Carlsberg Conference Call
Carlsberg A/S

Jørgen Buhl Rasmussen
5 November 2008
9:30 am Greenwich Mean Time

Operator: *Good morning, ladies and gentlemen. 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, President and CEO Jørgen Buhl Rasmussen.*

J. Buhl Rasmussen: Thank you very much and good morning to everybody and welcome to the conference call for our third quarter results. As I'm sure you're aware, my name is Jørgen Buhl Rasmussen; and together with me, I have our CFO Jørn P. Jensen; and also today, we are joined by Anton Artemiev, our SVP Eastern Europe, and also Mikael Aro, our SVP Northern Europe.

Since we presented the half-year results, there's been a dramatic change in the perception of our business fuelled by recession fears, financial crisis, and general investor uncertainty towards our market leading Russian business. However, the set of results that we are presenting today demonstrates that the Carlsberg business model is robust and that performance has been resilient.

On the call today, I will start by outlining the operational progress that we have made; and then Jørn will walk us through the financials, including the 2008 outlook. After that, Jørn, Anton, Mikael, and I will be happy to take your questions.

Now turn to Slide 3. Overall, the underlying performance in Carlsberg continues to show strong healthy development with sustained focus on brands and value. It is important to keep in mind that beer as a category is one of the most resilient consumer categories to macro economic changes, in particular in developed markets. However, in the third quarter, a number of different factors have negatively impacted volumes in certain markets. This includes very poor weather in the second half of August and all of September combined with above average price increases having led to negative impact in most of Eastern Europe. Within Northern and Western Europe, the decline in on-trade in the UK continues, and market growth in the Baltics have very much been impacted by the worsening Baltic economies. Our sustained focus on value has been both critical and necessary to offset significant increases in input costs; however, at the same time, it has for several years been part of our portfolio strategy driving successful premiumisation in most key markets. All this, coupled with ongoing focus on efficiency and cost control, has further strengthened the business and thus generated progress in underlying operations across the regions. Regardless of the challenging business environment, organic sales increased 7%, which equals 9% in local currencies and organic operating profits increased a healthy 10% corresponding to 13% in local currencies.

Now Slide 4. Although beer is a very resilient category, we have to recognize that the business climate is looking more challenging. We'll therefore increase and accelerate our existing efforts on reducing costs and increasing cash flow. Key initiatives already in progress is a restructuring project in France where we have announced a significant change of business model to improve competitiveness, win back market share, and to increase profitability, a proposal to reduce headcount by more than 210 people or around 15% of the total organization.

Other initiatives, we have today also announced the proposal to close down the brewery in Leeds in the UK. Based on the deteriorating economies of the Baltics, we announced in early October the reduction of workforce in Estonia; and coupled with the announcement today of a change to the organizational model in the Baltics, this will reduce total headcount by around 80 people in the Baltics, and then our Copenhagen Brewery will be closed by year end. All our integration plans are on track and we're very confident to take out hard synergies from the S&N transaction of around the DKK 1.3 billion; and importantly, the excellence programmes will only get increased focus. We have now moved into the next generation of excellence with numerous new initiatives, and cash is clearly king and we will continue driving action plans in this area. Then finally, the sale of the Turkish operations has been completed; and with the sale, we free up capital and improve earnings going forward.

Next slide please, cost savings and efficiency gains alone are not enough. In order to be successful, we need to grow the top line and we have the right brands to do this. Our international brands are all doing well with double digit growth in both Tuborg and Baltika and the Carlsberg growing globally a respectable 2%, slowed by lower volumes in the UK. Notwithstanding the more challenging environments, third quarter development was positive with Tuborg up 11%, same as year-to-date, and Baltika of 17% versus 14% for the first nine months. Only Carlsberg as a brand was down by 3% versus plus 2% for year-to-date, and that's primarily due to lower volumes in the UK and also following a positive contribution from Euro 2008 in the second quarter.

If you turn to Slide 6, and here you see that beer volumes on a pro rata basis increased 32% to 83.6 million hectolitres in the first nine months of the year.

Most of the volume growth is driven by the acquisition of the S&N business, but also organic growth contributes with a healthy 4% with flat organic volumes across Northern and Western Europe, a respectable but lower than expected organic growth in Eastern Europe of 7% and solid organic growth of 13% in Asia. Q3 volume development has seen a slow down to 1% due to the slightly lower volumes in Northern and Western Europe and somewhat lower August and September volumes in Eastern Europe as driven by the very cool weather in the regions.

Slide 7: Net revenue totalled 45.4 billion with organic growth of 9% and a further 27% being added by the acquired businesses. Adverse foreign exchange developments reduced growth by 2%. Likewise, operating profit from the brewing activities grew by 49% to 6.6 billion with 8% stemming from organic growth and 44% stemming from acquired growth in local currencies. If you just look at Q3 performance, we have achieved robust development with organic net revenue growth of 9%. Notwithstanding this, organic operating profit growth was minus 1% due to soft earnings development in both the UK and the Baltics, which I'll come back to in a more detail a little later.

Let's now turn to the regions and start with Northern and Western European region on Slide 9. Net revenue increased in this region by 18% in local currencies. Adverse foreign exchange movements, primarily the pound sterling, have reduced growth by 1% so that reported net revenue is up 17% to 28.2 billion. Organic sales growth of 4% was primarily driven by the Nordics, Switzerland, Germany, Poland, and South East Europe. Operating profit was up 17% to 3.1 billion driven by the acquired businesses. Reported organic development is minus 5%. However, taking into account the now discontinued legacy contract in the UK and profits from real estate sale in Poland last year, underling operating profit was up compared to the same period last year. In the third quarter, all markets increased in revenue with one exception being the UK. In the third quarter, operating profit decreased by 8%, led by the negative market and challenging development in the UK Nevertheless, Carlsberg UK maintained its market share driven by continued strong off-trade performance offset by the end of the legacy punch contract impacting the on-trade performance. In addition, the third quarter was also impacted by a slowdown in the Baltic economies and to a lesser extent by one-off costs in Denmark related to external sourcing during the transfer of production equipment from the Valby Brewery in Copenhagen to Fredericia where it will be completed by yearend.

Slide 10. During the first nine months of 2008, total market development in the region was flat but not all markets were the same; and I would like to highlight market volume growth in Norway, in Switzerland, and Bulgaria, while markets like the UK, France, and Denmark declined. Cost inflation continued also into Q3. This was offset again by price increases.

On a year-to-date basis, we have obtained average sales price increases of 4%; and to support our value focus and in addition to pricing, we continuously strive for strengthening our brands through innovation and introduction of new products, as well as we continue to develop new tools to excel in in-store execution. However, in addition to strong top line value focus in Northern and Western Europe, we are also extremely focused on efficiency, and we want to fast track restructuring programmes to ensure that we meet our earning targets. Over the last months, we have taken steps to restructure in France, the UK, the Baltics, and to further reduce the cost base in Finland. Closing down breweries is part of our restructuring efforts, but also efficiency gains from a series of a next generation excellence programmes, including business standardisation, will add to higher profitability in the future. With regard to the acquired businesses, they have now been fully integrated into the Carlsberg Group. In France, we have now announced our plan for turning around Kronenbourg including new management and a completely new business model to be driven by consumer and customer focus. The brand portfolio will be re-launched and correctly positioned while cost will be reduced.

Now to Eastern Europe and go to Slide 12 please. A strong set of numbers, the net revenue amounting to 14.5 billion, organic growth in local currencies was 22% for the first nine months driven by strong pricing and continued premiumisation as consumers trade up to higher quality and more premium products. Operating profit amounted to 3.3 billion, following organic growth of 19% in local currencies and acquisition led growth of 72%. The development is driven by the continued success of our Russian business. If you take a look at Q3 alone, in local currencies organic net revenue grew by 13% and organic operating profit grew by 15%. Operating margin for the first nine months was 22.8% versus 23.6% last year. However, operating margin before purchase price allocation was 24.2% and therefore an increase compared to the same period last year where it was 23.6%. In Q3 on a like-for-like basis, operating margin in the region remains stable at 26.4% with a margin in Russia increasing 85 basis points and being offset by the faster growth of the lower margin countries.

Now to Slide 13, and here it's about putting Baltika in the context of the wide spread concerns surrounding aspects of the Russian market. Beer in Russia is a resilient category. It is a mass consumer business supported by long-term positive trends in terms of volume and value development. Baltika is the leading fast moving consumer good business across Russia. It's unique advantages have allowed it as a trend to take share in volume and value entirely through organic growth year-in/year-out and in good times and in less good times. Baltika and the Russian beer market are not impervious to the current global financial dislocation. However, Russian consumers' real disposable income will continue to grow in 2009 and the Russian beer market is the fourth largest beer market in the world supported by well established long-term positive trends in terms of volume and value; and last but not least, Baltika will continue to be the pre-eminent operator in the market with the largest and highest quality footprint in every area.

To Slide 14. The Russian weather was significantly colder and more rainy across the country in late August and in September with average temperatures 2 to 4 degrees centigrade lower than last year. The total market is up 1% for the first nine months, but down about 1% in the quarter. In October, we anticipate the market to be close to flat with last year. Based on the development in the third quarter, we reduced our forecast for full year growth in Russian beer market volumes to 1% to 2%. Despite tough comparisons, Baltika grew volumes by 2% and reached a market share of 38% versus 37.7% last year. Even in this subdued market environment, our unique brand portfolio demonstrates its strength with growth of Baltika at 16% and Tuborg at 24%. Also the Kronenbourg 1664 brand grew by an impressive 42%. Organic revenues in local currencies grew 19% year-to-date and 11% in Q3. Pre purchase price allocation margins increased 85 basis points in Q3.

Now to Slide 15 please and the other Eastern European markets: All other markets in our Eastern European business showed market growth for the first nine months; and in every market, we grew market share both year-to-date and in quarter three. Our business in Ukraine did very well and performed in line with an aggressive turnaround plan. Following the successful re-launch of the local mainstreams, the Slavutich brand last year, our overall volumes increased by 22% year-to-date and our market share is now 23.9%, up 350 basis points versus last year. In Q3, our market share was even stronger at 24.5%. This was achieved despite the poor weather in the region. The heavy rain and flooding significantly lowered growth in demand for beer; and furthermore, aggressive pricing also in this market has had some adverse impact on market growth. The other businesses in Eastern Europe are also doing well, Uzbekistan and Belarus enjoying healthy volume growth, but with a slow down in Kazakhstan due to the economic climate. As an example, our business in Uzbekistan is now number one in the market after only one-year of operation.

Now to Asia and Slide 17. Asia net revenues increased by 18% to 2.6 billion after taking into account a material foreign exchange hit, the continued positive contribution from China as well as the mature markets - Malaysia and Singapore. Also in this region, pricing has been strong compensating for the input costs inflation. In this region, this is even more remarkable as rapid growth of volumes and sales in low priced countries reduce the average sales price in the region. Operating profit increased by 33% as a result of positive development across the region. Operating margin was 15% versus 13.3% last year driven by high volume as well as positive pricing and mix. Growth in Q3 was in line with the strong growth seen in previous quarters.

Now Slide 18. The very strong numbers for Asia were based on progress throughout the region. Beer volumes grew in all Asian markets. The Carlsberg brand performed well growing volumes in China by 12% and in Malaysia by 7%. Volumes in Western China saw double digit growth rates; and despite significant marketing investments in our Carlsberg Chill brand, profits from our Chinese operations continues to grow. And last in Vietnam, two large capacity expansion projects have been completed and we now have sufficient capacity in place to meet our forecast in volumes the next couple of years. The turnaround in Malaysia focuses on developing a strong portfolio of brands revitalizing the Carlsberg brand image driving sales execution excellence and wholesale optimization. We see positive results from the turnaround plan and the Malaysian business contributed positively to the EBIT growth. The positive development in net revenue per hectolitre was driven by general sales price increases, but also a result of less discounts and improved product mix. The strong growth in operating profit was mainly driven by higher volumes as well as positive pricing and mix.

With this, I would like to hand over to Jørn who will walk us through now the financials.

Jørn P. Jensen: Thank you, Jørgen, and if you turn to Slide 20. Carlsberg's business operations are robust and have performed well so far this year including Q3. Despite challenging conditions, we increased underlying profitability, including in our Eastern European region, reflecting the value of our brands and the consumers' willingness to pay a little more for them. We continue being successful at covering the increases in raw material prices through higher sales prices; and as already said in this presentation, our focus remains on execution in our daily business operations and delivery on the targets we have put forward.

Slide 21 please. On this slide, you can follow the organic development and the impact from the acquired businesses. My comments will primarily be to the organic development of the Group. Organic net sales were up 7%. In local currencies, the organic development was plus 9%. The main negative foreign exchange variances of approximately 970 million are primarily due to the pound sterling and the Russian ruble. Pound sterling was 13.3% lower than last year and the Russian ruble was 4.7% lower. Since the end of Q3, the Russian ruble have appreciated some 5% to 6% compared to the average rate used for the first nine months of this year. Organic growth and gross profit was up 544 million or 3%. In percentage terms, as this was less than the growth in net sales, a gross profit margin of 48.5% was down 2.1 percentage points. This margin is of course negatively impacted by the higher prices on raw materials and positively impacted by sales prices and the positive product mix development that in absolute terms more than compensates for the prices increases in raw materials. Organic growth in total opex, including brands marketing, was 376 million or 2.8% and driven by the grown markets primarily by Eastern Europe. The operational leverage is also increasing as the business is growing and we have added capacity and with that fixed costs. Other income net was up 264 million primarily due to the real estate gains in segment other activities so far this year, i.e. from the old Tuborg area in Denmark. So all in all, operating profit was at 6.6 billion of which approximately 4.8 billion was the organic amount which equals an organic growth of 433 million or 10%, 13% in local currencies. In the brewing activities, the organic growth was 205 million or 5% in reported terms plus 8% in local currencies.

On Slide 22, special items were up 113 million compared to last year, the increase mainly relating to Tuborg. Financial costs net were up with 1.4 billion compared to last year. 918 million is increased interest costs and some 825 of these can be classified as interest costs related to the financing of the S&N acquisition. The remaining increase in interest costs last year reflects the slightly higher average debt in the period driven by the increased activity level and a slightly higher interest level as such. The line other financial items is a net loss of some 450 million versus a small net income last year. This relates to one-off costs associated with the S&N acquisition of approximately 360 million and consists of approximately 250 million on upfront financing fees and approximately 110 million on hedging arrangements which were expensed in Q1 as part of securing the British pound to the Euro. In the first nine months of this year, the tax percentage was 29.4% impacted by the withholding taxes of dividends received this year relating to the earnings of all of 2007. Minorities were up 151 million to last year. This is again driven by the S&N transaction and the inclusion of the minorities in the fully owned BBH as of May 1st. All in all, net profit amounted to approximately 2.5 billion and that including all the one-off items in the P&L this year also from the S&N transaction. S&N financing fees and hedging amounted to approximately 360 million, PPA of 217 million and special items of around 100 million more than last year.

The balance sheet on Slide 23 obviously reflects the transformed Carlsberg. Total assets of some 92 billion since end last year. Approximately 85 of the 92 billion is due to the S&N transaction and can be divided into three groups – goodwill, acquired net assets at market value, and then the revaluation of the previously owned 50% of BBH. Goodwill and acquired net assets at market value each amounts to approximately 35 million while the revaluation of the old 50% of BBH amounts to some 13 billion. It's amortizations and depreciations on most of this that we refer to as PPA related in the P&L. The amount of goodwill and net assets at market value are detailed in ’07 in the (inaudible) release from earlier today. Total equity is now 67 billion and the largest change related to the proceeds from the capital increase of 30 billion and the net equity post tax effect of the IFRS revaluation of the original 50% shareholding in BBH. Net interest bearing debt amounted to approximately 46 billion, included in here is the approximately 27 billion in new debt in connection with S&N. This quarter I will come back in more detail on our debt in later slides.

And now cash flow on Slide 24: In the cash flow statement, comparisons are of course impacted by the S&N acquisition. The sum of the first three lines adds up to an improvement of 2.8 billion driven by the good organic development in business and the contribution from the acquired assets. Change in working capital was minus 881. In Q3, the change in working capital improved by 360 million versus last year, and we have a very strong focus on this. We are running a number of initiatives to reduce it and deliver upon our internal working capital targets this year and coming years. The working capital programme is working with specific targets for each net asset class in each and every market and especially inventories are currently being targeted. Paid interest net is of course also up and the variance to last year is primarily related to interests and fees on new debt in connection with the S&N acquisition. All in all, cash flow from operations is up 1.2 billion.

Slide 25 please. Capex was 1.1 billion higher than last year and with the biggest variances in Northern and Western Europe and in Eastern Europe as we have discussed previously this year. Main variance in Northern and Western Europe relates to the capital required in Denmark and Italy ahead of the closure of the breweries in both countries. In Eastern Europe, the increase is driven by the capacity expansions, including the new brewery in Novosibirsk, Russia. As we also previously have stated, 2008 is a year with extraordinary high capex numbers. Our focus on capex in general has of course only increased with the current financial environment.

Then we have primarily the cash effect of the S&N transaction in the next line and finally positive net cash flow from real estate sales. As the transfer of shares in Türk Tuborg to the buyer took place on October 23rd, proceeds from this are not included in the Q3 cash flows.

Over the next three slides and starting on Slide 26, I will explain our net debt position, our credit facilities, interest rate exposure, and so on. On this slide, you can see a reconciliation of our debt divided into short-term, i.e. less than one year, and long-term debt. End of September where the debt normally peaks due to seasonality, we had net financial debt of 47.7 billion. In order to get to the net interest-bearing debt, you then subtract so-called other interest bearing assets, i.e. interest bearing trade loans and the like. As you can see, more than 90% of the net financial debt is long-term. We have committed long-term credit facilities in place amounting to some 52 billion, which again means that we have undrawn committed credit facilities of approximately 8.4 billion. You also see that our funding surplus, i.e. the undrawn long-term credit facilities minus short-term net financial debt amounts to some 4.3 billion. Basically, you can add all this up to that we have significant and sufficient financial headwind.

On Slide 27, we have illustrated how the net financial debt is split by currency and if the interest is fixed or variable. The majority of the debt is nominated in either Euro or Danish krone, which is also the currencies in which the majority of the free cash flow is coming from. When it comes to interest rates, some 35% of the debt is on floating rates. I said previously, assuming an all-in average interest rate of 6% is quite accurate.

Finally on financing on Slide 28, here we have shown how our current committed credit facilities mature over time. Total committed facilities are around 60 billion, it's the 52 billion in long-term committed facilities, plus the short-term debt and then these are reduced over time as illustrated in green bars in the diagram. The straight line in the diagram is our current net financial debt. So what we are illustrating is that we don't have to if we don't want or choose to refinance in the market until 2011, and that's even assuming that we won't be able to reduce debt at all, i.e. that is without any contribution from future operating cash flows or from for instance monetization of real estate, and I said many times in the past, deleveraging of the Company a high priority. We discussed this already when we announced the S&N transaction in January and it has as such nothing to do with the current situation in the financial markets. It basically just makes sense following a big acquisition like the one we did earlier this year.

Then to outlook on Slide 30. At this time of the year, most of the full-year business have been completed and with full knowledge of the first nine months and a very good understanding of month number ten, not that many unknowns are out there. Adding it all together, and not withstanding the increased uncertainty in a few of our markets, we are marginally revising our full-year guidance. Organic net sales growth is expected to be 7%, more importantly with our focus on pricing and cost reduction, operating profit remains fairly resistant despite current uncertainty in the business environment and we are changing the full year guidance for operating profit with some 2.5% to 7.9 billion. This is comprised of organic growth in the brewing activities of approximately 8% to 5.4 billion, operating profit from other activities of around 300 million and operating profit from the acquired businesses of around 2.2 billion. So although lower than expected volume in net sales, then fairly unchanged operating profit expectations. As highlighted earlier in the presentation, special items have increased approximately 200 million following the disposal of the Turkish business. Marginally lower EBIT coupled with slightly higher net financial costs and special items leads to the net profit guidance of 2.6 to 2.7 billion and this is including all the one-off items in the P&L this year, also from the S&N transaction, i.e. S&N financing fees and hedging amounting to approximately 360 million, PPA of some 325 million, and special items of around 600 million.

Finally on Slide 31, medium-term targets, and just to make sure that there's no doubt about this, we remain of course still fully committed to delivering on our medium-term targets. The targets are indeed ambitious; but seen from our point of view, these targets represent a realistic estimate of what the business will be able to generate within the next three to five years. A huge part of the uplift in operating margins in Northern and Western Europe is based on internal execution of the various programmes under next generation excellence, coupled with realizing the hard synergies from integration of France and Greece. The programmes are well proven and have delivered great value in the past, and they will also deliver great value going forward. In Eastern Europe, the expansion margin is based on both transaction synergies and a balanced approach between volume and value. Notwithstanding the general impact of the uncertainty in the global economy, we do firmly believe that the Russian market will continue to grow and that our medium term forecast of annual growth of 3% to 5% is still valid. In general, you can say that we are very pleased to be exposed to markets that will grow over the next many years in contrast to some markets in especially Northern and Western Europe, even taking into consideration that the general uncertainty might be a little higher on those markets for the moment.

So with this Jørgen please.

J. Buhl Rasmussen: With this and despite how the world look like out there, I believe we have plenty on our interim agenda for the next couple of years, and I also believe we have enough to meet our ambitious targets for Northern and Western Europe as well as Eastern Europe; and I can promise you, we will not loose focus on balancing efficiency and growth and in this respect and as referred to by Jørn just a minute ago, I'm still very confident with our exposure to growth markets.

We're now ready to take questions so, as I said in my introduction, apart from Jørn and myself, we have Anton Artemiev, our SVP for Eastern Europe here and also Mikael Aro, our SVP for Northern Europe here.

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.*

Mr. Soren Samsoe from Danske Bank is online with a question.

Soren Samsoe: Yes, hello, gentlemen, it's Soren Samsoe from Danske Bank. **Just three quick questions on the Leeds Brewery closure: First of all, if you can say if this will lead to that you need to put more capex into your other UK brewery when you close it down. Secondly, if you can comment on, if you believe there could be any potential real estate value in the Leeds Brewery and when this could be realized and how it could be realized, and finally if the cost savings you see from both Leeds and also the Baltics are already included in your medium-term margin expectation for Northern and Western Europe?** Thank you.

J. Buhl Rasmussen: If I may kick off with the last one and then Jørn can take the specific on one the Leeds Brewery. The benefits from closing Leeds and also the restructuring in Baltics, that's clearly part of what will take us to our target, the mid-term target.

Jørn P. Jensen: I think formally you have to remember at least that what we're doing today is proposing to close the brewery; and of course, we are looking into what volume impacts and where to source those volumes from and so on and so forth going forward, how that would all be done, and we will eventually when the final formal decision have been taken come back on that. I think everybody knows there is eventually real estate value to be realized in these, but that we can discuss a little later.

Soren Samsoe: Thank you.

Operator: Andrew Holland from Dresdner Kleinwort is online with a question.

Andrew Holland: Yes, good morning. **Firstly, now that it is indeed a little later, can you say how much you expect to get from selling the Leeds site? A second rather mundane question is: Can you say what your full year tax charge is likely to be?**

Jørn P. Jensen: Well, it might be a little later, but that is not what I meant. So I mean when the decision has formally and finally been taken, which is after the consultation with the unions in the UK and so on and so forth. Around between 28 and 29 on the tax rate.

Andrew Holland: **Just going back to Leeds, I mean there have been figures in the UK press suggesting that the site would be worth about 100 million pounds. If that is the figure that sort of gets into the public domain, are you comfortable with that being in the public domain?**

J. Buhl Rasmussen: As you know, there are many figures around real estate values in Carlsberg in the public domain and we have even so never ever made any comments on those. So we will eventually come back on that, but it's not announced.

Andrew Holland: Thank you.

Operator: Mr. Ian Shackleton from Nomura is online with a question.

Ian Shackleton: Good morning, gentlemen. **Really I'd like a little bit more information around Russia in Q3 and you have been getting share in the first half of the year and haven't gained share in Q3, what changed? Secondly, I think you may have mentioned a figure for price mix of about 12% in Q3. I may have got**

that wrong for Russia, but I was quite interested in what happened to the mix dynamic particularly in Q3 because it does appear that from your chart at the end of the pack that the others, the smaller players, seem to have gained some share in Q3. The final question really is to what extent you can give us some guidance for 2009. You seem to be indicating you didn't expect the 3 to 5% volume growth in '09, but where do you see volumes of possibly price mix going in Russia and beer in 2009?

J. Buhl Rasmussen: Anton will certainly make comment on the market share in Q3. Just in the pricing and mix, from mix in Russia, we kept benefiting from mix also in quarter three by 6 percentage points and pricing around the 10 percentage point for Russia specifically. 10% on pricing and 6% from mix so in line with what we saw for the first six months, and that's why we are also making remarks in our presentation about the premiumisation, consumers trading up, which we have seen continued in quarter three. In terms of market growth, we'll come back when we talk to you in February about our expectation for 2009. But again, mid-term as an average, the 3% to 5% is still seen being the growth for the market in Russia. As we have said many, many times in the past, some years will be higher, some years will be lower, but as an average 3% to 5% is our view.

Anton.

Anton Artemiev: Yeah, and regarding the market share in quarter three, we estimate that our market share has remained flat compared to last year, and you correctly said that in the beginning of the year we were gaining some share and now it is flat, what might be the reason. We have commented that the focus for the whole year, and actually specifically for the quarter three, was on the value. We concentrated up to now our value share, concentrated on brands like Baltika to work and others who have gained double digit growth rates and, yeah, and have not followed so quickly in our portfolio for cheaper brands and therefore the volume share has been flat. But what we are definitely saying is that our value share kept growing. I think partly as well, we were probably ahead of competition as market leaders by pricing. That one day is catched up upon; therefore, I don't think that this impact will continue as well and we have all the prerequisites to keep growing also at volume share. But as I said, it's not the main target for us. We want to balance a growth of value share in the favour of volume share.

Ian Shackleton: **The one major player that seems to have consistently gained share throughout the year is Heineken. Is there something special they're doing that is allowing that to happen?**

Anton Artemiev: Without going into details because most of questions to Heineken is better to ask them, I would say that what they have done in general in the last period is they have closed some gaps regarding the low mainstream and a higher package volumes are some simple things, but no major breakthrough. I wouldn't say they have done something which would make them far more competitive. But that is… You better ask them.

Ian Shackleton: Thanks very much.

Operator: *Matthew Webb from Cazenove is online with a question.*

Matthew Webb: Hello. **Yes, three questions Please. First on Russia, you obviously note the sort of uncertain consumer environment in that market at the moment.**

Should we take it that although you're maintaining your medium-term guidance of 3% to 5% market growth that you are suggesting that it might be lower than 3% next year or are you just saying that it's sort of tough to call at this stage? The second question is on real estate. Am I right in inferring from what you say that you are still determined to press on and look at options for disposing of those assets despite the current environment; and if so, what implications do you think that the current environment have for the likely price you would get. Then finally, would I be right in thinking that given the likely free cash flow generation of your business over the next three years, that in fact you wouldn't need to go into the market for additional financing until 2012, even if you didn't make any disposals on the real estate front? Thanks.

J. Buhl Rasmussen: Yes, on total market, I don't think I have a lot to add apart from what we said earlier about our view is still the 3% to 5% is a very good average growth rate for the Russian market; and again, we'll come back when we get to February about the specifics for 2009. But it still, as we also discussed earlier, it's still an environment where we expect the GDP to go up, consumers' disposal income to go up; it's a growth market, and that will continue as a trend, so no further information than that.

Jørn P. Jensen: On the real estate side, as you know monetization of you can say redundant assets in general is the thing that we are pursuing and the real estate project in Copenhagen is as we have it and as we understand significant players in that market are still seeing that this as a very attractive project. It's a very long-term project as well so it is not so much about how the market is today or tomorrow.

It's maybe more about how it will look over the next 10 to 15 years. So of course we are still pursuing this like we have been talking about in the past.

Free cash flow, as I said before, 2011, we don't have to if we do not choose to until 2011 without taking into account free cash flow generation and so on and so forth . If that means that we will not do it, let's see, but we definitely have quite a number of years until we have to do something, i.e. kind of assuming that the markets will not improve over the next few years, which I think is actually exaggerating it a bit. But we have definitely sufficient financing committed to synergies and the like in place so that if worse comes to worse, we don't have to do it.

Matthew Webb: **Yeah, and just - - sorry, just to follow-up on that final point. Am I right in thinking that it looks as if you're pretty close to being able to run onto 2012 as it is and that this sort of free cash flow your kind of business has always produced, I would have thought would take you through another year, so we're actually looking at 2012 realistically before you would be forced into the market. Is that... Have I got that right?**

Jørn P. Jensen: I think it's… I totally understand where you're coming from just working on the numbers. So it could be that it is likely that some years out. To be honest, I think it's difficult to see that the markets should not be better in a few years time and that it may be - - might be so that it actually makes sense to go into the market, but it's definitely so that we can do without for quite a number of years.

Matthew Webb: Right, okay, thanks very much.

Operator: *Michael Rasmussen from SEB Enskilda is online with a question.*

Michael Rasmussen: Yes, thanks very much. **This first question might be for Mikael. Mikael, I was just wondering, looking at the Western European beer markets and if we go back and look at some previous economic downturns we've had and see how that affected your volume sale, now am I right in that we might have much more value into the beer markets today, meaning that if we see economics going down in '09 and in '10, we could potentially see beer volumes swing even more due to the much higher share of value in the beer markets today?**

Mikael Aro: I don't think you can make a general comment that beer markets would be affected very much. I think it will depend on the market. We have today announced that, for example, in the Baltics, that market, for example, is going down but I don't think we are very much affected. I think we are pretty confident that the beer markets will be doing okay and we are committed to working with that.

Michael Rasmussen: Okay, thanks. **Looking on your raw material contracts, I know the half-year result, you said that most was basically secured for 2009. Now we've seen many of these commodities coming down quite far, both in the aluminium, malting side, etcetera, could you please give us an update on where we are on your contracts and what kind of terms you can get into because what I hear other raw material users actually saying that they have difficulties in getting long-term contracts at these levels right now.**

Jørn P. Jensen: As we also communicated back in quarter two, this varied first of all by region and sometime by markets, but more by regions depending on when contracts finish and also would differ a lot from raw material to raw material. Overall, we are hedged into 2009 in a number of areas; and in some areas, quite a lot and other areas less and again would vary by region. So I cannot give you kind of one single answer here. It really varies but certainly we see it being possible to secure long-term contracts but maybe not at this point in time on the current price. It could be some we did earlier, some we do now. It would be a mixed bag.

Michael Rasmussen: Thanks, Jørn. **Do you, as it looks right now, do you expect to have to take up your net average selling prices in '09 on the numbers you've got so far?**

J. Buhl Rasmussen: Yes, we would have to also work on - - When we talk pricing, we talk about two things: it's price increases in terms of list price increases but it's also value management, the way you work the portfolio in terms of different pack sizes, different combinations within the portfolio. So there's two elements when we talk about increasing the average price but increasing list price will also be part of our plans for next year, maybe done slightly different to what we did this year where it was quite aggressive because of very aggressive increases in input cost; and based on the environment we are in, we maybe need to be a little more selective and differentiate our price increases by segment next time.

Michael Rasmussen: Okay, great, that's very helpful. **Just one last thing here. On the capex because I know you've been out saying to the media that you might look into your capex plans, expansion plans for 2009. How much lower should**

we expect 2009 be than '08? How much are you definitely cutting back there?

Jørn P. Jensen: We are definitely looking on our capex plans and that is actually the process going on right now, but we are - - due to the in general increased uncertainty around consumers and so on and so forth, then we are, of course, very cautious in order to ensure that we will be able to meet our targets both on bottom line, on cash flow, on debt reduction and so on and so forth, so we are taking this quite seriously actually.

Michael Rasmussen: **And the absolute number will definitely be lower than 2008, right?**

Jørn P. Jensen: Yes, yes, yes, it will.

Michael Rasmussen: Okay, thank you much.

Operator: Paolo Bertini from Goldman Sachs is online with a question.

Paolo Bertini: Yeah, good morning, gentlemen. **It's actually probably. Three questions: On page 27, you've given us the split between your fixed debt and your floating rate debt. I just wonder whether you could give us, since you've been using swaps to fix some of your interest rates, what is the average maturity of that fixed rate debt, and the average maturity of those swaps. Secondly, and given that I see from the split that only 3% of your debt is denominated in rubles and that most of your, all your cash flows are around 50%/55%, I would estimate out coming from Russia, and therefore denominated in rubles, whether there's any plans to be matching more**

closely your debt profile to your customers, especially in the life of the ruble potentially coming under pressure. Thirdly, you've given us quite a bit of detail in terms of your debt in the slides. I just wonder whether you could give us, you could share with us what your covenants are. Thanks.

Jørn P. Jensen: The first question is just above two years. As I said, most of our free cash flow is, of course, at the moment coming from the mature markets as we are spending money to grow in Eastern Europe and Asia in general. Yes, the exposure, the currency exposure through the Russian ruble as shown here is not huge, huge as such; however, there are some of the Euro and the U.S. exposure shown here, which is actually implicitly also hedging off the rubles, i.e. we're kind of doing it a little cheaper way and more or less in the same way as the Russian Central Bank have defined the currency basket that they have also in the currency reserves, falling currency reserves. So this is, of course, this is a thing we are foloowing very closely for obvious reasons, and we are adjusting when we think it's prudent to adjust these positions. Finally, the third question that we consider being a thing between us and then the banks.

Male Speaker: **Sorry, just one last question. When you mentioned that you're using the U.S. dollar to kind of match your cash flows in Russia to your debt, is that assuming that basically reducing some derivative contracts to hedge your exposure or was it just assuming that the Central Bank in Russia will continue to defend the ruble against the basket of the U.S. dollar and the Euro?**

Jørn P. Jenson: Yeah, that would definitely expect the Russia Central Bank to do, and I think you have also seen I the last few weeks that they are very determined to do so; and as you know, the foreign currency reserves of Russia are actually quite impressive. So that is, that's one way to do it. We are doing this in different ways, and we are following this closely and adjusting accordingly, when you think it's prudent to adjust.

Male Speaker: Thank you.

Operator: *Peter Kondrup from Kaupthing is online with a question.*

Peter Kondrup: Yes, thank you, good morning. **Regarding Russia, a couple of questions, could you speak a little bit more about the future in Russia and what you expect there going forward, in particular, duty on beer versus duties on vodka? Also, given the fact that we are now seeing the economy slow down, could you also speak a bit about the price dynamics in Russia? Do you still think it's possible to hike prices at the same pace as you have done for the last couple of years, or should we expect moving into 2009 that price increases will be at a lower level? Also in particular, in the low price segment, what are you doing there? Then in terms of your interest rates, I think, if I remember correctly, that you said that on your new debt, you'll have an interest rate of around 6% in year one, declining to around 5.1 in year three after the acquisition. Is this still the case after you have changed a lot of your debt from floating rate to a fixed rate?** Thanks.

Anton Artemiev: Thank you for questions. Regarding duties, yes you know that from 2007 to 2008, there has been quite a high increase in the duty, which actually also impacted the retail, I mean consumer price growth; but we do not expect any major increases in the duties for the coming future. There is a plan by the government where it is planned that the duties will grow either with inflation or even somewhat below. So we still can see the duty prospectus as favourable in general for the category. As far as the pricing is concerned, of course we shall look into competitive scenery which will look segment by segment, and we will not just make bulk decisions. We will do everything to maximize the value and of course taking into account the very fact that 2008, the increase in prices was quite substantial. In the low price segment, we don't specifically focus on these segments; on the other hand, we don't want to give it free right to competition, so we always will be present there with some attractive propositions. But as I said, our main focus and support is to our major branch in the premium, license, and mainstream segments.

J. Buhl Rasmussen: Maybe I could add here because this is building on what we have said now for a couple of years in Russia and some of the other markets, it's all about balancing volume and value. I think that's what the Russian teams do so well.

Jørn P. Jensen: Then to the last question, this fixed variable rates and the absolute amount kind of, then as you have probably seen, actually the long-term interest rates are actually lower than the short-term variable interest rates and that they were when we swapped from floating rates into fixed rates as well. So you can definitely still assume 6% as previously.

Peter Kondrup: Okay, thanks. **Just one follow-up question. You speak about that that is probably mostly related to the Western European business or European business, you speak about consumers having a tough time and you're a bit more uncertain what will happen; but as far as I understand, there are some channel mix changes where consumers move away from on-trade to off-**

trade in some of your markets. Can you try to give us some - - a bit more insight into what that might have of the market impact if that is the case and if it continues?

Mikael Aro: We had have an excellent project focusing on trade in the Western Europe and it's our presence in off-trade across the markets in Western Europe is much more efficient than it used to be; but it doesn't necessarily mean that a slight drop in on-trade sales would not hurt the margins because we can also and we are much more professionally on-trade than we used to be a few years back.

Peter Kondrup: Okay, thank you very much.

Operator: Nicholas Faes from BNP Paribas is online with a question.

Nicholas Faes: Yes, good morning. **I have two questions actually. First of all, in the past when we had GDP and the disposable income in Russia sales in the last 10-15 years, have you ever experienced a decline in the beer market, so just kind of pressing on here when the questions have been asked before. Secondly, on the French business, clearly you didn't own that business last year, but could you give us some year-on-year comparisons on how that business has been going in the third quarter?** Thank you.

Anton Artemiev: First regarding Russia, I just refer to example, which is the brightest probably now in our recent history, which is the crisis in 1998. In 1998 when the ruble was devalued and there was a slowdown in GDP and disposable incomes and everything, but the beer consumption actually grew. The same was in Ukraine, so on the top, I can say that the economy with lower currency reserves and far lower size in resilience has actually recovered within the year. If you take the consumer sentiments as well, there's nothing even close to what people and consumers experienced in 1998, and that I can say as a consumer. So what may happen now is that the GDP will grow instead of 7%/8%, say 5% and 6%. Disposable income will grow not 12% to 14%, but will grow 8%/9%. But I would not call it a crisis. Of course we have still to see how things are evolving, but then I would say concerns are in many cases are overdriven and beer is, just repeat, is a very, very resilient category.

J. Buhl Rasmussen: On the French business and how it has developed lately, as adjusted the on-trade is also down in the French market by about 7%/8% year-to-date and we see the same trend in Q3. The off-trade since around April/May, we have seen going up as a development in the French market. So on average, the market has been down by around 4%, plus/minus, year-to-date and also in quarter three. Our business, we didn't expect suddenly to be able to turn around the business after two months because we have to completely reposition the low portfolio and change a lot of what we are doing, the same the way we work, and that's why we announced the complete restructuring plan, which we expect to start seeing having some impact well into next year but not before; but I can say our market share performance in Q3 was definitely better than the first half year.

Nicholas Faes: I thank you.

J. Buhl Rasmussen: I think we should take one more question and then close the session.

Operator: Chris Pitcher from Redburn is online with a question.

Chris Pitcher: Good morning, gentlemen. **Just quick follow-up questions really. Following up on the question with regard to your debt situation, can you give us reassurance that with the current currency exposure as it is, and I appreciate you won't give us the covenant ratios, but can you give us reassurance that if we were to see a 30% ruble devaluation, you wouldn't breach covenants such that your short-term liquidity or interest rate comes under significant pressure; and on the interest rate question, you said that you were still happy with your 6% guidance. Are you still happy with the step down to just above 5% when I think the amortization costs run through? Then one final question on the working capital, I think receivables is an area that you can get a lot of working capital out of your business. Can you reassure us that by attacking receivables, you won't jeopardize market share in important markets like Russia where credit terms are very important?** Thank you very much.

Jørn P. Jensen: That was three very easy questions and the answer to all of them is yes.

Chris Pitcher: Oh, excellent, thank you very much.

J. Buhl Rasmussen: I think we should close the call but thank you for listening in

Jørn P. Jensen: Thank you.