

**Carlsberg Interim Report
Months Ended 31 March 2010
Carlsberg A/S
CEO Jørgen Buhl Rasmussen
CFO Jørn P Jensen
May 11, 2010
9:00 am Greenwich Mean Time**

Operator: Welcome to the Carlsberg Conference Call. At this time, all participants are in a listen-only mode. Please note that this conference is being recorded.

I now turn the call over to CEO Jørgen Buhl Rasmussen. You may begin.

Jørgen B. Rasmussen: Good morning everybody. Welcome to the conference call for our first quarter results. My name is Jørgen Buhl Rasmussen and I have with me our CFO Jørn P. Jensen. As you all know Q1 is traditionally a small quarter and we will consequently be a little more brief in our comments than usual. I will start by giving you a summary of our first quarter results and then briefly go through the regions. Jørn will walk you through the numbers and confirm the outlook for 2010. After that we will be happy to take your questions. Please turn to slide 3.

Overall, Carlsberg's Q1 performance was in line with our expectations and the business is progressing according to our plans. We are on-track to deliver against the guidance for 2010 that we set out in February.

The beginning of the year has been impacted by the Russian de-stocking. As we explained in December 2009 and at the full-year release in February, there was an inventory build-up in the Russian distribution chain in late 2009 ahead of the 200% excise tax increase at 1st of January, 2010. Our Q1 numbers have - as expected - been impacted by the subsequent de-stocking in the Russian distribution chain.

We improved our overall market share in Northern and Western Europe, Asia and Eastern Europe with the exception of Russia, although we did see a significantly improved trend in Russia throughout the quarter.

Group beer volumes declined organically by 9% for the quarter, but adjusting for the Russian de-stocking the underlying decline was 2%.

Net revenue was DKK 11bn with an organic decline of 7%.

We have accelerated our spend behind brands, activities and innovation to drive volume and value share growth. In Q1 our brands marketing costs increased by double-digit percentages.

And now to slide 4. Operating profit was DKK 735m with an 11% organic decline. Adjusting for the Russians de-stocking, organic operating profit growth in the beverage activities would have been 21%. Northern & Western Europe and Asia delivered strong organic operating profit growth in the quarter. Eastern Europe was significantly impacted by the de-stocking and lower net sales prices, as the 200% Russian excise tax increase was not fully passed on to consumers in Q1. Free cash flow improved by approximately 0.5bn due to lower investments and the continuous efforts to reduce working capital. Our performance in a small Q1 has been in line with our plan. Therefore, we confirm our full-year outlook.

And now let us turn to the regions and start out with a brief comment on Northern & Western Europe on slide 6.

Beer volumes grew by 3% in Northern & Western Europe and our market share improved in the region, supported by the increased marketing spend. The biggest market share gain was in the UK where Carlsberg gained share both in on-trade and off-trade, in total +130bp. Overall, the region was impacted positively by sell-in up to Easter and impacted negatively by very cold weather in January and February. Net revenue per hl was flat as price increases from 2009 and the beginning of 2010 were off-set by a negative channel mix as consumers continue to move from on-trade to off-trade. Operating profit at DKK 406m was almost 3x last year. The improvement is entirely driven by organic improvement from volume growth, lower cost of goods sold and efficiency improvements. The efficiency improvements continue according to our long-term plan.

Now to slide 7 and Eastern Europe. In an improving macroeconomic environment in Eastern Europe, we gained market shares in all markets except Russia. The performance of our Eastern European business is in line with plans. Organic beer volumes declined by 27% due to Russia. In all other markets we had organic beer volume growth and in Ukraine, Kazakhstan and Uzbekistan our businesses delivered double-digit volume growth. Adjusting for the Russian de-stocking, the volume decline was 12%. Also in this region we invested significantly more in brands and trade marketing. Operating profit was to DKK 321m with an organic operating profit decline of DKK 412m. This was in line with our expectations and driven by the de-stocking in Russia and the fact that the higher excise duty was not fully passed on to customers. For most other markets in the region, we had organic operating profit growth in the quarter.

And now slide 8. A final comment on the Russian de-stocking. We did see a substantial stocking-up in the distribution chain in late 2009 ahead of the 200% excise duty increase. As mentioned earlier, the effect in 2009 was an additional 1.5m hl of beer and an estimated DKK 300m operating profit. 2010 has been impacted by the opposite effect as distributors de-stocked. The de-stocking was completed at the end of Q1. The Russian market declined by 12% for the quarter, impacted by price increases and the cold weather. Our market share was 39.1% for Q1 on par with Q4 2009, but with a strong improvement during the quarter ending at 40.0% in March. As part of our plans for Russia in 2010 we have launched a number of new products in the first four months ahead of the season. These launches have been well-received making us comfortable in our ability to gain shares in Russia again in 2010. To off-set the excise duty increase we have taken several price increases. At the end of April the majority of the excise duty increase had been passed on to sales prices. Our net sales price per hl in Q1 declined by 9% as the tax increase was not fully passed on, and as the mix was negative due to shift in packaging types and a shift between brands, as in H2 2009. The anticipated de-stocking impact and our response to this, underline our belief that Russian profits will be skewed towards H2 in 2010. As Q1 market development was in line with expectations we keep our full-year outlook of the Russian market unchanged at a low double-digit percentage market decline and expect to further strengthen our market position in Russia.

Slide 9 and a few comments on Asia. Our Asian business continued the strong growth from 2009. The business is becoming an increasingly important part of Carlsberg. Organic beer volume growth was 16% which was mainly driven by our businesses in Indochina and China with particularly strong organic volume growth of around 30% in Indochina. The Chinese businesses continued their growth trends and delivered double-digit growth mainly from continued market

growth in Western China. All markets in the region reported organic operating profit growth due to volume growth, price/mix improvements, lower COGS and efficiency improvements. The Indochinese business was the main driver behind the approximately 50% organic operating profit growth. And with this I would like to hand over to Jørn who will walk us through the financials.

Jørn P. Jensen:

Thank you Jørgen. Please turn to slide 11.

Before I take you through the first quarter numbers, let me remind you all that Q1 is a small quarter and it is not possible to predict any trends from the first three months of any year. That said, our Q1 performance was in line with our internal plans with strong organic performance in Northern & Western Europe and Asia. However, this was offset by Russia due to destocking and the negative impact from the large duty increase on net revenue and earnings. Adjusting for destocking in Russia, organic operating profit in the beverage activities was up by an estimated 21%. Our focus remains on the execution of our daily business operations and delivery on the targets we have put forward.

On slide 12, you see the development from Q1 of last year to this year split on organic development, acquisition, net and FX. My comments will primarily be focused on the organic development. Organic net sales were down 7%. A positive FX impact meant that sales in DKK declined approximately 5%. Organic gross profit was down 4%. Reported gross profit margin was 47.9% - up by 200bp. This margin is positively impacted by lower COGS including cost savings in general. Organic total Opex including brands marketing was down 144m. The lower costs are due to lower logistics, sales and admin costs whereas we increased our marketing investments by double-digit percentages in Q1. All in all operating profit was 735m with significant organic contribution from Northern & Western Europe and Asia.

And now to slide 13. Special items were DKK 349m. This number is impacted by a non-cash, non-taxable income of DKK 390m related to a new IFRS accounting treatment of step acquisitions following the Xinjiang acquisition. Excluding this, special items were -41m. Financial costs, net were down 389m compared to last year. The main reason is the lower net debt following last year's significant deleveraging. Other financial costs of 20m are significantly down versus last year due to FX losses and fair value adjustments in Q1 2009. Tax rate was 27% excluding the non-taxable income of DKK 390m in special items. All in all, net profit was DKK 471m. Adjusting for Xinjiang of 390m, net profit was 81m or +293m vs. last year, reflecting strong performance despite a lower Q1 result in Eastern Europe.

And now cash flow on slide 14. The sum of the first three lines (EBITDA including other non-cash items) adds up to a decline of 88m. Again, impacted by the destocking. Change in working capital was -1.2bn, 41m better than last year. Our strong focus on working capital continues and as said before we are changing focus from period-end to average working capital in order to achieve a greater positive impact on net interest bearing debt. Paid interest, net is of course down as our net interest-bearing debt end of Q1 was 8bn lower than last year. All in all cash flow from operations was -110m, 123m better than last year.

And now Slide 15 please. Focus on CAPEX continues to be high on the agenda and that is reflected in the Q1 numbers. Capex amounted to 626m in the period, which is a reduction of 132m compared to same period last year. In the next lines

we have the impact of the Xinjiang Wusu acquisition in January this year, and finally there is a positive net cash flow in Q1 from real estate activities related to the disposal of one building in the Tuborg site in Denmark. All in all free cash flow was -549 which is an improvement of 530m compared to Q1 last year.

Finally, slide 17 and our outlook. As Q1 was in line with our plan the outlook for the year is unchanged. We expect an operating profit in line with the reported 2009 operating profit. That means an underlying improvement of DKK 600m, or 7%, when adjusting for the Russian stock building in Q4 2009 and de-stocking in Q1 2010. Based on a flat operating profit, the deleveraging of the company will cause net profit to grow in excess of 20%, excluding the 390m from Xinjiang.

And now back to Jørgen for a final comment.

Jørgen B. Rasmussen: Thanks Jørn. This was the last slide for today in our brief presentation of this traditionally small quarter. I will just sum up with a few head-lines on the back of the Q1 results:

- Firstly, Carlsberg's overall Q1 performance was in line with expectations.
 - Secondly, we continue to follow our plan for Russia as prepared in late 2009.
 - Thirdly, we are spending more behind brands and innovation to drive volume and value share and we did see positive signs of that in many markets in Q1.
- And with this we are happy to take questions.

Operator: *Thank you. We will now begin the question-and-answer session. If you have a question, please press star then one on your touchtone phone. If you wish to be removed from the queue, please press the hash key or the pound sign. If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star then one on your touchtone phone.*

Søren Samsøe from Danske Markets is online with a question.

Søren Samsøe: Yes, good morning. Søren Samsøe for Danske Markets. **Firstly a question regarding your market share development in Russia because I mean I would expect that some of the competitors which are smaller than you and have lower margins would need to raise prices more than you and, as such, I would've already expected you to have gained market share at this point in time. Of course I know you are launching new products and could see market share gains from this, but shouldn't you already have gained significant market share in Q1 or how do you see this?**

Jørgen B. Rasmussen: During the quarter, we have seen an increasing trend in our market share. Although we - as we keep repeating - want to look at trends when we talk market share and not look at it by month or ideally by quarter the trends is exactly as we expected. We also said when we reported our full year numbers that at the end of last year we saw, quite unusually, some of our competitors launching new products at the end of the year which is not common. Our plans have always been launching new products, new initiatives up to the season. That's what we're doing and a lot of activity in March and also in April in terms of new products, so we're still confident in our outlook for the year in terms of our ability to gain market share.

Regarding pricing, we have, as we also indicated in February, we had a plan to take price increases in steps, and Heineken was the only one who took the full increase in January and seems to have suffered from that; and then competition has followed, but they are lacking behind a little versus our price increases.

Søren Samsøe: **Okay. And then your guidance for the full year of low double-digit decline, the market for Russia was down 12% in Q1, but should we expect the last three quarters of the year to be stronger than this given the fact that I would expect the price increase to hit most in Q1?**

Jørgen B. Rasmussen: We still believe it's the best estimate for the full year. Remember in quarter one, you can say 12% on one hand would be positive compared to our full year outlook. On the other hand, the full price increase in terms of covering the tax has not had a full impact in quarter one, so we still believe low double-digit is a good estimate for the year, and time will show.

Søren Samsøe: **Okay. And then a final question. On North/Western Europe, you show very good performance in U.K. First of all, if you could elaborate a little bit what is driving this and also if you can see similar performances in other Western Europe countries. I mean are you doing some of the same things you do in U.K. and other markets now that you expect to see a positive impact from?**

Jørgen B. Rasmussen: I think what we're seeing in U.K. is what we are basically doing across all our markets and certainly across Northern/Western Europe and we have talked a lot about value management in the last year, so we're seeing the benefit of that in a lot of markets and in particular in U.K. where we started probably a little early on value management. But I would say the key drivers in U.K. have been strong focus on value management. Also the fact we changed management has been a key driver. We have also been strengthening our portfolio. We got San Miguel, which helps us in the on-trade with a better and stronger and broader portfolio. But value management has been key, also stronger management, and we're applying the same kind of thing across many of our markets. And if you look at the trend in quarter one, overall share trends are improving across Northern/Western Europe in a lot of markets compared to what we saw in the early part of 2009.

Søren Samsøe: Okay, thanks.

Operator: *Trevor Stirling from Sanford C. Bernstein is online with a question.*

Trevor Stirling: **Two questions please, gentlemen. The first one, you commented that you've taken the main part of the excise tax. Could you be just a little bit more precise and say roughly speaking of the six roubles how much you've already taken; and have competitors, are all the caught up with you now? And the second question, you referred in the release to a 250 basis point gross margin in Northwest Europe. Could you give us a rough split of how much of that's coming from falling raw materials and how much from cost savings elsewhere in manufacturing overhead?**

Jørgen B. Rasmussen: I can take the point on the excise tax. Again, bear in mind, it's taken in steps, so the first increase we took back in November, then we took one in January, then we took another one in March, and another one in April. So we have until end

April in terms of nominal increase, we are now close to let's say five of the six roubles. But of course, it's not the full impact of the five we have in quarter one because it's taken step-wise, so some in January, some in March, some in April, so it would be less for the quarter. But in terms of actual price increases, nominal price increases, we're now at probably 80% of the impact of the tax increase.

Trevor Stirling: Great. Thank you.

Jørn P. Jensen: On the cost question, by far the biggest part is coming from lower raw materials as we also talked about in February when we announced full year and the guidance for this year. I don't have the exact split between the two in front of me, but say it's around 70/30, 70% coming from raw materials and the 30% coming from efficiency improvement in general.

Trevor Stirling: Thank you very much, Jørn.

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

Michael Rasmussen: Yes, thank you. **Two questions. First of all, regarding the real estate divestments in Tuborg, there's a significant one-off income it seems in your cash flow statement in the first quarter. Where has this - - if this has been listed in the P&L, has it been listed in the region or in non-distributed or in special items or where can I find this one-off income?**

Jørn P. Jensen: You can find it in, as always, in other activities. So out of the brewing activities. So that is the reason for the very small plus in the quarter in other activities versus a year ago and other quarters where we do not sell any real estate, so it's not impacting any quarter or any margins or anything. It is in other activities. Of course then - - that's a small impact in general, a very small impact in the P&L, but of course you have the total sales proceeds in the cash flow statement.

Michael Rasmussen: **Okay, so it's very, very small impact on the P&L, nothing...**

Jørn P. Jensen: If you take Note 2 on Page 21 of the stock exchange release under other activities, you can see that there's was a plus 7 million in other activities versus last year minus 33 million in other activities, but it's outside the recurring brewing business as such.

Michael Rasmussen: Okay great, great. **Second question. In terms of inventory levels at wholesalers or retailers in France, is there anything we should be aware of here? Has there been any kind of inventory build-up in France like we saw in Russia in the fourth quarter?**

Jørgen B. Rasmussen: No, France, and it's not really a significant thing in France about inventory levels in distributors, but no change to inventory levels on average in France. And if there's any, it would be minor impact.

Michael Rasmussen: Okay, thank you much.

Operator: Paul Hofman from Credit Agricole Cheuvreux is online with a question.

Paul Hofman: Yes, hi, good morning. Paul from Cheuvreux. **Two questions. Firstly, on the input cost, you said around 70% of that margin increase, gross margin**

increase in Northwest Europe is due to raw materials, yeah how do you see that develop? It's now around 170 points of margins. I think your kind of guidance so far has been 100/150 for the full year. Is that still a range going forward? And a second question in North/Western Europe, yeah, good strong growth, 3% plus. You mentioned yourself that the Easter impact added around 1/1.5%, can you comment on that? Thank you.

Jørn P. Jensen: The first on raw materials and impact on margins, it's true that it is kind of in the high end in Q1, but it's probably not far from what the impact will be on a full year basis, maybe slightly, slightly less, but it's pretty close to what you have seen in quarter one.

Jørgen B. Rasmussen: And then on the Easter impact, it's a little hard to kind of give you a percent what's the impact because in quarter one this year you have the Easter being a positive, in particular in Northern part of Western Europe. In the mid part of Western Europe or Southern part of Western Europe, it doesn't really have an impact. And then we have the cold weather in January/February to offset some of this impact. So net/net/net what's the positive impact? It's hard to estimate, so it's not very significant but some positive impact net/net.

Paul Hofman: **Can I have one follow-up? You mentioned something about market share gains also in U.K. Did I understand correctly, you mentioned 30 basis points?**

Jørgen B. Rasmussen: 130 basis points.

Paul Hofman: 130 basis points, okay thank you very much.

Jørgen B. Rasmussen: An additional 1.3 share points.

Paul Hofman: Yeah, thanks.

Operator: Melissa Earlam from UBS is online with a question.

Melissa Earlam: Hi. Good morning. **I have a couple of questions please. First of all, on Page 25, you helpfully give the Russian mix breakdown and I was just wondering in Q1 2010, it looks as though the discount to lower mainstream has actually increased its proportion of the market. And at the time of the last results, you said that you thought the excise increase would lead to a premiumisation of the market overall. Can you talk about whether you still think that that trend of premiumisation will be the case of the full year and what's been going on in Q1? Then second question is: Can you give us an update on the timing of the regulatory proposals to the Duma and when you expect any clarity at all if you can update us on timeline? And thirdly, the guidance you've given for the full year, can you just confirm whether that is still assuming a rouble rate of 44 to the euro? Thanks.**

Jørgen B. Rasmussen: To your first question about mix, you're right, we do see and we saw the same in the latter part of last year and then in quarter one this year a slight down trading in terms of a little more in economy and the lower mainstream segment. The slight down trading, and I'm emphasising slight down trading is really still the packaging mix going from glass or can into PET. And then the other one we're seeing a little would be from a brand up in mainstream into lower mainstream or

economy. It's not significant, but we do see some down trading and driven clearly by the significant increase to consumer pricing we have seen here in the quarter one. It's too early I think to exactly say what we expect for the full year, but I would say over time we expect the Russian market to have trend in terms of trading up, and that's really driven by the underlying consumer dynamics. Consumers love brands. There's still a lot of room for increasing average value in the marketplace. So over time, you'll see trading up. Short-term, little harder to predict based on what's happening to pricing at the moment.

Melissa Earlam: **So just to clarify on that, was there not a higher price increase in the value and in the market in percentage terms?**

Jørgen B. Rasmussen: On average yes, but this you really have to look at by region and sometime urban/non-urban area because it does differ a lot. But on average, higher price increase on lower mainstream and economy than premium.

Melissa Earlam: Thanks.

Jørgen B. Rasmussen: In terms of regulatory proposals, we of course do not know the exact timing, and a month ago we would've said end of April/early May. It's clearly not going to be early May now. We don't know if it's going to happen before summer or after summer. Time will show. It does indicate that a lot of discussion probably still ongoing. We're staying close to the process, but we don't know. It could be before summer, could be after summer. Time will show.

Jørn P. Jensen: And the short answer to the third question is yes, i.e., we are still assuming 44 euro/rouble as the exchange rate for the year.

Melissa Earlam: Thanks very much.

Operator: Matthew Webb from JPMorgan is online with a question.

Matthew Webb: **I have three questions please. The first one, going back to pricing in Russia, I just wondered what sort of average resale price increase you see as a result of the various price increases you pushed through going from late last year to current day. Second question on Western Europe and the margin that certainly surprised me on the upside. I was just wondering when we're looking for the full year whether we should expect that to moderate in the second half and specifically whether to a degree what we're seeing in Q1 is the sort of rollover effect of measures that were put in place last year but didn't really take effect until later in the year. And then finally on capex, I see that was down again in Q1. I wonder whether we could perhaps expect it to be down a touch for the full year. Thanks.**

Jørgen B. Rasmussen: On Russian pricing and consumer pricing, it's more or less reflecting let's say the price increase we have been putting through. We cannot decide consumer pricing. But I think if you look at the traditional trades in Russia being close to 75/80% of total market, there you often see price increases we're putting through tend to very much go to the consumer. If it's modern trade, the key account side that can differ and they have a lot of promotion activity and there it can really differ depending on what has been happening promotion-wise in the quarter in different change.

Jørn P. Jensen: Northern and Western European margins without guiding too much per region, but of course as we also discussed a quarter ago when we updated our targets, margin targets for Northern/Western Europe, we do see more potential on margins in Northern and Western Europe in general. Of course, you will see, as we also discussed, this impact from lower raw material costs, as they are hedged/known to us now, will definitely help on margins this year. Yes, we will also be helped by some of the cost savings especially H1 over H1. On the other hand, we are investing more, and we will continue to invest more behind our brands in order to facilitate some top line growth. The conclusion of all this is that we definitely do expect our margins for the full year in Northern/Western Europe to increase versus last year.

Capex, yes, at a lower level than last year, and we are still expecting a capex level for the full year in line with maybe slightly more than last year, but it's close to be as last year.

Matthew Webb: Great. Thanks very much indeed.

Operator: Jon Fell from Deutsche Bank is online with a question.

Jonathan Fell: Good morning. **Two things. First of all, just with regards to the destocking, I'm just wondering if you can give us a feel for what has been happening to inventories a bit further down the chain from you at the retail level and how do you manage against the risk that because everybody knows prices are going up, people have continued to buy and hold more stock than would be reflected through ongoing consumption at the moment. And then the second question was on China. There've been stories that another stake in Chongqing Brewery is up for sale. Can you tell us whether you're involved in that and how important that business is to your ambitions in China?** Thanks.

Jørgen B. Rasmussen: On destocking in Russia, again you have to bear in mind, when we talk about inventory levels, it's really about distributors and wholesalers. It's not about retail because they don't have a lot of inventory. What they hold varies, but it is only very little. If you talk about distributors, it's in our case normalised and we are back to where we normally would be around 20/21/22 days, so it's completely normalised, and we don't see any different picture in resale. Our competitors, I don't know, and you have to ask them exactly their situation on the inventory levels. But ours would be normalised in Q1.

China, Chongqing, the only thing I can say here would be: Yes, we have been bidding on the 12.25, as also confirmed by the Chongqing. The process is ongoing now and we'll have to see what's going to be the outcome.

Jonathan Fell: **Do you know when that process is going to conclude?**

Jørgen B. Rasmussen: No, we don't know the exact timing. That's really down to the Chongqing government, so I guess they are currently reviewing and discussing.

Jonathan Fell: Thank you very much.

Operator: Ian Shakleton from Nomura is online with a question.

Ian Shakleton: Yes, good morning, gentlemen. **You always have a big impact from the Russian excise duty in terms of timing. I was just wondering whether you could comment about whether excise increases or prospective increases. I think the U.K. obviously had a big one on first of April, which presumably helped, but are there any other increases pending that could swing quarter-to-quarter performance going forward?**

Jørgen B. Rasmussen: No, I mean in few places there has been discussion. If I move to the East again, Ukraine, probably many of you would be aware there was discussion about a tax increase. So far nothing has happened, so at least it doesn't look like something will happen in the near future. If you go to the western part, Northern Europe/Western Europe, no, there's no big initiative we're aware of. There is one on cider in Denmark; but on beer, they have decided not to increase taxes on beer in Denmark for example, so nothing of significance we're aware of.

Ian Shakleton: Thank you.

Operator: Andrew Holland from Evolution is online with a question.

Andrew Holland: Yes, good morning. **A couple of questions. Unless I've missed it, you haven't actually given your actual volume decline in Russia in Q1, and I wonder if you could give us that. Second one, and I slightly hesitate to ask it, but could you try and explain a bit more about the 390 million special item and what the accounting behind that is. And then finally, one of the proposals, which I believe has gone in front of the Duma in Russia, is a maximum bottle size, 330 centilitres, and I just wonder if you could tell us what you think of that and what impact that might have.**

Jørgen B. Rasmussen: I think I was right; there were only two questions, the Duma question and then the question...

Jørn P. Jensen: IFRS for me.

Jørgen B. Rasmussen: Okay, so if I take the first one on the volume development in Russia, if you talk shipments, it's minus 30% in shipments for quarter one, and clearly that's the destocking, taking out the inventory levels in our distributors based on the stocking up before January 1st. If you talk about secondary sales, it's probably around minus 14/minus 15. When we say "secondary sales" or "in-market sales," that's our distributors, their shipments or sale into retail, so more or less reflecting consumer uptake.

I can jump to the third question, and then Jørn will come back on the IFRS. On the Duma, I guess all we can say here - the process is ongoing. We don't want to make too many specific comments. There's a lot of different proposals/ideas, more than 30, being discussed, and the fact it takes time or to suggest that a lot of discussion ongoing and maybe not complete agreement on what would be the outcome. As we said going into the year, we have made our average assumption of what would be the outcome and that's still kind of part of our estimate and that we feel good about.

Jørn P. Jensen: And then the IFRS question, it's actually a pretty complicated thing, but let me try to do this very, very briefly. It's basically a new regulation which means that you need to account differently when you go from a non-controlling shareholding to a

controlling shareholding. So in this situation it is about us having or we had 60% shareholding in Xinjiang, but a non-controlling shareholding due to agreements, and we acquired approximately 5% more. No agreements any more, meaning 65% we are in control. Then in the "old world", you would just add the price for the 5% to your investments and that was it. What you need to do now is that you basically accounting-wise will have to sell your initial 60% and acquire all 65%, so it's basically an accounting gain on the old 60% shares that we haven't sold. But even so, that's how we need to do it accounting-wise. Again, on the 60% whereas of course then the acquisition of the then 65% goes directly, as always, directly into the balance sheet. So it's pure paper. No cash flow. No nothing. It's just these new IFRS rules that we of course need to oblige to.

Andrew Holland: Thank you. That's crystal clear.

Operator: *Frans Hoyer from ABG Sundal Collier is online with a question.*

Frans Høyer: Good morning. **A question regarding Eastern Europe and the - - I'd say impressive margin performance considering the volume decline and price pressure in Russia. If you look at the gross margin in Eastern Europe, could you give us a) an idea of what the swing was year-on-year and how it broke down between the raw materials contracts and other effects and then how you see it evolving over the rest of the year please?**

Jørn P. Jensen: What we do see in general on costs in Eastern Europe is that we - it's not at all comparable to Northern or Western Europe or Asia - we are actually at the moment getting a small relief on raw materials in Eastern Europe. Of course then we have a negative factor being the negative leverage from lower volumes. On the other hand, we also have cost savings plus still more synergies coming into also production costs in Eastern Europe. So if you add it all together, then it's actually a small positive in organic terms on cost in Eastern Europe in the first quarter.

Frans Høyer: **And then prices are down, so where do you end up with your gross margin for - - in the swing in the gross margin in Q1 versus Q1 last year?**

Jørn P. Jensen: We end up with gross margins of course being down due to the fact that not all of the duty impact has been passed on to sales prices yet, so - and that cannot compensate. The raw materials and the other cannot compensate for that, so of course we end up with a gross profit margin being down versus last year.

Frans Høyer: **By how much roughly speaking?**

Jørn P. Jensen: By more than 100 basis points.

Frans Høyer: Okay. **And of course the negative pricing effect will have offset all of the positive you just mentioned. And within the positive, the raw materials was just let's say less than a third of that positive.**

Jørn P. Jensen: Yeah, for sure.

Frans Høyer: Okay, interesting. **And going forward, are there any significant contract expiries on the raw materials front in Russia or is that - - or in Eastern Europe generally speaking?**

- Jørn P. Jensen: Most of them are expiring in the sense that most of the raw materials in Eastern Europe are spot contracts.
- Frans Høyer: **But is there uplift, an improvement inherent in those expiries in the rest of the year?**
- Jørn P. Jensen: We know of some upsides. We know of a few downsides, but net/net it's a small, small, small, positive, but don't put too much into that.
- Frans Høyer: Understood. **Secondly, with regard to the proposals for constraints on distribution, am I right in thinking that these proposals will come to the Duma at some point let's say over the summer and then will be debated and go through the hearings one, two, and three and is that the procedure or is it pretty much a rubber stamping exercise?**
- Jørgen B. Rasmussen: No, it's very much the procedure you're describing here that is the most likely. You can do it differently in Russia. You can still just take it through Duma very quickly, but I think this one was very likely to be proposal from the government; and if you go to the Duma, the three readings, there are some amendments and then finally signed off by the president.
- Frans Høyer: Understood.
- Jørgen B. Rasmussen: And this proposal we expect to be either maybe before summer or after summer. Time will show.
- Frans Høyer: Understood. **A question about inventory build up. During Q1, there was a build up in Danish kroner of 1.4 billion, some of that might be due to FX, but it doesn't look it could be. It must be actually quite a big volume build up you've had in the first quarter. And I was just wondering there wasn't one in Q1 last year. Is there... Will there have been an EBIT benefit from this inventory build up in - - i.e., let's imagine there had been an inventory reduction by 1.4 billion that the difference would have been visible on the EBIT line, would it not?**
- Jørn P. Jensen: But, Frans, but it's always so that we're building up inventories. If you take it kind of organically, we are always building inventories in the first quarter for the bigger - - basically for the season.
- Frans Høyer: Yes, okay.
- Jørn P. Jensen: Of course, there's a lot of currency definitely in this, but there's nothing unusual at all and there's no EBIT impact whatsoever.
- Frans Høyer: Okay, thank you. **And then finally on that potential acquisition of a stake in Chongqing, will that lead to a change in accounting for this holding? I assume at the moment, it doesn't really contribute much to the P&L and would the increase in ownership lead to a change?**
- Jørn P. Jensen: Well depending on that we eventually will buy anything, let's see. But then the accounting-wise, nothing will change.

Frans Høyer: All right. Okay, thank you.

Operator: *Gerard Rijk from ING is online with a question.*

Gerard Rijk: Yes, good morning. **Two questions. First question is on the Russian beer market, which was down 12% in the first quarter, you're still guiding a low double-digit decline for the full year, but also in your text you are describing a strongly improving consumer sentiment. Is that then not working through in the beer market yet? That is my first question. Second question is about the development of other drinks, I'm talking about even costs, is there an expiration going on there? Third question is about the cost savings in Europe. What I'm understanding is that the cost, the raw material in particular, will continue for the full year and that the restructuring that it will be mainly in the first half year-on-year impact. Is that right?**

Jørgen B. Rasmussen: The Russian beer market question, about the minus 12% and then the improving kind of macroeconomic trend, I would say what we're seeing at the moment would be it's kind of coming through very, very slowly and probably also into the beer category. But as we all know, also the beer category has been hit by this big tax increase and therefore some big changes to pricing, and I think that's what we're seeing so far. But remember also, the price increases because some of those were done in March and even in April did not have the full impact in quarter one, so we still believe our low double-digit increase is a good estimate. Hopefully we're wrong and hopefully it's going to be better, but time will show.

On other drinks where we have kvass and we launched Eve in Russia. We are launching water here in quarter two in Russia. It's all let's say small compared to the big beer volumes, but at the same time can make quite a difference because we have the whole infrastructure set up. It's adding new products, sometime appealing to new consumers so they are contributing quite well to the business. Kvass has been developing very well. Eve was launched in quarter one in the western part of Russia, so Moscow and then going west, and so far signs are very promising.

Jørn P. Jensen: Cost savings cost slightly different in the sense that cost will be for the full year and not really with any changes as such quarter-to-quarter. Cost savings on comparables, of course there will be more in the first half due to how they were phased in or rather how they actually showed in the P&L more and more month by month in 2009. So differently on cost savings in general versus costs, which are just lower quarter-by-quarter month-by-month.

Gerard Rijk: Okay, thank you very much.

Operator: *Frederik Meinertsen from Handelsbanken is online with a question.*

Frederik Meinertsen: Yes, hello. **When the Russian alcohol package do materialise at some point, do you see a risk that the already announced excise duty increases in '11 and '12 could be increased even further or would that be impossible from a legislative point of view? And question number two with regards to changes in accounting policies, as Jørn explained it before, it appears to be a little bit irrelevant for anything above the special items in the P&L.**

Can you confirm just to be sure that there are no changes to revenue and EBIT recognition or measurements?

Jørgen B. Rasmussen: Regarding the new legislation package in Russia and whether that could contain some excise increase as well, we think that's highly, highly unlikely that they would change taxes for '11 and '12. But then as you know, in politics nothing is impossible. We don't think that's the case in U.K., not in E.U., and not in Russia, but we think it's highly unlikely that tax will change compared to what they have agreed and decided upon already.

Jørn P. Jensen: And yes, I can confirm all the questions you basically had around accounting policies. It is only in the P&L these 390 million going into special items and then flowing through all the way down to net profits.

Frederik Meinertsen: All right, thank you.

Jørgen B. Rasmussen: I suggest we take one more question and then we'll close the call.

Operator: We have Raghavan Selvaratnam from Mainfirst is online with a question.

Raghavan Selvaratnam: Good morning. **Two questions regarding pricing. Could you describe the pricing you saw in China in Q1, and also what price increases did you see in the U.K. first quarter as well? Thank you.**

Jørgen B. Rasmussen: Regarding China, we have put through price increases, partly. So even in a place like a China, we also talk about value management, but in a very different simplified version in terms of slightly upgrading our local brands and getting a little more value of each bottle or product we are selling, so we did get benefit from pricing in China also in quarter one on average.

If you talk U.K., again the benefit we see in pricing in U.K. is much more how we manage our portfolio and certainly less about price increase.

I suggest we close the call now. Thanks for listening in and thanks for the questions.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

Forward-Looking Statements

This transcript contains forward-looking statements, including statements about the Group's sales, revenues, earnings, spending, margins, cash flow, inventory, products, actions, plans, strategies, objectives and guidance with respect to the Group's future operating results. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words "believe", "anticipate", "expect", "estimate", "intend", "plan", "project", "will be", "will continue", "will result", "could", "may", "might", or any variations of such words or other words with similar meanings. Any such statements are subject to risks and uncertainties that could cause the Group's actual results to differ materially from the results discussed in such forward-looking statements. Prospective information is based on management's then current expectations or forecasts. Such information is subject to the risk that such expectations or forecasts, or the assumptions underlying such expectations or forecasts, may change. The Group assumes no obligation to update any such forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Some important risk factors that could cause the Group's actual results to differ materially from those expressed in its forward-looking statements include, but are not limited to: economic and political uncertainty (including interest rates and exchange rates), financial and regulatory developments, demand for the Group's products, increasing industry consolidation, competition from other breweries, the availability and pricing of raw materials and packaging materials, cost of energy, production and distribution related issues, information technology failures, breach or unexpected termination of contracts, price reductions resulting from market driven price reductions, market acceptance of new products, changes in consumer preferences, launches of rival products, stipulation of market value in the opening balance of acquired entities, litigation, environmental issues and other unforeseen factors. New risk factors can arise, and it may not be possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on the Group's business or the extent to which any individual risk factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Accordingly, you should not rely on forward-looking statements as a prediction of actual results.