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Speakers: Cees 't Hart, Chief Executive Officer
Christopher Warmoth, Senior Vice President

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Operator: Ladies and gentlemen, welcome to Carlsberg's 2015 Full Year Results Analyst and Investor Conference Call. Today, I'm very pleased to present Carlsberg's President and CEO, Cees 't Hart. For the first part of this call, all participants will be in a listen-only mode and afterwards there will be a question-and-answer session. Mr 't Hart, please begin.

Cees 't Hart: Thank you. Good morning everybody and welcome to Carlsberg's full year 2015 results conference call. My name is Cees 't Hart and I have with me Senior Vice President for Asia, Chris Warmoth, who's heading up Funding the Journey; Head of Finance, Jan Thieme Rasmussen, who is currently interim CFO; and Vice President of Investor Relations, Peter Kondrup.

2015 has been a year of transition for Carlsberg. And before I go through the Q4 and full year performance, I would like to go through the major changes that we either have initiated or will initiate soon.

Please turn to slide 3. During the year, we took stock of the Group's performance and outlook and concluded that the financial performance has not been satisfactory in recent years. Consequently, we initiated two major initiatives, Funding the Journey and SAIL'22.

Funding the Journey is a two-year profitability improvement initiative. The key purpose is to ensure a sharp focus and improve profit delivery, to invest in tools and ways of working for this and to routinely track what financial benefits the different pillars are delivering. The programme is where it is expected to be and as we announced at Q3, we expect net benefits of between DKK 1.5bn to DKK 2bn in 2018, of which approximately half will be reinvested into activities from the strategic review and the other half will improve profits.

The second initiative is a strategy review called SAIL'22 that we expect to announce on 16th March 2016. The strategy will have a time horizon of seven years, setting the future direction of the Group. To set expectations, it will be an evolution, building on the strengths of the Group in terms of geographic diversity, a healthy portfolio of strong local and international brands, number one or two positions in the vast majority of our markets and an organisation of committed employees.

By bringing more clarity to our strategic choices and the capabilities we need to build and by putting more focus on excellent execution in the markets, SAIL'22 and Funding the Journey are expected to improve profits, return on invested capital and cash flow.

I will now leave the floor to Chris who will give an update on Funding the Journey and run through the key financials for 2015.

Chris Warmoth: Thank you, Cees. Slide 4, please. The overall comment on Funding the Journey is that the programme is well underway. We've taken each of the four pillars we outlined in November, and which is shown on the slide, and have broken them down further into component parts and we then set specific targets for each of the four pillars and their components. Targets have been cascaded across the organisation, they're built into the budgets and also into the long term incentive plan for more senior managers. We put in place tracking mechanisms and will measure progress against each of these targets monthly to ensure full transparency of all savings. So overall, we believe the needed structures and tools are in place to ensure delivery of the benefits.

A few specific comments on each of the four areas. The value management, we're defining the correct metrics to ensure the optimal balance of volume, market share and profits and have set up regular reviews to measure progress. This will drive a sharper focus on utilising the right sales tools and plans to deliver a more profitable mix of brands, channels, pack sizes and promotional activities.

On supply chain efficiency, detailed savings plans within each of procurement, production and logistics have been developed. BSP1 value realisation is being executed, we're finalising plans for the first stage of complexity reductions and we're looking to simplify recipes and packaging.

Within operating expense efficiency, 1,700 of the expected 2,000 employees to be reduced have left or been notified. And what we call OCM or operating cost management tools and processes are fully implemented in Asia and Western Europe. And Western Europe is now completing rollout.

Finally, the outsourcing of shared services in Poland and China is progressing well. And about 400 people as additional to the 1,700 have been moved to the external service provider Genpact.

In terms of rightsizing, a number of actions have been taken. We've closed lines at four of our Russian breweries and removed several hundred positions. We've closed five breweries in China in 2015 with an additional two closed in the beginning of 2016. We've concluded the consultation phase with employees in the UK and we've divested land in Leeds and at the Tuborg site in Copenhagen, and in early 2016, divested Danish Malting Group. Of the expected 10bn impairment and restructuring charges, 8.5bn was charged in 2016.

So net, we're making good progress on the monitoring and tracking benefits and we'll provide regular updates. Please turn to slide 6 for a few financial highlights for 2015.

The 2015 results was in line with the expectations we gave in November, although performance in December was slightly better than anticipated. For the full year, volumes declined by 4%, mainly as a result of the Eastern European challenges. On organic revenue, we delivered 2% growth due to a strong Asian performance. Price/mix improved by 5% due to performance in Asia and price increases in Eastern Europe. Organic operating profit declined by 7%, with strong performance in Asia more than offset by Eastern Europe and the higher central costs. Adjusted net results declined 17% due to lower operating profit as well as higher other financial costs. Cash flow improved significantly and free cash flow came in at DKK 7.5bn. This reduced net debt by DKK 5.7bn. The board will recommend an unchanged dividend of DKK 9 per share corresponding to a 30% payout.

In Q4, organic operating profit declined by 23% due to different phasing of costs between quarters versus last year in Eastern Europe, restructuring costs which were not classified as special items, and high central costs from consultancy related to both Funding the Journey and SAIL'22, from higher euro football sponsorship costs and from higher amortisation on IT related intangibles.

Slide 7 please, and a quick overview of net revenue. All three regions contributed positively to the organic growth in net revenue with Asia again being the single most important contributor. The negative impact from currencies of 1% was partly offset by the impact from acquisitions.

And slide 8 please for an overview of operating profit development in 2015. Organic operating profit was DKK 8.6bn. The Asian region delivered another set of strong results despite the challenging year in China and difficult comparables. The positive Asian performance was offset by lower profits in Eastern and Western Europe. And Cees will go into more details per region shortly.

Total costs were up versus last year, and as mentioned, this was mainly due to consultancy, sponsorship and amortisation charges. The currency impact of minus DKK 130 million reflects primarily the negative impact of the weaker Russian ruble which was partially offset by stronger currencies, in particular in China and Laos. The negative net acquisition impact mainly relates to the loss-making Eastern assets which were consolidated from November 2014. A positive acquisition impact came from the Olympic transaction in Greece from May 2015. The resulting operating profit was DKK 8.5bn, a decline of 8% versus 2014.

Slide 9, please. On the individual P&L items, costs per hectolitre was up organically 5% due to the negative transaction impact of input costs denominated in hard currency in Eastern Europe. The positive price/mix of 5% offset the higher costs, and gross profit per hectolitre was up 4% organically. Operating expenses were up 3%, organically and in reported terms. The main driver of the organic increase was higher sales and marketing investments in many markets to support our brands and new product launches. Amortisation and depreciation were higher, the latter reflecting that we're now fully depreciating the BSP1 system. Special items were severely impacted by the asset review and impairment tests and amounted to DKK 8.7bn. Net financials were minus DKK 1.5bn. This was an increase of DKK 340 million and was solely due to other financial items which were negatively impacted by foreign exchange losses and fair value adjustments. Net interest was down 8% or DKK 96 million, reflecting lower average funding costs and lower net debt. Adjusted net profit was DKK 4.6bn, with the decline versus last year due to the lower operating profit and higher other financial items.

Slide 10, please. Free cash flow was DKK 7.5bn, a significant improvement over last year, driven by a strongly positive impact from working capital, lower capex and disposal of non-core assets. The change in trade working capital was plus DKK 1.3bn versus minus DKK 177 million in 2014. The very strong improvement was partly due to our continued focus on reducing the ratio of trade working capital to net revenue. This ratio reached an all-time low of minus 5.2% compared to minus 3.6% at the end of 2014. And another reason was lower stocks of Russian distributors, leading to lower trade receivables.

The change in other working capital amounted to DKK 561 million and was, among other things, positively impacted by VAT payables. As planned, capex was down significantly this year versus last. Capex spending was focussed on sales equipment and expansion in Asia, and amounted to DKK 4.1bn, down DKK 1.8bn versus last year. The decline in net operating investments was also positively impacted by the sale of the former brewery site in Leeds in the UK. Net paid interest was down DKK 177 million, reflecting lower average funding costs. Financial and other investments were positively impacted by the sale of the remaining land of the Tuborg site, north of Copenhagen.

So in summary, free cash flow this year was very strong, partly driven by underlying performance and partly by the Leeds and Tuborg land disposals, and by lower distributor stock levels in Russia.

And slide 11, please. Net interest bearing debt was down DKK 5.7bn compared to year-end 2014. Net interest bearing debt to EBITDA was reduced to 2.3 times by the end of the year. Reducing this ratio somewhat further has been and will continue to be a key focus area. 87% of the gross financial debt is long term and 79% of the net financial debt was at fixed interest rates. The specification of the movements in net interest bearing debt is shown in note 6 of the release.

Turning to slide 12 and a few remarks on return on invested capital. The 2015 ROIC number reflects the continued difficult trading environment in Eastern Europe and lower operating profit in Western Europe. In Asia, the improvement in ROIC was impacted by the Eastern Assets impairments and the region's strong results.

And now back to Cees for the outlook and a review of the regions.

Cees 't Hart: Thanks, Chris. Please turn to slide 13 and outlook. 2016 will be an important year for us as we will focus on realising the benefits from Funding the Journey and start embedding and implementing SAIL'22. While we expect benefits from Funding the Journey to come through, we also expect to reinvest part of these benefits in the priorities for SAIL'22.

Consequently, our earnings expectations are modest for the year. When looking at the market dynamics in our three regions, we don't see any material changes compared to trends in 2015. Markets in Western Europe are expected to be flat with some benefits during the summer from the Euro 2016 football. Russia is expected to remain challenging due to the continued macroeconomic weakness and consequent impact on consumers and the beer market, in addition to a challenging forex environment. Regarding Asia, we expect these markets to continue to grow.

In our business, we will focus on margin improvements in Western Europe, continued growth in Asia and mitigation of the impact from the market decline in Eastern Europe. Based on these general assumptions, we expect to deliver a low-single-digit percentage growth in organic operating profit in 2016. In addition, we will continue to focus on further debt reduction.

A couple of other assumptions worth mentioning are the following. We assume a negative translation impact on operating profit of around DKK 600 million based on all current spot rates, including a EUR/RUB exchange rate of 86. Underlying tax rate is expected at 28%, all-in interest costs of around 4.5% in line with last year. Finally, we expect to keep capex at around DKK 4bn, corresponding to Index 85 to expected depreciation.

In addition, a comment on future reporting. Following the change in the Danish regulation, we will, from now on, change our reporting for Q1 and Q3 to be trading statements. We will continue with Q2 and Q4 reporting as they are today. The main reason for this change is the seasonality of our business which means that Q1 and Q4 are very small quarters. Consequently, profits and margins tend to be volatile due to different phasing of costs between orders. A good example of this is Q3 and Q4 2015 in Eastern Europe. Moreover, the feedback from some of our main shareholders has been a recommendation to make this change. The Q1 and Q3 trading statements will include some top line numbers as well as a verbal description of the performance per region during the quarter.

Slide 15, and Western Europe. Overall, the Western Europe beer business had a declining year due to bad weather in Northern Europe in Q2, difficulties in realising the expected savings and a tough pricing environment. However, the business achieved better than expected results in Q4 with organic top line growth, a very healthy price/mix and margin improvement.

For the year, we estimate that the beer markets in Western Europe were flat. We improved our overall share with good performance in several important markets. Our volumes were flat, with a 2% organic decline in Q4. The Q4 decline was mainly due to volume decline in the UK and Finland. Price/mix for the year was flat despite a challenging pricing environment and a negative customer and channel mix. Price/mix improved in Q4 to close to 3% due to reduction of lower price volumes in the UK and Finland and mix improvements from value management approach.

With flat volumes and price/mix, organic net revenue was also flat, although it was up 2% in Q4. Operating margin declined 80 basis points due to higher sales and marketing investments and lack of the anticipated savings this year. Operating margins recovered slightly in Q4 when we delivered a 10 basis points increase.

Slide 16 please, and a look at key businesses in Western Europe. The Nordic markets were negatively impacted by very poor weather during the summer and declined by an estimated 2%. Our volumes declined 3%. We gained or kept share in Denmark, Norway and Sweden, while we lost market share in Finland, especially in Q4 as we withdrew from a retailer. Overall, the good performance was driven by sales execution and good performance of our products in the specialty and craft segment.

Our French business continued its strong performance and we grew volumes by 6%. We improved our market share, thanks to strong performance of Kronenbourg 1664, Grimbergen, Skøll Tuborg and with innovation supporting the market share gain. In addition, the launch of the non-alcoholic Tourtel Twist brand has been successful.

In Poland, we continued our positive trend on volume and value market share. Price/mix in the market deteriorated due to the increased competition and negative channel mix. The Kasztelan brand delivered good performance and Somersby achieved strong growth of 30%.

Our UK business remained challenging, declining an estimated 2%. Our volumes declined by 7%, negatively impacted by the loss of a customer contract. However, this had a positive effect on price/mix, especially in Q4. At the beginning of the year, we began revitalising the Carlsberg brand using the communication platform of “Probably the best…”.

Slide 17 please, and Eastern Europe. In Eastern Europe, the macroeconomic environment remains challenging, impacting consumers and putting pressure on the beer markets. Our regional market share declined slightly, negatively impacted by Russia with a strong share performance in Ukraine and Kazakhstan. Volumes in the region declined organically by 14%, reflecting declines in Russia and Ukraine, but growth in Kazakhstan.

Price/mix was strong at 16% for the year and 22% in Q4. The result of significant price increases in most markets in the region. Mix was flat. As a result of the strong price/mix, organic net revenue grew 2% and 12% in Q4. Reported net revenue, however, was down 22% due to the negative currency impact.

Cost of goods sold per hectolitre increased mainly as a result of US dollar denominated input costs. It was, however, offset by higher pricing, resulting in a 10% growth in gross profit per hectolitre. Organic operating profit was down 19%, impacted by the low volumes and higher sales and marketing expenses. Reported operating profit declined 36% with a negative currency impact of 17%.

An additional comment on Q4, when profits declined substantially. Q4 profitability was negatively impacted by different phasing of sales and marketing costs between Q3 and Q4. When looking at Q3 and Q4 in total, organic operating profit declined by a modest 1% for the second half.

Slide 18, and a few comments on our major markets in Eastern Europe. The macro environment and consumer sentiment in Russia continues to be very challenging. And as a result, the Russian market declined by approximately 10% for the year and an estimated 9% in Q4. Our volumes declined faster than the market due to the need for distributors to further reduce inventories because of the continued shift from traditional to modern trade and further, as well, market share losses.

Our market share declined to 35%, a 180 basis point decline. The share loss was primarily due to our price leadership, share gains of local and regional competitors and the ongoing channel shift to modern trade where we have a below average market share. Our value share developed more favourably.

To adapt our cost base to the market realities, we took several initiatives during 2015. These included the closure of two breweries at the beginning of the year, as well as the initiatives related to Funding the Journey, as Chris described earlier. We expect the Russian market to remain difficult and 2016 will be a challenging year due to the macroeconomy and very volatile currency, a tax increase of 2 rubles, PET sales restrictions and the implementation of the alcohol register system, EGAIS.

In Ukraine, the market decline continued as the economy remains in a deep recession. We gained market share as a result of the activation of the Lvivske brand, and the launch of line extensions of a local premium beer. The excise duty increased by 100% at January 2016. This led to some stocking in Q4, dampening the decline in the quarter.

Finally, in Kazakhstan, we grew volumes strongly due to the market growth and market share gains. The share improvement was driven by the relaunch of the local power brand Irbis and packaging innovations.

Slide 19 please, and Asia. In Asia, all markets grew with the exception of China where the beer market declined. We gained share in most markets and our volumes grew organically by 2% and 8% including the acquisition impact. Our non-Chinese businesses continued their growth trajectory and grew 9%. The Tuborg brand delivered strong performance and grew close to 50%. Our positive market share development was also a result of upgrades done to our range of local power brands.

Net revenue grew organically by 5%, driven by volume growth and positive price/mix of 1%. In reported terms, net revenue grew 23% due to the positive currency impact and acquisition impact. Organic operating profit in Asia grew 13%, driven by the top line growth and by tight cost control as a result of the early implementation of our new operating cost management framework. Operating margin increased by 60 basis points for the year. Q4 ended up slightly better than expected and we delivered a strong 230 basis point margin improvement for the quarter. For the first time, the Asia region generated a somewhat larger proportion of the Group's earnings than Eastern Europe and it is now the second largest region after Western Europe.

Slide 20, and some market specific highlights in Asia. In Indochina, we delivered 3% volume growth, mainly driven by the strong growth of the Angkor brand in Cambodia and solid performance in Laos. Following a strong Q4, our volumes in Vietnam were flat after the July flooding in the northern part of the country. In China, volumes declined 2% organically while the overall market declined by an estimated 5%. The market volume decline was predominantly in the mainstream category, while the international premium category showed solid growth.

For our business, both Tuborg and 1664 delivered very strong growth rates. Volumes grew particularly well in Xinjiang and in the city of Chongqing, while our business in the eastern provinces declined. Our efforts to strengthen profits in China continues, and as Chris mentioned, a large number of structural changes have been made, such as several brewery closures.

Our Indian business grew 42% in a slightly growing market. The business also delivered a significant earnings improvement and, for the first time, turned profitable. This was driven by a combination of volume growth and tight cost control. As a positive result of the strong Tuborg growth, we are now the number two player in the country, both as a company and for the Tuborg brand.

Finally, before opening up for Q&As, a few concluding remarks. After a challenging 2015, Q4 performance was in line with expectations with a slightly more positive development in Asia and Western Europe than expected. 2015 cash flow was very strong, leading to a lower net interest-bearing debt to EBITDA ratio of 2.3 times. Funding the Journey is well on track. It is based on solid plans and with monitoring and tracking in place to ensure delivery of the benefits. The key focus for 2016 will be on executing Funding the Journey and starting the implementation of SAIL'22, both leading to an increase in profits and ROIC and a further reduction in leverage.

And now, we are ready to take questions.

Operator: Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad and you will enter a queue. After you are announced, please ask your question. And the first question comes from the line of Michael Rasmussen from ABG. Please go ahead, your line is now open.

Michael Rasmussen: Thank you very much and congrats on a strong end to the year, guys. Three questions, please. First of all, if you could talk a little bit more about working capital. What can you do to further reduce working capital during the course of 2016, and perhaps if you could put any numbers out on your ambitions there?

My second question goes on to non-core assets. Besides Danish Malting Group, which we of course already know, is there anything else that you will be looking at in order to further reduce net debt in the year?

And then finally, just bridging the free cash flow of DKK 7.5bn in 2015, if you could help me out here, please. If we subtract the 575 and the 653, we get to 6.3bn in 2015. If you then guide for earnings to go down slightly in 2016 due to currencies but if we improve working capital, remain capex flat and slightly lower finance costs, is DKK 6.5bn in free cash flow for 2016 a completely wrong forecast? Thank you.

Cees 't Hart: Thank you, Michael. First of all, the working capital, what we're going to do to further reduce. Well, as you have seen in Q4, especially in Asia, we put more focus on that. I think the discipline in working capital in the company is already at a high level. So we don't expect a major improvement or major steps in 2016 but we will have a continuous improvement there. And obviously, we continue our focus.

With regard to the non-core assets, as we said earlier, we are looking at assets that do not have the economic value that are contributing to Carlsberg's financial performance. And in that respect, in the light of 2016 and as well as SAIL'22, we are looking for indeed reviewing further our core assets. And as the moment comes, we will announce these kind of next steps.

With regards to the bridge, I will give over to Chris for a moment. You explained it in a very speedy way, so we'll try to follow your reasoning. And Chris, over to you.

Chris Warmoth: Yes. So we're not going to give any precise numbers on free cash flow but we do expect our leverage to continue to reduce, so there should be some benefits. On trade working capital, as I mentioned, you know, we are operating it at minus 5%. As we get modest top line growth, you know, our objective is to hold working capital flat.

Michael Rasmussen: Great. And then obviously a flat capex should lead to still a slightly higher free cash flow if you adjust out the one-offs in 2015 and include also the sales that you talk about in 2016. Thank you very much, guys.

Cees 't Hart: Thank you.

Operator: And the next question comes from the line of Simon Hales from Barclays. Please go ahead, your line is now open.

Simon Hales: Thank you. Good morning, gentlemen. Three questions if I can, please. Firstly, just around your Q4 profit delivery in Western Europe, you said it was slightly better than you expected. Could you just sort of flesh that out a little bit more, you know, what drove that sort of slightly better than expected beat in profitability? Was it just the firmer price/mix or was there anything else, you know, in the quarter really helping out? I was expecting to see maybe a little bit more of a headwind from accelerated depreciation charge and things that you've been talking about in relation to the new strategic plan.

Secondly, could you talk a little bit about COGS per hectolitre outlook for 2016 and how we should think about underlying, potentially deflation in COGS being offset by transactional FX headwinds?

And finally, with regards to Russia for 2016, clearly still going to be a tough year. We've got the PET ban coming in. What assumptions are you making with regards to the impact of that PET ban within your overall Russian guidance for 2016?

Cees 't Hart: Okay. Thank you very much, Simon. With regard to Q4, indeed, we had a relatively to the first report a stronger performance in Western Europe. The top line was until Q3 more or less flat and it was 2% up in Q4. And we had indeed a better price/mix especially due to the focus on what we call now the golden triangle by which GPal [*gross profit after logistics*] and as well market share and EBIT should come into balance and of course not only hunting for market share.

On top of that, the good thing of losing a contract in UK was that that contract was loss-making and by that, we were able to improve our margins and the same by stopping a contract in Finland by the bridge we as well could improve our margins. So that was the reason of a stronger Q4 in Western Europe.

With regards to the COGS per hectolitre, Chris?

Chris Warmoth: Yes. So in 2016, we do expect COGS per hectolitre to slightly increase. That's heavily influenced by Russia. As we mentioned, the transaction impact of the currency is quite marked because we are buying a substantial part of our raw materials in hard currency. So we expect Russia COGS to be well up. But overall, we expect a slight increase with the other regions somewhat offsetting Russia.

Cees ’t Hart: With regard to PET in Russia, and our assumption for that in the total plan for Russia 2016, we included the impact of the higher excise, the impact of EGAIS and as well the PET impact. We assumed a start by 1st July of a ban of the one half litre. And basically, we’re seeing there are now the first moves in and all that is in our plan for 2016. So I cannot single out all the different effects, but we have taken into our calculations a ban from 1st of July.

Simon Hales: Okay. Thank you. And just getting back to your comments around the margin in Western Europe. So there’s no one-off items to help in Q4 and none of the relation to sale of land, you know, in Leeds or the Tuborg site impacted Western Europe in profitabilities? That was all in special items. Is that correct?

Cees ’t Hart: Yes, that’s absolutely correct.

Simon Hales: Perfect. Thank you very much, gentlemen.

Cees ’t Hart: Good.

Operator: And the next question comes from the line of Ian Shackleton from Nomura. Please go ahead. Your line is now open.

Ian Shackleton: Yes, good morning. I want to focus again on Russia. And I see there’s a headline up on Bloomberg I think quoting you, Cees, where you talk about a good start to the year in Russia. Perhaps if you could talk a little about whether you saw any benefit of stocking up ahead of the duty increase? It sounds like you didn’t.

And if you give us some idea of how you see perhaps, you know, the trend in Russia varying during the year of 2016, that would be very useful.

Cees ’t Hart: Yes, well, first of all, Russia is very difficult to predict as you can imagine. Over the last three, four months, the macroeconomic situation of Russia deteriorated significantly, including the Forex. And therefore, we are basically are not very positive about developments for 2016.

However, what we see is that – and you can imagine that we have been very sensitive of stocks in the Russian market, especially because of the fact that we needed to clean up quite a lot in 2015. And we are focused very much on, if you like, clean year end. And what we said this morning as well to Bloomberg is that we see the first weeks of good volume development which means that the stocks were indeed under control and at the level that we anticipated and wanted.

Ian Shackleton: And just following up, obviously you indicated 180 bps loss of market share in the year, should we assume that that’s going to be a continuing trend given the sort of focus on value rather than volume. Should we expect that you will continue to lose share in Russia this year?

Cees ’t Hart: Well, I would say a decline of 180 basis points is not in the terrain as we wanted. So that’s not very much in balance. However, if you look about the root cause of that loss is that COGS per hectolitre increased. We took the price increases. Competition did not follow. And by that in the season, we were at relatively high price premium against some of our competitors.

On the other hand, you see as well that regional and local players are coming up, DIOT [*draught in off-trade*] up in the trade is coming up. And for these kinds of things, we obviously need to have an answer. And we’re working hard to make sure that 2016 will show, obviously, an increase. We will increase the prices because of imported inflation.

On the other hand, you know, as well, have an answer on the DIOT. So to answer your question, we will not see a – well, we hope we won't see a continuation of the decline in market share. We want to revert the trend and focusing more – a more commercial success in the market.

Ian Shackleton: Very good. Thank you very much.

Operator: The next question comes from the line of Sanjeet Aujla from Credit Suisse. Your line is open.

Sanjeet Aujla: Hi. Thanks for the question, just going back to the strong Q4 price/mix in Western Europe, Cees you mentioned that that's an early indication of some of the strategy changes that you've implemented there. Is it fair to say you can sustain that momentum into fiscal 2016 or there are some underlying headwinds there? One of your competitors is talking this morning about continued deflationary environment. I'd love to get your thoughts on that.

And then also, just to clarify in Russia, are you saying that there's no excess stock now so you shouldn't see further destocking in fiscal 2016? And just another one on Russia on the price increases, are you seeing – are there any signs of the competition following those price increases in recent months? Thanks.

Cees 't Hart: Thank you. Well, I mean you cannot base a conclusion on one quarter. So it's too early to say that the new focus on what we call the golden triangle is already impacting immediately and will continue. The thing is that we see an easy acceptance of focusing more on the balance between GPaL percentage and EBIT and market share. And that gives me some confidence for the coming year. As you know, in the past, we were much more focusing gaining market share. We balance that and within that balance we should see an inflow of GPal and margins in Europe in the coming year. And that's one of our, if you like, priorities for 2016.

And with regard to Russia and the stocks, indeed, we do not see excess stocks at the end of 2015. It's a turbulent market because there's a move from traditional trade to modern trade which means that at the moment that the wholesalers cannot, let's say, sell off their stocks; there are always stocks in the market due to this shift, so we need to have a careful finger on that and focus, which we will do.

With regard to competitive pricing, I guess with the increase of the COGS per hectolitre that everybody sees the same issue and wants to compensate these kinds of cost price increases in their pricing, but we have not seen yet competitors following at the same kind of pattern as we have done over 2015.

Sanjeet Aujla: Thanks. And just a quick follow up on China, what was your volume performance in China in Q4 and are you losing market share there at the moment?

Cees 't Hart: I think there was a slightly negative in Q4.

Chris Warmoth: China has been difficult as a market. I think you know the market has been down. We're more skewed to the west where the market has been down a little bit less. And we do continue to see an opportunity for premiumisation in China, both Tuborg and 1664 have been going well. And as we move into 2016, I think we see some chance that the market should at least flatten out after a couple of years of decline.

Sanjeet Aujla: Thanks.

Operator: And the next question comes from the line of Søren Samsøe from SEB. Please go ahead. Your line is now open.

Søren Samsøe: Yes, good morning gentlemen. First question regarding your OCM programme that we – you had a head start in Asia where you started last year. If you could maybe quantify what the benefits has been there in Asia and also if you have gained any experiences in Asia that can speed up the development of your OCM programme in Western Europe or maybe the opposite.

Second question regarding your special items, you said in Q3 that they should be between DKK 1bn and DKK 1.5bn. Now, they're only DKK 600 million. What causes this difference? And then finally, you're now doing only trading statements in Q1 and Q3. I was just wondering whether you could elaborate a little bit about this because Q3 I guess is a very important quarter for Carlsberg. Are you going to still provide P&L or are you just going to give the volume and revenue number? So how is it going to be? Thank you.

Cees 't Hart: Thank you. Well, with regard to OCM, I will hand over to Chris about the – to specifically answer your question on what kind of experience we have from Asia, we are importing to the rest of the company. That's the reason why I've asked Chris to do this for the total company. And we have folded this in in Funding the Journey. And we indeed we see some very specific learnings from the success in Asia which we can apply into the total Group. Chris, over to you.

Chris Warmoth: So, yes, we started OCM in Asia in Q2 of 2015. And I don't think we're disclosing the exact benefits but what I will say is the savings we got I think were higher than we expected. It was very much built around a cost group; I think other people call them package approach. We had a number of packages or cost groups and we saw good savings essentially in all of those. And at the heart of OCM is a very simple thought process. You get very clear and consistent data which you can compare month on month and with other countries. You make that data very easily available to all the stakeholders, and then every month you review that data and come up with opportunities. Sounds very simple, much more complex to actually execute. What we've done is taken that exact methodology and it's very much up and running now in Eastern Europe and Western Europe is also pretty nearly complete.

On special items, I think the number was actually DKK 800 million in Q4, not DKK 600 million. You're right, it was a little bit below the DKK 1bn to DKK 1.5bn we said in Q3. But the plan is very much on track. We got everything done, everything we wanted to do. And there will be some more coming. But these plans do evolve, you're not quite sure exactly where they'll end up. So I wouldn't read too much into the fact we were slightly below in terms of the special items and on the Q3, on the reporting ...

Cees 't Hart: Yeah, on Q3, indeed, that's a big quarter of course. But basically, you will get the Q1 and Q3 in terms of the volume and revenue. And we will make sure that you understand obviously what the momentum in every quarter is, but extended reporting including the P&L at the full-year and half-year.

Søren Samsøe: Okay. Thank you.

Operator: The next question comes from the line of Tristan van Strien from Deutsche Bank. Please go ahead. Your line is now open.

Tristan van Strien: Hi, good morning. Cees and Chris. Two questions if I may. Just on India, how much of that growth, which is quite phenomenon, is driven by government agency contracts and retailer auction contracts which need to be renewed next year; is there a risk that they won't be? And also within that, there's a lot of noise right now, on alcohol being banned in Bihar state, you mention as one of your growth states, so your view on that.

And then the second question, on my numbers, globally Tuborg now is bigger in volume in Carlsberg. I want to know if that's true in value as well. Thank you.

Chris Warmoth: Well, on India, government contracts – I don't know how much you know about the Indian market, it is very complex. Government contract isn't really quite the way to look at it. In various states, the government do have sort of a part of the business in that they may auction out the right to sell alcohol. Or in some states, they may be the sort of warehousing and the distribution part. But it's not like you buy a contract with the government which then needs to be renewed. In the end it is driven by consumer demand and how the product gets to the consumer just varies state by state.

So really in answer to your question, we're not really dependent on government contracts being renewed. We're dependent on, like in other markets, consumers wanting our brands. And the good news is I think both Tuborg and Carlsberg are brands consumers are showing an increasing desire to purchase.

You're right on Bihar, the new government did announce that it would become a dry state. And we're getting I think some indications that they're going to focus more on spirits than on beer. You know, we've sort of explained that what they call country spirit, these would be low-cost spirits, sort of brewed in a cottage industry type fashion may become more of a focus than beer.

So at this point, we're still selling in Bihar. It is an important state for us. We built a brewery there 18 months ago and we remain optimistic that business should continue.

On Tuborg versus Carlsberg, you're correct that Tuborg has higher volume than Carlsberg. Carlsberg generally is higher priced than Tuborg. So in terms of value, the difference between Tuborg and Carlsberg is relatively modest.

Tristan van Strien: Okay, thank you. Just a follow up on India, so you're building a new brewery there. If I look at Karnataka State, which is government distribution. There's a government distribution. Is that based on the local market share and the state? Or is there a danger there where the government will move to a national market share like they do in Andhra Pradesh?

Cees 't Hart: I'm not sure I fully understood your question.

Tristan van Strien: So right now, the government buying, is that done – that's done on the local market share in the state or is it basing the national market share like they do, for example, in Andhra Pradesh?

Cees 't Hart: Yes. So on the whole concept of government buying, the government as I mentioned has a stake in getting the product to the market, but in Karnataka as in Andhra Pradesh, the end consumption is determined by the consumer. And there is buying groups getting together and, you know, like key accounts in Western Europe, you can do, if you like, deals with these buying groups and we have those. But I think the market may be – it's a very, very complex market. Each state does have its own route to market. But in the end, what really matters is appealing to the consumers because beer is sold retail outlet by outlet.

Tristan van Strien: Yeah. Thank you very much.

Operator: And the next question comes from the line of Jonas Guldborg from Carnegie. Please go ahead. Your line is now open.

Jonas Guldborg: Yeah, good morning all. A couple of question here. First on Asia, you're assuming a relative improvement in the Chinese market and continued growth in rest of Asia. Is it then fair to assume that you expect accelerating volume growth in Asia for 2016 compared to 2015?

And then also if you could just put a few comments on how Eastern Assets' earnings are developing?

And then finally, I understand that you won't give any guidance for your net debt to EBITDA in 2016. But maybe you could put a few words on where you expect it to be longer term or where you target it to be longer term. Thank you.

Chris Warmoth: So on Asia, you were right, we expect the China market to be flattish. We expect the rest of Asia, in terms of market, to grow. Do we expect accelerating budget growth? Well, I think as you've seen, we've had very good margin improvements over the last two years. We – and the earlier question asked about OCM – we did do a lot of operating cost management practice in 2015. So I think in 2016, we expect continued growth. I wouldn't say it will be accelerating budget growth.

In terms of Eastern Assets, as we explained in Q3, it is a difficult business, the east coast of China has been particularly difficult. We discussed, in the comments, about closing breweries. We've put special attention on that east coast, and as a result of that, we do expect an improvement in Eastern Assets. And we have further work to do, but it does remain quite a challenging business.

On your final question on the ratio of net interest-bearing debt to EBITDA, as we mentioned, we're at 2.3 this year. Our objective is to be investment grade. I think in the past, we said we want it to be below 2.5. So we've already achieved that. But as I mentioned in the comments, we would like to get it down further from 2.3.

Jonas Guldborg: Okay. Thank you.

Operator: And the next question comes from the line of Carl Walton from UBS. Please go ahead. Your line is now open.

Carl Walton: Thanks. Just a couple of questions. One on Western Europe, can you comment on how big now in Western Europe, in terms of volumes, craft and specialty and perhaps low-to-non alcohol plays as part of your current volumes and maybe how big you think that could be going forward?

And then the second question just on the capex guidance of sort of an index of about 85% to depreciation. Should we think that guidance could actually change significantly when you update us on the strategic review, for example, if you're obviously thinking about the investing more in certain regions or something like that or have you given the guidance now today because that won't move significantly post the strategic review? Thank you.

Cees 't Hart: Okay. With regard to Western Europe and the volume percentage of craft, it's always a matter of definition, what you call craft. With the way we calculate it, I mean we talked about the brands like Jacobson and so on, then we say that we have of the Western European volume, we have a percentage which is lower than 5% in craft. And obviously within sale SAIL'22, we come back on that.

It's the same with regard to the capex guidance, we do not see significant change over time. But obviously, when you come as a new strategic plan, there are some investments attached to that. But again, not a significant change in it.

Carl Walton: Okay. Thank you.

Operator: And the next question comes from the line of Richard Withagen from Kepler Cheuvreux. Please go ahead. Your line is now open.

Richard Withagen: Just two quick questions. First of all, you're citing a couple of reasons for your market share developments in Russia. What are you actually doing to increase your market share in modern trade especially, because I guess that's a key area which drives down your market share in Russia?

And the other questions I had is on your capex guidance. You're obviously guiding for DKK 4bn in capex spending in 2016. Can you talk about a couple of major projects that you will be doing this year?

Cees 't Hart: Okay, with regard to share in Russia, well, we are underrepresented in the modern trade by which the move from traditional trade to modern trade automatically leads to a share decline. We are not as such seeing a significant share decline in modern trade. However, our price premium vis-à-vis competition has been higher than expected because of the fact that the competition was not following us. So when you talk about real actions, it's always of course about strengthening the brand as such, strengthening the portfolio we create in modern trade, but as well controlling our price premium vis-à-vis our competitors. We're working as well on a new commercial proposition for the total portfolio in Russia. And the combination of these actions should lead to at least stabilising and then improving market share in the modern trade.

Chris Warmoth: And on capex, as we mentioned, we expect capex in 2016 to be about the same level as 2015. So, if you like, new projects are less than they have been in the past. In China, quite frequently you're in a position where a brewery was built in the middle of a city and the government asks you to move. That's happened in Dali, in Yunnan, that project is now just completing. The government take into account that they're making you incur costs and so they help you with that move.

We're going to go through a similar process in Yibin in East Sichuan and as the caller earlier mentioned, we're now planning on building a new brewery in Karnataka in India. Besides that, it's business as usual. We always have coolers to buy. We always have kegs, maintenance and so on. But they would be the big projects.

Richard Withagen: Alright. Thank you.

Cees 't Hart: Can we have the last question, please.

Operator: Yes. And the last question will be from Hans Gregersen from Nordea. Please go ahead. Your line is now open.

Hans Gregersen: Yes, good morning. One strategic question and some household. You mentioned in the beginning, Cees, that the cost savings should drive a 50-50 split between profits and reinvestments. Can you shed any light what those reinvestments would do to the top line outlook?

And then some quick questions, can you give a specific data on the price increase implemented in Russia in Q4? Financial cost, what have you assumed in terms of FX losses? And you mentioned in the report that Myanmar saw significant start-up costs, what are they? And finally, if I understood the comments on COGS right, was a slight decrease in Western Europe and Asia more than offset by Eastern Europe? Thank you.

Cees 't Hart: Okay. Thank you. With regards to your first question, yes, we're going to reinvest. We'll come back on that in mid-March when we talk about SAIL'22 and show you which kind of direction the investments we'll move to.

As we said earlier, we want to create benefits over the coming two years of DKK 2bn, around 50% will then indeed move to profit. The other 50% to the programme of SAIL'22 which we'll reveal on 16th March.

Then for your household –

Hans Gregersen: Sorry, could you just interrupt you? I understand you will not give any detailed data. But should I assume longer term that they will drive stronger profits – sorry, top line performance or is it just to retain what you have?

Cees 't Hart: We want to improve our revenue development. And of course, then have an improvement also of the EBIT generation over time.

Chris Warmoth: Your housekeeping, Russian pricing in Q4 was 1% to 2%. And COGS, we don't give specifics by region. Just to repeat, we will be up overall and that's particularly driven by Russia and the hard currency denominated input materials. Did I miss any housekeeping?

Hans Gregersen: Yeah. Financial cost, what have you assumed in terms of FX losses and Myanmar's start-up cost?

Chris Warmoth: So Myanmar is now into its second year. So we already had that last year. Jan, maybe on financial costs …

Jan Thieme Rasmussen: Sure. And, you know, cost of 4.5% and that includes other financial cost of DKK 200m to DKK 300m.

Hans Gregersen: But – and the question on Myanmar was basically, what was the significance start-up cost in Q4?

Chris Warmoth: No, Myanmar has now been going for much longer than Q4. Myanmar started up in Q2 of last year. So it didn't have a big impact on – it was spread throughout the year.

Hans Gregersen: Okay. Thank you.

Cees 't Hart: Then a short concluding remark before closing the call as I am sure that many of you are going to join another call in a moment, and please give my best regards to my friend, Jean-Francois van Boxmeer.

I'm pleased with the progress of preparing SAIL'22, and as said earlier, there will be an evolution of the Group, building on our key strengths. We will publish on 16th March and present it to you in more details via a conference call and a subsequent road show.

That was all for today. Thank you for listening in and, hopefully, we will meet most of you in the coming days. Bye-bye for now.