Carlsberg A/S
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H1 2019 Interim Financial Statement Conference Call
Speakers:
Cees 't Hart, CEO
Heine Dalsgaard, CFO

PARTICIPANTS

Corporate Participants

Cees 't Hart – President & Chief Executive Officer, Carlsberg A/S
Heine Dalsgaard – Group Chief Financial Officer, Carlsberg A/S

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Trevor Stirling – Analyst, Sanford C. Bernstein Ltd.
Jonas Guldborg Hansen – Analyst, Danske Bank A/S
Sanjeet Aujla – Analyst, Credit Suisse Securities (Europe) Ltd.
Andrea Pistacchi – Analyst, Deutsche Bank AG (UK)
Simon Hales – Analyst, Citigroup Global Markets Ltd.
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Nico von Stackelberg – Analyst, Liberum Capital Ltd.
Edward Mundy – Analyst, Jefferies International Ltd.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the H1 Financial Statement Conference Call. Today, I am pleased to present CEO, Cees 't Hart; and CFO, Heine Dalsgaard.

For the first part of this call, all participants will be in listen-only mode. And afterwards, there'll be a question-and-answer session. And just to remind you, this conference call is being recorded, and a transcript of the call will be made available online.

Speakers, please begin your meeting.

Cees 't Hart, President & Chief Executive Officer, Carlsberg A/S

Good morning, everybody, and welcome to Carlsberg's H1 2019 conference call. My name is Cees 't Hart, and I have with me, CFO, Heine Dalsgaard; and Vice President of Investor Relations, Peter Kondrup.

Let me first briefly summarize the key headlines for the first six months of the year. We delivered strong financial performance with healthy top line growth and strong profit and margin improvement. We see good growth coming from our SAIL'22 priorities and we increased our 2019 earnings outlook last week after the strong H1 and a solid start to Q3.

I will go through the highlights of the first-half year, our strategic progress, and the regions, and Heine will take you through the financials and 2019 outlook.

Please turn to slide 2. Let me evaluate the financial, strategic, and organizational health of our company. Financially, the company continues its very positive trajectory. For the first six months, we delivered solid top line growth of 4.2% and operating profit growth of 17.7%. Consequently,

we saw a good margin progression in addition to a strong ROIC improvement of 110 basis points and a very healthy cash flow of DKK 5.2 billion.

Our Golden Triangle is still a very important performance tool, and we are satisfied with the overall balance in the first half. We are very pleased that we have been able to make a substantial cash return to shareholders of DKK 5.2 billion so far this year.

Strategically, we are making good progress on our growth priorities with strong growth in our Asian region, as well as for craft & speciality, and alcohol-free brews. For our core beer business, we also saw good momentum and we achieved good traction of our digital initiatives and sales and marketing activities. Our growth in markets such as China and India and the earnings growth in Western Europe means that the robustness of the business has strengthened, enabling us to offset the challenges in Russia, and we view the long-term strategic health of the business as very good.

In May, we took the temperature on the organizational health in the group where we carried out a biannual employee engagement survey. Results were very good with an improvement for the overall engagement score, which means that it is now even further above benchmark than last time. We were very pleased to see high scores related to performance and change culture and for questions related to SAIL'22.

Slide 3 please and a few comments on the progress of some of our important strategic priorities. Our craft & speciality portfolio delivered growth of 17%, with particularly strong growth rates being achieved in Asia and Eastern Europe. 1664 Blanc remained a key driver, supported by growth of our local craft brands.

Our portfolio of alcohol-free brews continued to significantly outperform the beer market, delivering growth of 16% with very strong growth rates being achieved in markets such as Russia, Poland, and the Nordics. Our alcohol-free brews mainly consist of local brands such as Baltika 0 in Russia, Munkholm in Norway, and Nordic in Denmark.

We continue to see very interesting long-term volume and value growth opportunities for craft & speciality and alcohol-free brews in all three regions. Our core beer business, that remains the largest part of our business, delivered solid growth in spite of the bad weather in several Western European markets.

As part of SAIL'22, we have significantly improved the way we work with our local power brands, applying our demand space segmentation and growth story approach for each brand. Core beer grew volumes by 1% and even more importantly by 4% in revenue. The 3% price/mix was the result of value management and premiumization efforts. Lastly, the very strong growth in Asia continued, driven by solid volume growth also for our international premium brands.

Slide 4, please, and a few words on our sustainability agenda, which is an important priority in our SAIL'22 strategy. As part of Together Towards ZERO, we have set ambitious targets within the areas of carbon emissions, water usage, responsible drinking, and health & safety. Much work across our value chain goes into realization of these targets for which we report our progress once a year.

An example of activities during the first six months is our initiative to reduce plastic waste at many music festivals this summer across Europe, in markets such as France, Switzerland, Norway, Latvia, and Denmark.

Using Denmark as an example, we replaced more than 2 million single-use cups with reusable ones, washing these in a 13.4 meter-long dishwasher with a washing capacity of more than 9,000 reusable plastic glasses per hour. We also continued the rollout of our other consumer-facing sustainability innovations, including the new Cradle-to-Cradle inks used on the Carlsberg brand, which is now available in 19 markets.

Now, please turn to slide 5 and an update on our international premium brands. 1664 Blanc continued its strong performance. The brand grew by 29%. This growth should be seen in light of the impressive 49% growth achieved in 2018. We saw good progress in many markets, with particularly strong growth is seen in Russia, China, Ukraine, France, and some export markets.

Grimbergen grew by 4%, with markets such as France, Denmark, and Russia being the main drivers. Tuborg, our largest brand, grew by 4%, mainly driven by continued good growth in India and China, while volumes were soft in Western Europe, mainly due to bad weather in a few of the important Tuborg markets, and in Russia due to our overall market share loss.

Net revenue of the Carlsberg brand increased. The brand saw very good growth in Eastern Europe, especially Russia. But overall, volumes were hurt by the double-digit decline in the UK that was impacted by tough comparables and bad weather. Excluding the UK, volumes were slightly up. The key focus in the UK is the strengthening of the Carlsberg brand. We started at the beginning of April with the launch of Carlsberg Danish Pilsner, which you can see on the slide with new visuals, packaging, and quite candid communication. We have received a lot of positive feedback from customers and secured listings at most retailers. We have also seen a very positive media coverage and recognition on social media with positive indications of improving brand image among consumers. For all other Carlsberg markets, we are in the process of implementing the new packaging and visuals.

And now, I will hand over to Heine who will take us through the numbers.

Heine Dalsgaard, Group Chief Financial Officer, Carlsberg A/S

Thank you, Cees, and good morning, everyone. Please turn to slide 6. One of our key priorities for 2019 is to maintain tight cost control and to ensure that even though Funding the Journey as a project was concluded last year, the culture remains intact, so that we continuously become more efficient in all areas of the business. We are pleased that our half-year results is a positive reflection of this.

Looking at the income statement, net revenue grew by 6.5%. This was driven by volume growth of 1.4%, positive price/mix of 3%, the increased ownership of Cambodia, and a positive currency impact. Gross profit was up organically by 3%, as we were able to more than compensate for the 4% organic cost per hectoliter increase. Reported gross margin declined by 110 basis points to 49.5% due to the higher input costs and the consolidation of Cambrew, which currently has a gross margin significantly lower than the group average.

Operating expenses declined by 3% driven by tight cost control. As a percentage of net revenue, operating expenses decreased by 260 basis points as we kept marketing investment flat in absolute terms following last year's increase. OpEx, excluding marketing expenses, declined organically by 4% compared with first half last year.

In total, we delivered 17.7% organic growth in operating profit. From a regional perspective, this was driven by very strong growth in Asia and Western Europe, partly offset by challenges in Eastern Europe. In reported terms, operating profit grew by 18.2% due to a positive impact from currencies, partly offset by acquisitions, as Cambrew, as expected, was loss-making. Operating margin increased by 160 basis points to 15.7%. The margin improvement was driven by factors supporting top line such as more sales of premium products and value management, including pricing. In addition, the continued cost focus was and will remain a source of margin improvement and top line investment facilitator.

Before turning to the next slide, I just want to mention that the implementation of IFRS 16, which is about the recognition of leases, has an insignificant impact on operating profit. The net impact on operating profit is plus DKK 6 million, replacing a higher EBITDA of DKK 189 million, and higher depreciations of DKK 183 million.

Slide 7, please, and further down the P&L. Net special items amounted to plus DKK 133 million. They were impacted by the sale of the brewery site in Norway, partially offset by one-off restructuring costs in Western Europe. Excluding currency gains and losses, net financial expenses were flat, amounting to DKK 379 million versus DKK 380 million last year.

Reported net financials amounted to minus DKK 451 million, which was an increase of DKK 120 million compared to last year and solely due to currencies. The impact of IFRS 16 on interest expenses was DKK 6 million. Tax was DKK 1.3 billion corresponding to an effective tax rate of 27%, which is in line with our expectations. Non-controlling interests amounted to DKK 464 million, up DKK 51 million versus last year. They primarily relate to our businesses in Malaysia, Chongqing, and Laos. The Carlsberg Group's share of consolidated profit increased to DKK 3.1 billion. Adjusted EPS, up DKK 19, was an increase of 15.6%. This was driven by the strong operating profit growth, a lower tax rate than in 2018, and then supported by the share buyback.

And now some comments on the cash flow on slide 8, please. We reported a strong cash flow, which was very much supported by the EBITDA and the positive contribution from trade working capital, although and - as expected - at a lower level than last year. Free operating cash flow amounts to DKK 4.8 billion. Trade working capital was plus DKK 741 million. 12-month average trade working capital to net revenue was minus 16.4% compared to minus 15.2% end of June last year. All three regions improved the trade working capital ratio.

The change in other working capital was plus DKK 67 million impacted by specific reclassification last year and lower VAT and deposits this year due to different payment schedules. Net interest paid were DKK 392 million. That was DKK 81 million more than last year and due to the settlement of financial instruments. Tax paid amounted to DKK 1.1 billion, which was DKK 163 million less than last year. Several explanation for this small decrease including a capital gain tax incurred last year.

Total operational investments amounted to DKK 1.7 billion. CapEx was DKK 2.3 billion. This was higher than last year due to phasing within the year. Disposals, including the brewery site in Norway, amounted to plus DKK 556 million. Financial and other investments net were plus DKK 397 million and mainly due to received dividends. And based on all of this, free cash flow for the first half amounted to DKK 5.2 billion.

Slide 9 and a few comments on net debt. We continue to have a very strong balance sheet with net interest-bearing-debt-to-EBITDA ratio at a low level of 1.33 times. Net debt in the half year compared to year-end 2018 increased by DKK 1.6 billion due to the dividend payout to Carlsberg shareholders in March of DKK 2.7 billion, the share buyback, which amounted to DKK 1.7 billion for the first six months, and the implementation of IFRS 16 that increased our net debt by DKK 1.6 billion.

In June, we issued a 10-year €400 million bond with a coupon of 0.875% as we had a €750 million bond with a coupon of 2.625%, which matures in July this year. Also in June, we entered into a new revolving credit facility of DKK 2 billion. We carried out a few minor acquisitions in the first half and sold the former brewery site in Trondheim in Norway.

Slide 10, please, and an update on the share buyback. The program ran smoothly from February 6 through Wednesday last week. In total, 2.9 billion shares had been purchased at a total value of DKK 2.5 billion, corresponding to an average share price of DKK 863.8. The daily volume bought represents an average of around 8% of daily trading volumes on Nasdaq Copenhagen. As we continue to see a very healthy state of our business in terms of earnings growth, margin improvement, returns, and low leverage, the supervisory board has decided to continue with the second tranche of the share buyback program, which has a value of DKK 2 billion. This will bring the total value of the total share buyback program to DKK 4.5 billion as announced in February. The program will continue to be done in accordance with the EU Safe Harbour Regulation and will be executed from today and until end of January 2020. We still expect to cancel the purchased shares at next year's AGM, except for those needed to cover share-based incentive schemes.

The Carlsberg Foundation has participated in share buyback pro rata corresponding to their 30% economic interest and has informed us that they will continue to do so. Further details are described in the announcement on page 16.

And now, please turn to slide 11 and the outlook for the year. As you saw last week, we announced an increase in our earnings outlook for 2019 to high-single-digit growth in organic operating profit from previously mid-single-digit expectation. The upgrade was driven by the strong first-half performance improvement and a solid start to Q3. We are very pleased to be well on track to deliver this kind of earnings growth in spite of bad weather in some markets in Q2 and the tough comps in Q3.

A few comments regarding the expected second-half performance. As you can see from the outlook, we expect less strong earnings improvement in second half compared to first half. In Eastern and Western Europe, we have tough comps in Q3 as last year was very strong due to weather and the football world cup. Moreover, in Eastern Europe, we don't expect any changes in the competitive environment in Russia and Ukraine. And as we've stepped up our promotional activities, the pressure on price/mix and margins will continue. Finally, we will continue to invest in Asia and our marketing spend will be more skewed towards second half. Based on the spot

rates on August 14, we assume a plus DKK 100 million currency impact compared to plus DKK 150 million previous impacted by the Chinese renminbi, the British pound, and the Russian ruble. Finance costs, excluding FX, are now expected to be around DKK 700 million. This is slightly less than previously expected and due to the strong cash flow and the refinanced revolving credit facility as well as the bond refi. The expected reported effective tax rate of below 28% is unchanged. Our CapEx expectations are also unchanged at around DKK 4.5 billion at constant currencies.

And now, back to you, Cees.

Cees ‘t Hart, President & Chief Executive Officer, Carlsberg A/S

Thank you, Heine. Please turn to slide 12 and Western Europe where net revenue was flat organically with price/mix at plus 1%. Price/mix was positive in most markets as a result of successful premiumization efforts and value management initiatives including price increases. Excluding the export and license business and adjusted for country mix, price/mix was close to 2.5%.

Due to the very warm summer last year, Western Europe faced some tough comparables in Q2, which will be pronounced in Q3. Following the solid Q1, we therefore saw a soft volume development in Q2, which was exacerbated by bad weather in some markets. For the half year, total volumes declined organically by 0.9%, with a decline in Q2 of 2.7%.

Non-beer volumes grew by 3% due to good performance in the Nordics. Reported net revenue grew by 0.2% due to a strong positive currency impact. Organic operating profit growth was 10.3%, and operating margin improved by 160 basis points to 15.5%. This was driven by premiumization, value management, tight cost control, and a higher contribution from Super Bock. We estimate that our regional market share was likely be flat compared to the same period last year.

Slide 13, please, and a few country-specific comments. The Nordic markets were impacted by bad weather in the quarter. Nevertheless, the Danish business delivered a good half-year, driven by growth of the soft drinks category and market share gains in beer. Price/mix developed positively due to value management and premiumization. In Sweden, total volumes declined slightly due to lower beer volumes. Non-beer delivered solid growth. Price/mix improved mainly as a result of price increases.

The Norwegian business had a challenging Q2 on the back of difficult comparables. However, the soft drinks business delivered solid growth. In Finland, volume growth was strong at double-digit, due to our listing for the summer campaign at a major retailer, our market share strengthened considerably while price/mix declined. Alcohol-free grew strongly in all Nordic markets.

In a flat French market, our volumes were flat. Our craft & speciality propositions, led by 1664 Blanc and Grimbergen, and alcohol-free brands continued to perform well while the mainstream Kronenbourg brand declined. Price/mix developed favorably.

Our Swiss business was impacted by bad weather in Q2, resulting in a negative volume development. Price/mix was positive due to solid growth of our craft & speciality brands and alcohol-free brands.

The Polish market declined slightly and our volumes were down by 4%. We achieved high-single-digit price/mix due to price increases and premiumization, the latter evidenced by good results for our upper mainstream brands such as Zatecky and Okocim, craft & speciality brands, alcohol-free brews, and Somersby.

In the UK, a key focus is the strengthening of the Carlsberg brand. This multi-year activity started at the beginning of April with the launch of Carlsberg Danish Pilsner. So far, we have received positive feedback from customers, good media coverage, as well as good results from consumer surveys. However, we need to get into the new year before we can really evaluate the success of the relaunch. Price/mix showed strong progress and market share improved compared to the exit level of 2018. Nevertheless, volumes declined by double-digit, impacted by tough comparables and bad weather this year.

Development in the rest of the region was mixed, with solid volume and value growth in Germany led by the Lübzer brand, healthy price/mix and solid volume growth in the Balkans and good price/mix in the Baltics. In Italy and Greece, volumes were down.

Slide 14 and Asia, please. Once again, our Asia region delivered a very strong set of results. Net revenue grew organically by 14.5% driven by 8.5% organic volume growth and 6% price/mix. Reported net revenue grew by 23.6% due to a positive currency impact from all countries in the region and the acquisition of Cambrew in August 2018. The price/mix improvement was a combination of strong growth for our international premium brands and price increases and was delivered in spite of a negative country mix. The organic volume growth was broadly based with particularly strong growth seen in Vietnam, China, and Laos.

Reported total volumes grew by 16.6% due to the consolidation of Cambrew. Organic operating profit grew strongly by 35.5% driven by revenue growth and good cost control. Reported operating profit growth was slightly lower due to a small currency impact and the consolidation of Cambrew that, as expected, recorded a loss for H1. Operating margin improved by 180 basis points to 22.1%.

Slide 15, please, and a few country-specific comments. We continued our strong performance in China, growing volumes by 9% in a flat market. The volume growth was driven by several factors. Firstly, we saw a 9% growth of our premium portfolio due to the ongoing premiumization trend in the market. Secondly, our expansion into big cities outside our western footprint showed good progress. Thirdly, our local power brands, Wusu and Dali, achieved double digit growth rates due to good weather, market share gains, and more tourism.

The growth of the Carlsberg brand was curbed by reduced volumes in the night-entertainment channel that was impacted by the government's anti-crime campaign. Price/mix was plus 10% as a result of premiumization and value management including price increases. As a result of the volume growth and strong price/mix, net revenue increased organically by 19%. Our margin was very strong at around 20%, but will be lower in the second half due to the higher marketing spend than in H1.

Our Indian business delivered 5% volume growth. As expected, growth was lower in Q2 compared to Q1 due to the dry days in connection with the elections. Revenue growth was double-digit supported by price increases and lower rebates. We continue to see very appealing long-term opportunities in India but, at the same time, we need to manage the short-term volatility and the general risk of doing business in India.

In Laos, the positive momentum continued. We achieved high-single-digit volume growth and saw growth in all categories; beer, water, and soft drinks. Particularly, the non-beer business delivered strong numbers. Price/mix strengthened due to premiumization within the beer category, which more than offset the negative category mix from non-beer.

Our Vietnamese business delivered double-digit volume growth with positive development in both Q1 and Q2. Our local power brand, Huda and the line extension Huda Ice Blast, were the key growth drivers. Price/mix improved mainly due to price increases and supported by brand mix due to growth of the Carlsberg brand. I may already now answer the usual question about the privatization process of Habeco. We continue to have a good dialogue with the government and we are making some progress.

Our Malaysian business continued to deliver solid performance with good results for our premium offerings such as 1664 Blanc and Somersby.

In Cambodia, the rebuild of the business continues. The key focus is to strengthen the route-to-market and the iconic Angkor brand, which is currently being relaunched. Volumes grew slightly due to the strong growth of soft drinks, offsetting lower beer volumes.

Slide 16 and Eastern Europe. Net revenue grew organically by 3% due to a solid 6% price/mix and 3% total volume decline. The price/mix improvement was driven by price increases in all markets and mix improvements from growth of craft & speciality and alcohol-free brews. Beer volumes declined by 4.1% due to the tough comparables, with last year being positively impacted by warm weather and the football world cup, and this year market share losses in Russia and Ukraine. Non-beer volumes grew strongly by 11.9% due to the growth of energy drinks.

Operating profit declined organically by 5.1% due to the higher costs of sales and logistics costs. Cost of sales was impacted by input cost inflation and a negative foreign exchange impact, mainly on certain packaging materials. Operating margin was 18.9%, a decline of 140 basis points. Given the changes in the competitive dynamics, particularly in Russia, we envisage the pressure on the regional operating margin to continue.

Slide 17, please. In Russia, the competitive environment intensified in 2019. And as a result, our total volumes declined by 3%. Organic net revenue was flat due to plus 4% price/mix. This was driven by price increases in late 2018 and early 2019, mix improvements from growth of craft & speciality, and as well our reduced presence in low-priced offerings in certain key accounts. As the competitive situation in Russia remains challenging, we expect price/mix in the second half of the year to be lower than in H1.

In Ukraine, organic net revenue grew by high-single-digit percentages due to a strong double-digit price/mix that compensated for lower volumes. The price/mix was the result of significant price

increases and growth of premium offerings such as 1664 Blanc and Somersby. Our strong price/mix impacted volumes, which were down year-on-year. Our businesses in Belarus, Kazakhstan, and Azerbaijan all delivered solid volumes, revenue, earnings, and market share growth.

That was all for today. But before opening up for Q&A, a few concluding remarks on slide 18. For the first six months, we delivered well on our 2019 group priorities as well as our SAIL'22 financial priorities. In our view, the results are another proof point that the long-term strategic health of the business is good.

So, to summarize the first half of 2019, we delivered strong financial performance with solid top line growth and strong profit improvement. We see good growth coming from our SAIL'22 priorities. We upgraded our earnings outlook last week and we are very pleased that we expect to deliver another year of very good financial results on the back of a strong 2018.

And with this, we are now ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And the first question is from Trevor Stirling from Bernstein. Please go ahead, your line is open.

<Q – Trevor Stirling – Sanford C. Bernstein Ltd.>: Good morning, Cees and Heine. Just one question on my side. Heine, maybe could you give us a little bit more color on your phenomenal control of OpEx in the first half? Gross margins down 110 bps and still delivered 160 bps of net margin expansion. Could you just give us a little bit more color about where you're finding the continued cost savings and cost control on the OpEx?

<A – Heine Dalsgaard – Carlsberg A/S>: It's basically across all the different elements, Trevor, that we worked on so far. So, even though, as you know, Funding the Journey as a project is over, the culture, as we've always said, remains the same. So, it is within the same work streams as we've had over the last three years within Funding the Journey. So, it is something around operational cost management. It is something around continued discipline in our supply chain, and then it is value management, which includes mix and also pricing. So, it's basically the same elements as we've seen for the last three years.

<Q – Trevor Stirling – Sanford C. Bernstein Ltd.>: Maybe could I just ask a follow-up? You've already told us about why you're expecting that momentum will be slower in the second half. Is that done to all of those sort of phasing and timing impacts that the underlying cost savings is continuing at the same pace its just that the way they're hitting the bottom line is different?

<A – Heine Dalsgaard – Carlsberg A/S>: That is correct.

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

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

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

Operator: And next question is from Jonas Guldborg from Danske Bank. Please go ahead, your line is open.

<Q – Jonas Guldborg – Danske Bank A/S>: Yeah. Good morning and thank you for taking my questions. First of all, if you could elaborate a bit on Russia, what you are doing here to fight back on competition and how it will impact the fundamentals and numbers in H2. And then also on net working capital or trade working capital, the very good development here in H1, is there any one-offs in there or is it sustainable? That would be my two questions. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Jonas, and good morning. With regard to Russia, our market share was flat in the first half year but down with 2% point from H1 2018. We have increased our prices in late 2018 and in Q1 2019. And what we can see on the shelves is that, with some retailers and some specific SKUs, our price is higher than competing brands.

We have on purpose participated less in the first price or everyday low priced products, and that had some consequences for our market share. So, specifically to your question, given the current market dynamics, we are rebalancing our Golden Triangle. We have been very value focused. And as our price increases aimed at offsetting the COGS increases and sustain margins, we are now higher priced than some of the competition.

And as we said in Q1, we are taking actions and are becoming less value and more volume focused, and that means as well that we expect that our margins in Eastern Europe will be a bit lower than you are used to see from us.

<A – Heine Dalsgaard – Carlsberg A/S>: Good and good morning, Jonas. Then on the trade working capital part, there are no particular one-offs in the first half-year performance. Our trade working capital, as you do know, is very much depending on country mix. Therefore, you will see some fluctuations. But with the current mix, we do feel comfortable, as we've said before, at a level of, let's say, minus 14% to minus 16%, and we closed the half year at minus 16%.

<Q – Jonas Guldborg – Danske Bank A/S>: Okay. Very clear. Thank you very much.

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

Operator: Next question is from Sanjeet Aujla from Credit Suisse. Please go ahead, your line is open.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Hi. A couple of questions, please. So, I think you said your OpEx, excluding marketing, was down 4% in the first half. Would you expect that to continue at the same pace in the second half? And if not, why not?

And then is there any benefit here from some of the restructuring costs, which you took against operating profits perhaps now falling out, which contributed to that OpEx decline? If you, yeah, just get some clarity on those first. Thanks.

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

<A – Heine Dalsgaard – Carlsberg A/S>: Hi. Good morning, Sanjeet. So, on the OpEx part, excluding marketing, down around 4% in first half. We don't guide, as you know, specifically on OpEx. What we guide on is for the continued sort of margin progression. But we will stay disciplined, also going forward on OpEx, and that will drive continued margin improvement and it will drive the possibility to invest more and more into top line. So, we will stay disciplined on OpEx.

Then on your question on restructuring costs, I can confirm that there is no impact from the restructuring costs on above EBIT. So, the restructuring costs that we have in our accounts of one-off restructuring costs primarily relating to Western Europe.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Got it. And then just a follow-up on China, please. Your premium volumes seemed to have decelerated a little bit in Q2. Is that all driven by the government clampdown in the night life channel? And are you seeing any signs of the pressures there abating or is that still continuing?

<A – Cees 't Hart – Carlsberg A/S>: Well, I think it's fair to say it is still continuing, although you're right, it is a bit lower than the pace that you're used to from us. However, our total international premium brands grew by 9% in total. Tuborg grew by 9%, 1664 Blanc by 42%. But to your point, Carlsberg - between brackets - only with 1%, impacted indeed by the anti-crime regulations. So, we see some less visitors of night entertainment outlets.

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

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

Operator: Next question is from Andrea Pistacchi from Deutsche Bank. Please go ahead, your line is open.

<Q – Andrea Pistacchi – Deutsche Bank AG (UK)>: Yes. Good morning. I have a couple of questions, please, on Asia. The first one, if you could please give a little bit more color on Laos and Vietnam specifically. Are you doing anything a bit different this year? What is driving the improved performance and how sustainable this is?

And secondly, on India, the situation there, the elections are behind. I think in your prepared remarks you referred to managing volatility there. Some consumer companies have talked about a deteriorating – the consumer environment is a bit worse. So, how do you think about the sort of medium-term outlook for India 2H and, yeah, medium term?

<A – Cees 't Hart – Carlsberg A/S>: Yeah. Thank you. So, for Laos and Vietnam, we can only say that we think that we are doing the right things in terms of the operational execution. For Laos, we have indeed a very strong start focusing on the very important festivals there as well our CSD business is doing pretty well.

Vietnam had a line extension of our Huda brands and that's doing very well. We see our market share gaining. We have new operators since, well, more or less, one-and-half, two years, who

were basically had a new plan focused on execution, put together our so-called FIT program in the market, and we see the returns from.

With regard to the – if I understand your question, the overall view on India. Yes, we had a bit of a slower Q2. Q1 was good, very much so on the back of a very strong 2018 Q1 when we grew over 30% and Q1 this year we grew by 7%. The second quarter was a bit slower due to the elections, by which some states go dry for a few days. And we expect this kind of volume growth coming back in the second half of the year.

So, we remain to be optimistic about India. But as we said earlier about India, longer term, we are very optimistic about it. But every quarter sometimes give us some other challenges or surprises. So, it might be a bit of a rocky road, but, again, we are very firm on India with regard to the future.

<Q – Andrea Pistacchi – Deutsche Bank AG (UK)>: Thank you.

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

Operator: The next question is from Simon Hales from Citi. Please go ahead, your line is now open.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Thank you. Morning. Thanks for taking the questions. Can I just ask a couple again around the drivers of your margin improvement. I wonder firstly with regards to COGS, I think, just to clarify, I think you previously said for the full-year we're looking at COGS per hectoliter inflation of 2% to 3%. I think you had 4% in the first half. Therefore, it's right to assume an improvement relatively in that sort of rate of the headwind as we go into the second half. So, just to clarify if that's the case.

And then secondly with regards to marketing spend, you said it was flat in the first half, rising in the second half. Is there anything particular that's driven that balance and that shift to H2? I would have expected to see slightly higher spend coming through in the first half as well. Maybe I was just wrong to expect that.

<A – Heine Dalsgaard – Carlsberg A/S>: Good morning, Simon. So, on the margin progression I think we've been through the reasons behind. You can't expect any particular improvement in second half on the COGS side. It's more or less the same first half and second half.

In terms of the marketing spend, why is first half lower than the second half. Well, it is basic phasing. Overall, in the first half, remember, that we do actually slightly increase our marketing spend in absolute terms versus last year. In relative terms, we are at approximately the same level. I think we closed the first half at around 8.6% versus net revenue.

And then it is a few specific campaigns and activities, in particular in Asia, that is driving the activities in second half, including additional activities in China in order to support the growth and the premiumization and also additional activities now in Cambodia to support sort of the relaunch of the heritage brand we have, the Angkor [brand].

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Got it. And can I just ask a separate follow-up and with regards to your low and no-alcohol portfolio. Clearly, making good progress. I mean, how big a business is that for you now as a percentage of the overall group?

<A – Cees 't Hart – Carlsberg A/S>: Yeah. Basically, as we said earlier, it's a very important part of our SAIL'22 program. When you look at the alcohol-free beer, we are approximately 3% of our volume and 4% of our net revenue. Craft & speciality is 4% volume and 10% net revenue. So, we are moving the needle, so the total craft & speciality and alcohol-free beer is 10% of our volume and 14% of our revenue. And all this comes with, as you know, better or higher margins.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Very clear. Thank you.

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

Operator: Next question is form Søren Samsøe from SEB. Please go ahead, your line is now open.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Yes. Good morning, gentlemen. First question on the input cost, if you could put a number to the input cost increase in the first half and say whether that will be at a higher or at a lower level in the second half of this year.

Secondly, you post 35% organic EBIT growth in Asia. As I recall it, you have always said that you wanted to reinvest the earnings in Asia into future growth. So, how should we see this? Is it a deviation from your strategy or has anything changed in that regards? And then finally on Russia, if you could say if you're taking any initiatives to correct the weak development in Russia. I think I've heard something about you have done promotions in June. Could that impact the second half in a positive way? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: So with regard to COGS, Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. For the full year – good morning, Søren. For the full year, we are looking into, let's say, 3% to 4% for the full-year impact, primarily relating to bottles. So, that's the outlook for the full year.

<A – Cees 't Hart – Carlsberg A/S>: Søren, good morning.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: But what was it for the first half? Sorry.

<A – Heine Dalsgaard – Carlsberg A/S>: 4% .

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: For the first half, how high was it?

<A – Heine Dalsgaard – Carlsberg A/S>: It was 4%.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: 4%. Okay. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Okay. Then with regard to our reinvestments in Asia, basically, at the moment, Asia has its momentum, and for that we continue to invest, especially our big city focus in China, helps us to accelerate. And therefore, in the second half of the year, we plan some

more cities to open and to invest in the ones that we have already established the business. And for that, we, of course, hope to get the returns already in the beginning of 2020. So, if you like, we invest obviously for the future there and step-up our game in big city and the acceleration of that.

Then with regard to Russia, so, basically, we assume that the current competitive environment will continue, and therefore, our margins this year will remain under pressure for both the second half of the year. And if competition pressure will not change as well for the coming years, basically, we're taking actions to stabilize our market share. That's, of course, important. So, there's always a kind of line in the sand on these. We have focused on value and now we need to focus a bit more on the volume, so that will cost. We will drive further efficiencies and we are also seeing good growth of premium products especially craft & speciality that will help to offset some of the competitive pressure. The EBIT margin was 18.9% in H1. And with the current competitive environment and higher promotional activity for our side, we see a risk that margins will be even somewhat lower in the second half.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Okay. Then just a final follow-up on the first question I had. You saw a negative gross margin in the first half. So, with slightly lower input cost in the second half and higher price/mix, are you targeting positive gross margin development in the second half of this year? Thank you.

<A – Heine Dalsgaard – Carlsberg A/S>: Well, we don't comment, Søren, specifically on that. What we do comment on is the outlook on EBIT. We don't split our guidance on sort of on different elements. For the full year we're targeting the high-single-digits growth in EBIT margin. And as said, on the COGS side, more or less the same level the second half as first half.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Thank you.

Operator: And the next question is from Nico von Stackelberg from Liberum. Please go ahead, your line is open.

<Q – Nico von Stackelberg – Liberum Capital Ltd.>: Hi, guys. Just a quick one on the guidance. Would you be able to tell me if roughly you could guide towards the higher or lower end of that high-single-digit range and sort of what are the moving parts there, if not?

Secondly, on Russia, you guys flagged higher logistics costs. Did you have any rationalization of any breweries there or is that just pure logistics costs going higher? I mean, I appreciate if volumes decline you may have to make some changes to your brewery network, which would increase your logistics costs. And just generally you've given color that the margins are declining there. So, can you maybe quantify that a bit for us over the medium-term?

And then, finally, just a quick one on New Delhi in India. So, one of your competitors is having an issue there. Are you able to take advantage of that, and do you have capacity to service that demand? Thanks.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Nico, and good morning. Over to you, Heine, with regard to the guidance?

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Good morning, Nico. So, on the guidance side, our guidance is high-single digits, and that includes the entire spectrum. We don't guide specifically within the guidance range. So, it is high-single digit.

<A – Cees 't Hart – Carlsberg A/S>: Then with regard to your question on logistics as well. Obviously, at the moment, that the volumes go down, the logistics cost per hectoliter is growing up a bit. We have not rationalized further our footprint. We think that our footprint is one of our competitive edge. We are spread across the country.

Let me talk about reduced margin. We really talk about the pressure that we have on price/mix, which will impact the margins. The fact that we are going to or we are fighting back as we talk, so that's how you see some pressure on our margins in the second half of the year as well.

With regard to India, ABI had some problem in Delhi. We cannot comment specifically on ABI, but it seems the problem has been a company-specific issue. Our Delhi business is a license business and, hence, a low importance for Carlsberg, Nico.

<Q – Nico von Stackelberg – Liberum Capital Ltd.>: Yeah. Okay. Thank you, guys.

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

Operator: Next question is from Edward Mundy from Jefferies. Please go ahead, your line is now open.

<Q – Ed Mundy – Jefferies International Ltd.>: Hi. Good morning, everyone. Three questions, please. The first is on Asia. Historically, you haven't got an awful lot of margin expansion within the region. I appreciate there's some phasing too in H1 and H2. But I was hoping you could perhaps provide a bit more color as to what allowed the margin expansion in the first half.

The second question is that I appreciate there are some phasing issues in H1 and H2, but you are indicating a solid start to Q3. I was wondering whether you could comment a bit further on which regions are you seeing a solid start.

And then the third is no Kronenbourg Blanc, still seeing some good momentum on that brand. Could you remind us what the price premium is versus mainstream for Kronenbourg Blanc?

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

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Good morning, Edward. On the margin side in Asia, well, it's – there are several factors. It's clear that the 9% volume and 15% revenue growth are driving Asian profits up, and that is due to several sort of underlying factors. One is scale advantages and the other one is premium brands growth, and the other one is marketing investment, growing less in the first half than top line. And as said, we will invest more in the second half in marketing.

And then the last comment we'll make here on Asia is really regarding China, which is continuing to deliver very, very strong performance due to volume growth and due to continued premiumization. So, these are the factors behind the Asian growth in margin.

<A – Cees 't Hart – Carlsberg A/S>: Ed, with regard to 1664 Blanc, our margin is indeed significantly higher especially in China. There we are in the super premium segment and the price index is 500 plus. In most of the other countries, it's 200 plus, Grimbergen that you mentioned as well, has the same kind of indices. So, the better we grow our craft & speciality part, the better our margins will be, and obviously it's very healthy for our price/mix as well.

<Q – Ed Mundy – Jefferies International Ltd.>: And then the final question was on the solid start to Q3. Is that within sort of Western Europe or Asia? Any sort of color you can comment on that?

<A – Cees 't Hart – Carlsberg A/S>: Yeah. Sorry. We missed that. Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: Yes. So, well, in general, it's a solid start to Q3. We do not go into details around that, but it's a solid start, Ed, to Q3. That sort of makes us comfortable for the full-year outlook and, hence, the logic behind the guidance upgrades to high-single digit. So, we don't comment specifically on where it is.

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

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

Operator: And that was our final question. So, I'll hand the call back to the speakers for any other comments.

Cees 't Hart, President & Chief Executive Officer, Carlsberg A/S

That was indeed the final question for today. Thank you for listening in and thank you for your questions. We are looking forward to meeting some of you during the coming days and weeks. And we hope that many of you will join us in Paris in September at our Capital Markets Day. Have a nice day. Thank you. Bye-bye.

Operator: And this now concludes the conference call. Thank you, all, for attending. You may now disconnect your lines.

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