key. Your questions will be queued in the order they are received.*

Matthew Webb from Cazenove is on the line with a question.

Matthew Webb: Yes, hello. **I wonder whether you could update us on your medium-term guidance for the growth of the Russian beer market in the light of the exceptionally strong growth this year, even this quarter up against incredibly tough comps**? Thank you.

J. Buhl Rasmussen: Matthew, it's Jørgen. We still have the same view on the medium-term growth perspective on the Russian market 3% to 5%. Could it be higher; could it be lower next year? Possibly, who knows, and I think our experience would be in growth markets it's very hard sometimes to predict what's going to happen the next year and the following year. But in the medium-term, we believe 3% to 5% is very likely. Again, if you look at this year and the same last year there's been kind of unique circumstances; this year a very warm first half. The year before we had this unique wine and spirits situation so anything can happen in those kind of markets; and also when we look forward, all kind of discussions about what can happen in terms of channel distribution, can you continue selling in all channels… in communication. So yes, overall 3 to 5 as a medium-term kind of guidance we believe is the right guidance.

Matthew Webb: **Do you think that there was anything special about Q3? I know you said that in H1 the weather was very favorable, but yet Q3 growth extremely strong as well against very tough comps, was there anything particularly boosting the market in that quarter?**

J. Buhl Rasmussen: No, and again sometime it can be higher, sometime lower and without talking about the third quarter results, also I think we see October kind of not very strong growth would be the indication October. So again, it's up and down, and I think we'll see that going forward too, but I don't see any unique reasons for the 9% in quarter three, and I expect to see probably a different growth level in quarter four than we saw in quarter three.

Matthew Watt: Great. That was really helpful. Thanks a lot.

J. Buhl Rasmussen: Thanks.

Operator: Soren Samsoe from Danske Bank is online with a question. Please state your name and company.

Soren Samsoe: Yes, hello. Soren Samsoe from Danske Bank. **Just first a question regarding Western Europe, the price increases if we just say is this including or excluding (inaudible) effects and also elaborate on which key markets you have seen the highest price increase and also expect the highest increases. Then regarding the pricing situation going forward, since you believe you can raise prices in most markets, do you believe this will be mostly due to better pricing discipline in the sector or is it more a question of the Commercial Excellence programme starting to kick in and how much more can we expect there?** Thanks.

Jørn P. Jensen: The 1% in Western Europe is both price and mix and it is actually coming from all of the markets and then of course we also have a, you can say, market mix impact on that number which all-in-all brings to 1%. When it comes to price increases going forward, then as we are stating, we see a need for price increases in all markets in Western Europe going forward so that we intend to push as much as we can.

J. Buhl Rasmussen: Maybe just to add to that, I think overall we do see the market environment, and I think we said that last time too in our quarterly release, being more receptive to pricing because it is the agenda nowadays. I mean costs are going up and prices need to go up for most or a lot of businesses.

Soren Samsoe: **How much do you see an affect of the Commercial Excellence programmes at this stage?**

J. Buhl Rasmussen: We're not breaking it down to what is Commercial Excellence in itself affect, but of course Commercial Excellence together with all the other things that we're working on helps improving our top line in Western Europe.

Soren Samsoe: **Then a question regarding BBH, taking down the margin expectations a bit, is this a question of the raw material price coming so fast or is it or (inaudible)… Then regarding cost savings, should we not expect to see more cost savings in BBH than we've seen until now?**

J. Buhl Rasmussen: I think what you see for the margin is really mostly reflecting input costs and distribution costs, but we also see increases in fuel and some other costs in distribution. That's really what you see in the change in our full year forecast going from 23 down to about 22.5, and also it's linked to the fact that growth has been slightly higher than we thought some time back. So again, you have to buy more and sometime you pay a little more, then you buy more.

Soren Samsoe: **So you don't expect more cost savings in BBH to come forward?**

J. Buhl Rasmussen: Like the agenda will be in Carlsberg in general on all our markets, we will look for top line growth and also look at trying to have a very efficient operation and that's driving what we're doing in BBH together with S&N, what we're doing in Western Europe, and what we're doing in Asia.

Soren Samsoe: **Then finally if you could just comment on the Logistic Excellence programme in Europe, how it's progressing?**

Jørn P. Jensen: It's progressing well. We are getting the benefits out that we have in our plan for that. It was finalized according to plan, so there's actually not really any news on that. It's delivering as it has been supposed to deliver from when we initiated it.

Soren Samsoe: Thanks gentlemen.

Operator: *Michael Rasmussen from SEB Enskilda is online with a question. Please state your name and company.*

Michael Rasmussen: Yes hi. This is Michael from Enskilda in Copenhagen. **A few questions for you this morning: First of all, on the raw materials, now we saw a bit of a drop in your gross margin here in Q3 and also we see the effects on your downgrade of BBH EBIT margin. Could you please tell us how much on average of your next year expected volumes have you already fixed now on contracts on the different input costs and also if you could give us an indication number-wise? My second question being regarding your capex level for 2007, now you've been a bit more precise on the BBH €550 million, could you please update us? Are we still at the 5.3 billion level for the cost per group or are we a bit higher now?**

Jørn P. Jensen: If we start with the raw materials, then we are, as we have said before, we are pretty well hedged into next year both when it comes to total volumes but also when it comes to prices. We won't give you a number now. That will of course be included in our 2008 guidance which we will release as we always do mid February. But we are pretty well hedged in, for next year on all the important categories. Capex is, yes it's around at least 5.5 billion, as you stated.

Michael Rasmussen: Thank you.

Operator: *Philip Morrisey from Citigroup is online with a question. Please state your name and company.*

Philip Morrisey: Good morning gentlemen. It's Philip Morrisey from Citigroup. **You reference the improved, the prospect to improve in the Ukraine and I just wondered if you can give any indication as to what margin target or aspiration you have for that particular operation within BBH? Secondly, whether you can give us an update on the totality of cost savings obviously across the excellence programmes plus also (inaudible) and Valby, whether you can give us any indication as to what yet remains to be achieved. Thirdly, I understand there was problems in terms of giving specific numbers on input costs as you go into next year, but nonetheless could you give us any indication as to whether the impact on margins you envision in '08 will be worse or less than what you've seen or expect for 2007?** Thanks very much.

J. Buhl Rasmussen: I can give the Ukraine. Ukraine, as we also state in what we've been presenting and sending out, Ukraine, the turnaround plan is really on track, so in line with our expectation. We normally do not analyse margins by market but also the earnings and profitability is in line with what we expected. It is, as we have said earlier, a three-year plan. It's not something we fix in one year so that include investment getting the turnaround done. That's probably all I want to say about the Ukraine.

Jørn P. Jensen: Cost savings, we have now been talking about these excellence programmes for some years, it's still delivering very well. We see the effects coming into our P&L in a very decent manner. It's difficult just to say if the number is X or Y. To us, nowadays it's much more about getting this into a continuous improvement mode so that we, we actually don't see it so much as a project anymore but we see it as continued improvement which we will continue to focus on over the next years, of course especially in Western Europe.

Philip Morrisey: Thanks.

Jørn P. Jensen: Input cost consequences for next year, I would like actually to come back on that in February and not now. Of course, there's a clear relation to sales price increases in that question, so let's see how much we're able to put through in the market on sales price and then we'll come back on the input costs in February.

Philip Morrisey: Thank you. **Could I just follow-up just by asking about the degree of price increases that you're planning for, particularly in Western Europe as we go forward in the next 12 months?**

J. Buhl Rasmussen: Again, it will vary by market. Again, we cannot be specific here and it's to kind of channel and customer specific maybe, so pricing we do see pressure from input costs and will necessitate price increases all across markets, but sizing price increase, not at this point.

Philip Morrisey: Thanks very much.

Operator: Carl Short from Standard & Poor's is online with a question. Please state your name and company.

Carl Short: Yes, Carl Short from Standard & Poor's Equity Research in Copenhagen this morning. **Just wanted to congratulate you on another excellent set of quarterly figures, but also ask a question on the Scottish & Newcastle**

situation. I was just interested into what degree Scottish & Newcastle's tactics could slow this whole process and whether the referenced to arbitration in Sweden was likely to have the effect of say stopping any actual bid arising in the near-term, if you could give me your views on that.

J. Buhl Rasmussen: I think we have no more to say than we said when we briefed on S&N and it's actually what we can say and can't say on this one. All I can kind of assure you all about is we are very focused on driving the business be it Western Europe, Asia, or BBH and BBH together with S&N, that's our main focus and then the other thing is kind of on the side but I have no more to add to the process and possible impacts or stipulation.

Carl Short: **So you couldn't, for example, give an indication as to whether what Scottish & Newcastle is doing could form a material sort of impediment to your plans?**

J. Buhl Rasmussen: No, the only point I can make again, as we also said when we presented, is we believe that there is no merit in this case at all, absolutely not; and that's supported by legal advice.

Jørn P. Jensen: Then to add, as Jørgen also stated before, we are having a very disciplined approach to all of this, and I think that's important to remember.

Carl Short: Okay, that's clear. Okay, thank you.

Operator: Nico Lambrechts from Merrill Lynch is online with a question. Please state your name and company.

Nico Lambrechts: It's Nico Lambrechts from Merrill Lynch. **Just a question on, you provided us kindly the volumes for Poland up 15%. Is it possible to give us the market volume growth or your own volume growth in the key Western European markets such as the UK, maybe Germany?**

J. Buhl Rasmussen: Again, we can't give it by market, but as we referred to…

Nico Lambrechts: **I'm happy with market growth, not your volume growth because you did state that you outperformed.**

J. Buhl Rasmussen: I mean it's, as you know, sometimes it's very hard at this point and time to have exact numbers on market development by… I guess you're talking about quarter here, quarter three?

Nico Lambrechts: **I'm talking Q3 market volumes, yes, because if you have market share gain, I presume you have a good gross of what the market has done during the quarter.**

J. Buhl Rasmussen: This is based on best estimation. If you take a place like U.K., we estimated the market to be down by around 4% year-to-date and about 1% in the quarter in UK, for example, and that's primarily a decline in the on-trade but increase in off trades.

Nico Lambrechts: Right. **Finland?**

J. Buhl Rasmussen: Finland, I can't remember exactly.

Jørn P. Jensen: Around 4%.

J. Buhl Rasmussen: Yeah, 4% as well for Finland.

Nico Lambrechts: **For the quarter?**

Jørn P. Jensen: Yep.

J. Buhl Rasmussen: Yeah.

Nico Lambrechts: Right. **So just to reiterate, you think during the third quarter, the U.K. market was down approximately 1% and Finland down approximately 4%?**

Jørn P. Jensen: Yeah, and the total for the relevant Western European markets around 4%.

Nico Lambrechts: **Then just on price mix in Western Europe, the nine month, you have about 1% price mix but during the third quarter, according to your rounded numbers, it's approximately zero. Should we read into that that the trend is deteriorating slightly?**

J. Buhl Rasmussen: No, I think it's just a matter about facing. Sometimes facing when you have highly new products or you have pricing, so you shouldn't really read anything into that.

Nico Lambrechts: Right. **Is it possible to update us on specific price increases in markets that has happened during the last quarter?**

J. Buhl Rasmussen: No, we can't.

Nico Lambrechts: You can't.

J. Buhl Rasmussen: No.

Nico Lambrechts: Right. **Then you made a comment earlier just about your expectations for the fourth quarter Russian market volume growths. Did I get it correct that you said it would be less than the 9, or most likely less than the 9% of the third quarter?**

J. Buhl Rasmussen: I think what I said, and also I said when we look forward, it's very uncertain sometime in growth market what to expect for next quarter and the following year and the following year. That's why we believe 3% to 5% is about right. We are sticking **to our** estimate being the 13% to 15% now for this year. But certainly if I look at October, what we've seen so far, it looked like the growth is lower than in quarter three.

Jørn P. Jensen: Somewhat lower.

J. Buhl Rasmussen: But then again, I don't know exactly what'll be November and December and that's what we're saying about growth markets, it's very hard to predict.

Nico Lambrechts: I've got that. **Then a final question, your Western European 12-month rolling margin went from 9.7 I think at the end of the second quarter and it's now 9.5%. Could you give us some indication when you will communicate again on your margin targets? Should we expect at the full year results that you will give us indication on new targets or how you achieve that?** Thank you.

Jørn P. Jensen: As we have said before, our clear focus now is to get within the 10% to 12% range and the sooner the better, and that is what we are working on every day in Western Europe. As also said before, of course it would be a natural thing to, you can say, revise your targets if you meet your previous targets. So first of all, now let's get… Our focus is to get in within the current target range and then when we are there, we'll come back on, with news around our ambitions for Western Europe and such.

Nico Lambrechts: Thank you Jørn.

Operator: *Gerard Rijk from ING is online with a question. Please state your name and company.*

Gerard Rijk: Yes, good morning. Gerard Rijk, ING Netherlands. **Two questions: First, again, on those input prices, your communication has a bit changed versus other quarters. You now for the first time mention that it is, has not been possible to offset, and that seems to be bit in contrast to other statements you made today that the whole chain is increasingly convinced that prices need to go up. Maybe you can elaborate on these two differences. Second question is you refer to the growth contribution of Tuborg and Carlsberg to the, of the BBH top line growth, maybe you can again say what exactly, what I thought that you said is that three quarters of the 75% of the top line growth, something like that. Can you also give an indication of the growth contribution to the EBIT growth of these prints? That's it.**

Jørn P. Jensen: Well if you take the first question, I actually think the two statements that you were referring to, I think they go actually very well in hand showing that it is very important to get (inaudible) price increases through when the input costs are going up. It's true if you just take it quarter-on-quarter, for Q3 is such, then we have not been able to fully compensate for this. But that is of course also a thing that we are not just very well aware of, but also a thing that we're working on changing so that that will hopefully not be a thing that you see in coming quarters. So that's a thing that we're working on fixing.

Gerard Rijk: **Sorry, what are you going to change then?**

Jørn P. Jensen: By getting our prices up.

Gerard Rijk: **You get more up than earlier on.**

Jørn P. Jensen: Yeah, but as also shown in numbers, they weren't that much up quarter on quarter in Q3. But that doesn't mean that it's not important to get them up, and that is what we're working on.

J. Buhl Rasmussen: I think one has to bear in mind when we talk pricing. Pricing, sometime you cannot respond a monthly basis. You have to look on a longer term picture when we look at pricing and GP improvements, but certainly it's our intention, as Jørn said, to get pricing up. On your second point about Tuborg and Carlsberg in Russia, I can't give you the numbers on EBIT because we don't really normally talk about EBIT percent by brand. But based on it being premium, premium products, it's probably not less than what we say when we talk about net sales in terms of contribution. So they are very important both brands for the Russian business at a top line level and also at a bottom line level. But also I mean we should say, "This is part of the portfolio, so Tuborg/Carlsberg is part of the bigger portfolio which mean also local brands are important for the business.

Gerard Rijk: **What did you exactly said about the sales contribution, it was 75%?**

J. Buhl Rasmussen: No, we said, "If you take the growth in year-to-date in 2007…

Gerard Rijk: Yes.

J. Buhl Rasmussen: …25% of that growth would be delivered to the increase in Tuborg and Carlsberg volume.

Gerard Rijk: Yep, thank you very much.

J. Buhl Rasmusen: Then Tuborg would now be the second biggest brand in the BBH portfolio in value and Carlsberg number nine.

Gerard Rijk: Thank you very much.

J. Buhl Rasmussen: Maybe, I mean Tuborg grew about 80%, 79%, I think it was year-to-date and Carlsberg about 40%, 41%.

Gerard Rijk: Thank you very much.

Jørn P. Jensen: Thank you.

Operator: *Ian Shackleton from Lehman Brothers is online with a question. Please state your name and company.*

Ian Shackleton: Good morning, it's Ian Shackleton at Lehman Brothers. **Considering BBH, I was just quite interested in two other issues that may be affecting the margin. Firstly, A&P spend and what happened this year and how you see that going out into '08 as a factor? Secondly, next year we are going to have quite a sizeable price increase due to increase duties in Russia and how you see that impact your margin. The second question was: Can you give us some idea of what the net debt level at BBH now is?**

J. Buhl Rasmussen: To answer the first one, the marketing spend are in line with last year, very small variances.

Ian Shackleton: **Going forward into '08, Jørgen, do you see that as something that we'll need to move up?**

Jørn P. Jensen: I think we will as we're generally not guiding on 2008, I'll have to come back on that in February.

J. Buhl Rasmussen: If you take the duty in Russia, you're probably aware of, we talk about 32% increase for next year in duties, and then the 8%, 9% increase the two following years. So on consumer price level, depending of course on the brand and the price level, you're talking somewhere between minimum 2%, 3% price increase up to probably 4, 5, 6, 7% price increase depending on how much go to the consumer. We do not believe this as such will have a significant impact on the total market development. But again, coming back to the earlier point about market growth and our guidance on 3% to 5%, there are a number of uncertainties and I think this 3% to 5% is a sensible guidance and then it can be slightly higher, slightly lower because there's a number of circumstances in those kinds of conditions.

Ian Shackleton: **The BBH net debt at the moment?**

Jørn P. Jensen: It was… After Q3, if that is at the moment was €424 million, for 50%.

Ian Shackleton: **That's your 50%, yeah?**

Jørn P. Jensen: 50%, 424 million euros.

Ian Shackleton: Thank you.

Operator: Chris Pitcher from Redburn Partners is online with a question. Please state your name and company.

Chris Pitcher: Good morning gentlemen, Chris Pitcher from Redburn Partners. **I have a couple of quick questions. In Turkey, you commented that it was challenging. Can I just try and get an interpretation on that? Are you losing less money than last year or more in Turkey? Secondly, in the U.K,, can I confirm that none of the new Punch contracts have started and therefore the margin drop is not due to any contract changes and whether you've managed to do anything to offset the profitability impact from that? Then thirdly, I don't know if you'll be able to comment on this or not, but you seem very confident that the BBH arbitration, I'm sorry the Scottish & Newcastle arbitration has no legal grounds. Can I find out when you sought that legal advice; was it prior to arbitration being announced or post?**

J. Buhl Rasmussen: I can start Turkey. Again, we don't give bottom line numbers by market. But when we say, "Turkey is challenging," it's clearly not a profit maker for us. We have in a year back had to kind of clean up on the structure side on how we go to market and this last year have been more focused on growing the top line. I think with some success because while it is making an impact in the market, we are gaining share if we look at the news and data. But you can say outside retail, we're not gaining share. We have too high inventories, so all in all we certainly need to improve performance significantly in Turkey going forward. But we still see opportunities for doing that, so it's just going to be a lot of hard work. On the S&N question, I can only repeat and based on the legal advice and of course we will talk to lawyers a lot, we are very clear, it has no merit. That's all I can say.

Jørn P. Jensen:: Then when it comes to the U.K. margins, if I understood the question, you were actually hinting to that the margin in U.K. this year should be down compared to last year and that is not at all the case, so on the contrary. So on the other hand, you're right that we have not seen the negative effect from the new punch agreement as it will not be effective until beginning of next year, which of course has been known for a while and it's included in all our thinking around what we can actually achieve in Western Europe.

Chris Pitcher: **Just on Turkey, I know you don't give any claims, but the strong performance in Eastern Europe, what I'm trying to get to, was that partly a function of Turkey losing less money then last year or whether you're able to…**

J. Buhl Rasmussen: No, the big contributors to the improvement in Eastern Europe and the success year-on-year is really Poland and South Europe East, that's what really contributing the to the growth, in Eastern Europe.

Chris Pitcher: All right, thanks very much.

J. Buhl Rasmussen: Turkey is a minor kind of part of this.

Chris Pitcher: Thanks very much.

Operator: *Kristian Borbos from Danske Bank is online with a question. Please state your name and company.*

Kristian Borbos: Yes hi. Kristian Borbos, Danske Bank, Credit Research. **There's a question on your approach to S&N, I'm not sure if you can answer it, but if we would see a (inaudible) a higher bid for Scottish & Newcastle, how do you intend to finance this extra money? Should you go for higher amount of money in the rights issue or should you put on more debt? That's it.**

J. Buhl Rasmussen: You're actually right; we're not going to answer that question.

Jørn P. Jensen: I think actually for time purposes, we should take the last question now.

Operator: *Nicholas Faes from Exane BNP Paribas is online with a question. Please state your name and company.*

Nicholas Faes: Yeah, Nicholas Faes here from Exane BNP Paribas. **Jørn, you announced that in the fourth quarter, we can expect a dramatic change in working capital requirements. Can you tell us a bit more about what you're planning to do then? Secondly, I'm going to try my luck again on the S&N situation, do you actually speak with the people at the S&N, and how is that relation that you have currently with them distracting from managing BBH?** Thank you.

Jørn P. Jensen: To the first question of working capital, actually what you saw in Q3 and where we are year-to-date is a little different from where we normally are over last year on the three big component here which is accounts receivable and accounts payables. So it is I guess you can say very much driven by that we know that we have some changes to when bigger payments, taxes in some markets, vendors in other markets, accounts receivables and payables and so on, when that will be phased into our working capital numbers this year. So it's not because we basically are doing anything new apart from having this clear focus and then there's just another facing on some major numbers in some markets this year compared to last year.

J. Buhl Rasmussen: To your second question about S&N, if we talk to each other, I can only confirm, it's very much business as usual model when we talk BBH so…. But first of all, I mean let me make a point about, in the local markets, we have very strong management teams running Ukraine, running Russia, running Baltics and that's a very important part. Secondly, the support they get from S&N and Carlsberg and the teams have working together, they are working with together business as usual, talking to each other, meeting as we have done in the past, no change at all. I talk to them and to John Nicolson on the phone; I talked to him last night, so yes we definitely talk and it's business as usual.

I think we should close now based on timing. Thanks for the interest and look forward to talk to you again in a quarter's time. Thank you very much.