Carlsberg Q1 Report 2014 Conference call
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CEO Jørgen Buhl Rasmussen
CFO Jørn P. Jensen

OPERATOR: Welcome to the Carlsberg Q1 report 2014. At this time, all participants are in listen-only mode, later we will conduct a question and answer session. Please note that this conference is being recorded. I will now turn the call over to the CEO, Jørgen Buhl Rasmussen. Jørgen, you can now begin.

JØRGEN BUHL RASMUSSEN: Thank you and good morning everybody, welcome to our Q1 2014 conference call. As just said, my name is Jørgen Buhl Rasmussen and I have with me our CFO Jørn P. Jensen and vice president of investor relations, Peter Kondrup.

Due to the seasonality of our business, Q1 only accounts for around 5% of our annual operating profits, and therefore we do not provide a presentation for this call. I will make a short summary of our Q1 performance and afterwards, Jørn will comment on the outlook for 2014.

The key highlights for the quarter are: Our organic performance was in line with our expectations. The Group delivered 3% organic revenue growth driven by a strong price/mix of 5% and despite beer volumes declining organically by 3%. Operating profits was negatively impacted by the translation effect of foreign currencies, especially the Russian Rouble, different phasing of unallocated costs and investments in premium brands in Asia versus last year.

In Western Europe the beer markets declined by an estimated 1%. Our beer volumes grew by 3%. The volume development was partly due to easy comps with last year's de-stocking in France in Q1, but was achieved despite the later sell-in into Easter in the Nordics and the UK than last year.

We saw market share improvements in markets such as Poland, Greece and Portugal. We continue to imbed our value management tools, driving price, mix and market shares. Organic operating profit in Western Europe grew 11% and again, numbers were helped by the last year's French de-stocking while the Easter effect and higher BSP1 costs impact negatively. We implemented BSP1 in the UK in March and are now well into the preparation for the next three markets to go live simultaneously in the autumn.

In Eastern Europe, the Russian market declined by an estimated 5% due to the final year over year impact from kiosk closures, the uncertain macro environment and the weaker economic growth. The Ukrainian beer market declined by mid-single-digit percentages as the very challenging macroeconomic environment more than offset the better weather conditions this year compared to last year. Our business in Ukraine has been operating with very limited disruption and we've been able to produce, sell and distribute our products across the country. We are, of course, closely monitoring the situation in the region, being in touch with all relevant stakeholders. Our Eastern European volumes declined by 7%.

We continued the positive market share trend in Russia and grew our share by 20bp to 38.4%. Revenue per hectolitre for Eastern Europe grew strongly by 11% driven by price increases and mix improvements. Due to the strong price mix improvement, organic gross profit grew by mid-single-digit percentages and by double digit percentages per hectolitre. The gross profit improvement was, however, offset by the negative operational leverage in our fixed cost base in a seasonally small Q1 and consequently, operating profit declined.

The Asian markets continued the growth in the first quarter. Our Asian beer volumes grew by 17% driven by the consolidation of Chongqing brewery. Organically, volumes declined by 5%, cycling a strong 14% organic volume growth last year. Our volumes were negatively impacted by the different timing of the Chinese New Year as well as our deliberate decision this year to discontinue unprofitable volumes in China, the slowdown in Vietnam and also bad weather in Xinjiang. Adjusting for these, beer volumes grew organically by low-single-digit percentages. Price/mix grew by 6%, mainly as a result of a strong double digit price/mix in China, which was positively impacted by the decision to reduce unprofitable volumes, price increases and market share gains of our international premium brands. Asian gross profit grew organically by mid-single-digit percentages. We continue to invest in the Asian growth opportunities, such as the establishment of our business in Myanmar and increased marketing investments behind our premium brands. These growth investments in addition to a different phasing of marketing costs versus last year led to an organic decline in operating profits in Asia of 9%. As expected, the operating profit margin declined by 440bp of which 200bp was due to the consolidation of Chongqing brewery.

The Group's overall agenda for 2014 has not changed since we reported our full year results in February. It includes driving efficiencies across all areas of the Group in addition to developing and deploying sales and marketing tools, innovations, further strengthening of local power brands and rolling out and supporting our international premium brands.

With this, I will hand over to Jørn who will now give a few comments related to our 2014 outlook.

JØRN P. JENSEN: Thank you. And as Jørgen just explained, our organic Q1 results were in line with our expectations and consequently, we maintain our outlook of the high-single-digit percentage growth in organic operating profit. The outlook is maintained in spite of that we now assume that the Russian market will decline by mid-single-digit percentages, versus our previous assumptions of a low-single-digit decline. This is a consequence of the macro development in the country. The impact of the expected lower Russian market and the overall macro environment in Russia and Ukraine will be offset by our continued positive performance in other regions, in particular Western Europe, positive price/mix across the Group and overall cost consciousness.

Due to the significant currency headwind, most notably from Eastern European currencies, we have adjusted reported results expectations and now expect reported operating profit and adjusted net profit to grow by low-single-digit percentages versus previous mid-single-digit.

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 and then one on your touch tone phone. If you wish to be removed from the queue, please press the hash key or the pound sign. Once again, if you have a question, please press star and then one on your touch tone phone.
Our first question will come from Mr Søren Samsøe from SEB; you can now go ahead, sir.

SØREN SAMSØE: Thank you. First of all a question regarding Asia where you achieved quite strong price/mix, but the margin is declining and as you explained, higher marketing investments is behind this. But can you just elaborate a little bit on the phasing on the marketing investments for the rest of the year? Can we expect the margins will then go up later in the year so you will use less on marketing or how does that look? Secondly, if you could comment regarding Finland, I mean as I understand it, you have already paid for the tax case in Finland that's been up in the media recently, so can you confirm that even if you lose this case you will not have to pay anything further in relation to this, and that if you win it, you will actually get cash back? And then thirdly, if you could comment on your market share in Russia which is up, how does the sort of competitive environment look later in the year? I understand some of your competitors have been re-listed with some of the retailers, does this make it more difficult later in the year to gain market share? Thank you.

JØRGEN BUHL RASMUSSEN: Søren, if I start with Asia and your question about marketing investment, assume our marketing investment as a percent of revenue will be broadly in line with what we had last year on average for the full year.

JØRN P. JENSEN: Finland, yes, so you're basically right that this case in Finland, which by the way has been portrayed in the media as a tax evasion case, so just for clarity, that is not what we're talking about, we're just not in agreement with the Finnish tax authorities on how to understand Finnish tax law, actually. So yes, we were asked to increase our taxable income in Finland in 2011 and we paid the difference. We still object to this increase in taxable income and that is why we have now appealed the case in Finland.

So yes, when it comes to cash flow consequences, then you're right, we have paid and that, of course, if we win the case, then we will get the money back including interest and so on.

JØRGEN BUHL RASMUSSEN: And regarding market share, Russia as you rightly state, we are slightly up in Q1 on market share and basically, in both channels – modern trade and traditional channel – slightly up. If I look at competitors, I would say we see more of what we saw last year. In terms of competitive trends, I would say fairly rational pricing but still very competitive as always in Russia. But we don't see irrational pricing. Yes, some were de-listed in some key accounts some time back and I think probably most are all back in key accounts again, but on average does not really change the kind of trend line on market share. So we don't see a big change in Q1 compared to what we in general discussed in 2013 on developments.

SØREN SAMSØE: And the strong price/mix you achieved in Q1, you should be able to see similar development going forward?

JØRGEN BUHL RASMUSSEN: It's probably high end we look at the price/mix for the first quarter, because we're benefiting also from many price increases from last year, but we will see positive price/mix for the year, yes.

SØREN SAMSØE: Okay, thank you very much.

OPERATOR: Our next question will come from Mr Ian Shackleton from Nomura; you can now go ahead, sir.

IAN SHACKLETON: Yes, good morning. Going back to Jørn Jensen's details on the outlook and I think there were three offsetting facts he quoted to offset the weaker Russian market, I just want to get a bit more clarity on that. The first factor was Western Europe and are we talking about Western Europe profits as a whole being better and what's driving that? You then talked about price/mix and I'm assuming that's for the Group as a whole but it sounds like a lot of that is focussed on Russia. And thirdly, there was talk about costs and I wanted to enquire whether there was further cost cutting programmes planned over and above what was there perhaps last year.

JØRN P. JENSEN: Ian, you're basically right, so it is that in Western Europe it is a little all over, we are doing - on the commercial side, we are doing very well as we have been doing for the last quarters. So on commercial execution, it is on how much we are able to get our pricing up, the positive price/mix in Western Europe as well. It is the effects of the many, many different cost programmes that are going on, it's actually not more from BSP than expected, it's more kind of all the other underlying programmes, smaller programmes that go on in each and every market.

The positive price/mix is not just Eastern Europe, it is also as we also just discussed, Asia. That is doing very well on price/mix. And then finally, this cost consciousness, that is in general throughout the Group region by region, function by function including headquarter and we will be even more cost conscious so to speak this year than we have been. So it is quite broadly based this offsetting impact.

IAN SHACKLETON: And just to be clear, on Eastern Europe with the plus 11% price/mix, this is net revenue, so this is over and above covering the higher duty hike that came in in January?

JØRN P. JENSEN: This is net effect to us, so in that sense, yes.

IAN SHACKLETON: And is that a sustainable number for the full year? It's a very big number you've got there, Jørn.

JØRN P. JENSEN: That was what Jørgen tried to say before, that this is probably a little bit in the high end, but is not way off.

JØRGEN BUHL RASMUSSEN: Just to put it into perspective, if you take the first quarter, we see slight positive benefit from mix and then great benefit from pricing but yes for the full year we won't see 11%, we will see slightly less.

IAN SHACKLETON: Very good, thank you.

OPERATOR: Our next question will come from Nik Oliver from Merrill Lynch. You can now go ahead, sir.

NIK OLIVER: Hey, good morning guys. Just two questions from my side; one more again on the Russian pricing. Just a comment in the statement about healthy growth in value terms in Russia. Is that a comment about value at the retail level or at the manufacturer level? And secondly, on market share, clearly good trends for you in the quarter but we also saw another big jump up in the other segment in terms of share. Is anything structural going on there or is that just sort of general down trading in line with the softer consumer?

JØRGEN BUHL RASMUSSEN: The value question I would say is both at let's say at our sites, so the industry, so we are benefiting as we just discussed significantly from price/mix. So we benefit from price/mix but also we do see healthy value growth in terms of consumer, so total markets is down in volume but if you take Quarter 1, it's still up in value because of price increase year on year to the consumer. We're looking at a price increase on average of you take Quarter 1 versus Quarter 1 last year to the consumer in consumer price, being around the 10%. And with the volume declining by 5%, you can say the consumer spent about 5% more on beer on Quarter 1 versus last year.

To your second point about market share, yes, we still see the others group being around 20-21%. As we have always said, we can't see this continuing going up. There has been a - not a structural change - but I think with the crisis as we have discussed many times, there was a shift where everyone connected more to local community; there was a lot of new local players coming up with local beer brands and there they started getting the increase. A lot of them also play on tactics like the kind of old Soviet style type brands and some retro Soviet style communication. It's not all sold on low price so they gain some momentum back in 2009/2010, have been building on that but as we also do more and more, we are trying to respond to it doing similar tactics in our portfolio in some regions. So again, at some point in time we will certainly see that kind of getting to the maximum, the group of other brands.

NIK OLIVER: Okay, that's very clear, thank you.

OPERATOR: Our next question will come from Tobias Björklund from Danske Bank. You can now go ahead, sir.

TOBIAS BJORKLUND: Yes, good morning. I have three questions. First question is if you could give an update on the kiosk closure, you say it is the final year on your impact you are seeing in Q1, but if you could give an update on that. Second question is there is going to be the BSP roll out, you rolled in the UK and in Sweden and I read in the media that there's been minor hiccups and what do you see here going forward from this roll out? And also related to BSP, you said the charge is 450-500 million in total for 2014, how much was the charge here in Q1 for that? Thank you.

JØRGEN BUHL RASMUSSEN: Kiosk closure, we do believe we have now seen the end of the impact of kiosk closure as we also stated going onto the year. Quarter 1 should be the last time you see any impact. So if you take the minus 5% decline on total market for Russia in Quarter 1, our estimate would be close to half would be due to the final impact of kiosk closure. The other half, so 2.5, maybe 3% would be due to the overall kind of macro economy, consumer confidence not being that great, that's the kind of split we have. But now, going forward, there should be no more impact from kiosk closure. We have seen about 50 to 60% of the total universe – of the old universe where we used to sell beer – are no longer selling beer of kiosk or pavilions.

JØRN P. JENSEN: On BSP, if we take the last one first then that - so the amount in total for Q1 is around 150 million. On UK, yes we knew that the go live in the UK would be quite, quite complex, it is a very complex business, more complex than any of our other businesses. So we knew that it would be slightly more tricky than what we had seen in the past and what we expect to see going forward. As we have it, it went quite well; there were definitely in the first week some distribution issues to some customers in the UK. That was fixed and everything is working now as it should. A little cleaning up is in the final process, but yes, in the first week or so there were a few delivery problems or distribution problems to some customers in the UK.

TOBIAS BJORKLAND: Thank you.

OPERATOR: Our next question will come from Trevor Stirling from Sanford C Bernstein. You can now go ahead, sir.

TREVOR STIRLING: Morning, Jørgen and Jørn. Quick question on FX and transactional FX versus translational. I see in Eastern Europe the FX hit to revenue is 18% but to operating profit minus 59. Is that because you're including the transactional FX in your FX adjustments, Jørn?

JØRN P. JENSEN: Well yes, that we do, we do include transaction effect in organic development but on the other hand, that is not the explanation to the EBIT development, it is as much as we also said before, the negative leverage from the lower volumes on our fixed cost base and as you will recall, in the operational leverage, especially in the first quarter, because it is so small, is just very, very high. But we will include transaction effect into organic development.

TREVOR STIRLING: So for instance, if the Rouble fell further and that increased the price of your USD denominated or EUR denominated raw materials in Russia, that wouldn't be part of the organic calculation that would be treated as a hit to profits from FX?

JØRN P. JENSEN: No, the other way round.

TREVOR STIRLING: The other way round? Okay.

JØRN P. JENSEN: The other way round, so transaction effect is part of the organic development so for instance, now when we have adjusted our outlook on the Rouble exchange rate from 49 to 51, the negative transaction effect of that is included in the high-single-digit organic profit growth expected for the year.

TREVOR STIRLING: Okay, very clear, thank you, Jørn.

OPERATOR: Our next question will come from Casper Blom from Handelsbanken Capital. You can now go ahead, sir.

CASPER BLOM: Thanks a lot. Good morning guys. A couple of questions also from me; in Asia I note your comments that you've seen a marked slowdown in Vietnam. If you could give a few more comments on that, whether it’s just something temporary. And coming back to the Ukraine situation where the excise tax is now being increased, do you see any risk of other countries in that region doing the same thing as their economies are now struggling a bit? And then finally, in Western Europe, I note that your depreciations are somewhat smaller this quarter. Is that merely an effect of the change in accounting policies or is there anything extraordinary in this? Thank you.

JØRGEN BUHL RASMUSSEN: Thanks Casper. On the Vietnam question, it’s really linked to macro economy and I think one of our colleagues has the same reference in their trading update on Vietnam. The macro economy isn't great at the moment and therefore, a lot of categories suffer a little in Vietnam. So that’s really the reason we are referring to here.

If we talk about the beer tax increase in Ukraine, first of all I think that’s probably not our biggest worry at the moment in Ukraine, the beer tax increase of close to 40%. Will others do the same? I think we have very firm plans in Russia on beer tax increases for the next two to three years. We don't expect that to change. Neither the latest signals coming out, or in the last several months, in terms of what they're saying when they talk about alcohol taxation. Will it be in some other markets, there's always a risk but it's not our biggest worry, and certainly not on Ukraine, the beer tax.

On Western European depreciations Casper, no, there's nothing extraordinary on depreciations in Western Europe.

CASPER BLOM: Okay, so the lower depreciation is an effect of the accounting change?

JØRGEN BUHL RASMUSSEN: There might be other things explaining it more precisely. Peter will get back to you on that one later today.

CASPER BLOM: Great, thanks a lot.

OPERATOR: Our next question will come from Sanjeet Aujla. You can now ask a question.

SANJEET AUJLA: Yeah hi there, I just wanted to get some clarity on the marketing spend outlook, so you're talking about a step up in investment in Asia for this year, at the Group level you're talking about sales and marketing spend flat as a percentage of sales. So does that imply a reduction in marketing spend in Western Europe and Eastern Europe? And if so, where? Thanks.

JØRGEN BUHL RASMUSSEN: No, we still assume and I think we have also, we have said that in our release, Q1 release. We expect our marketing investment to be in line with last year as a percent of revenue. That means for us an increase because as we talk to many of you about, we do a lot of ROMI and value management which means our investment should be more and more efficient because we get better and better at how to invest our money and get more for the buck. So, underlying should be a slight increase in terms of payback on the investment, so no, we are not planning to decrease our marketing investment elsewhere. It's really as Jørn referred to earlier, and as we have done now year after year, keep working on changing how we work and it's an endless journey; we have done a lot but we will keep doing more and of course, if we have bigger challenges, we need to try to accelerate in every corner of the business. But we are not going to the marketing area to cut costs there.

SANJEET AUJLA: Okay. Just to follow-up on Russia, can you just give us the numbers for your sell in and sell out for the quarter?

JØRGEN BUHL RASMUSSEN: You're talking about what we normally talk about, in-market sales and …

SANJEET AUJLA: Yeah, shipments and depletions, yeah, yeah.

JØRGEN BUHL RASMUSSEN: We probably have to come back here not to give you a wrong number.

SANJEET AUJLA: Okay. And roughly, can you just tell us what your volume decline in Ukraine was?

JØRGEN BUHL RASMUSSEN: Our volume decline was higher than the market and therefore you can also see we lost a little market share in Ukraine - not a lot.

SANJEET AUJLA: Okay, thanks.

OPERATOR: Our next question is from Hans Gregersen from Nordea, you can now ask your question.

HANS GREGERSEN: Good morning. Four quick questions; in Asia, can you give an update on the Chinese platform and the volume development i.e. you mentioned you'd taken up some loss making volumes, to give some clarity on that. Secondly, on Russia, can you give an insight into the assumptions behind your changed market guidance primarily on the macroeconomic side? Secondly, in terms of the price/mix or the price increase you have implemented quite nicely in Quarter 1, can you give a little bit more clarity what's actually going on? Is it mixed changes or just simple price increases? And finally on the competitive status, there have been a lot of market share movements among the major brewers in Russia; we've seen several of the brewers announcing several brewery closures. Can you give a competitive update on the market as such? Thank you.

JØRGEN BUHL RASMUSSEN: Hans, could you just repeat your last question?

HANS GREGERSEN: I'm saying several of the brewers have taken out capacity and announced brewery closures and so on and so forth. Can you give an update on the competitive outlook as you see it right now in Russia?

JØRGEN BUHL RASMUSSEN: Yes we can. So Asia and I think I got all your questions, the sound wasn't great but it was about what we talked about cleaning up the portfolio and I would say that's an exercise we do on a kind of ongoing basis across our businesses, in particular in a place like China where we really work hard on premiumisation and the more successful we are on premiumising our local power brands and also rolling out our international brands, you always end up with some brands at the bottom of your portfolio, no longer being very profitable and that's what we're cleaning up with intervals and that's what you're seeing we're doing in the first quarter in particular in China. That of course, has a negative volume impact in our Chinese volume development but as I've said so many times and we'll keep repeating; we run the business based on trying to balance volume and value and not just to gain volume, and that's why we're also seeing very strong increase in net sales per hectolitre in China, double digit percent increase partly driven by price but also by cleaning up in portfolio.

On Russia --

HANS GREGERSEN: Sorry, can I just understand your answer correctly. The effect, would that mainly be in Quarter 1 or should we expect that as an ongoing factor for the remainder of the year?

JØRGEN BUHL RASMUSSEN: Of course there will be some impact also in the next quarter and the following quarter because those products do no longer exist in our portfolio, so there will be an impact going forward. But it will only improve our value performance. It's the right thing to do when you work on premiumisation, we believe.

On Russia and macro economy and I mean what is kind of driving the change to the beer market outlook, as I referred to when I talked about Quarter 1, we said the 5% decline we're seeing in Quarter 1, about half would be explained by the kiosk closure and the last effect of kiosk closure so you can say the underlying decline we believe in Quarter 1 from macro economy and consumers, probably 2-3%. We are saying after the full year 5% and that's based on we do see uncertainty in the Russian economy and how that will impact the Russian consumer, and therefore we're getting a little more pessimistic on market development than we were in February. The whole change versus February is really what has happened in Ukraine and the Ukrainian crisis and how that impacts Russia and the consumer on the street. So that's the reason for the change and outlook for the beer category.

On price/mix, the benefit on price/mix is much more pricing than mix; we only see slight benefit from mix, it's more price so price increases we had last year and those you are aware of. We had one close to 4% early part of this year and we have announced also a price increase from May of 4%, but that of course is not in Quarter 1.

JØRN P. JENSEN: I just want to add, Hans, just to be even more precise on this on macro and Russia and our outlook. So what we're basing it on to be kind of factual about it is the latest IMF outlook for Russia which is basically no GDP growth at all this year. Still GDP growth expected in the coming years but no growth this year. So of course it is quite a big change versus how perception was around the economy just three months ago.

Final one on capacities in Russia, well the picture I think is pretty clear what has been announced on brewery closures and so on from competitors, we are still finalising our network exercise for Europe as such, and when that is finally done then we will take decisions based on that.

HANS GREGERSEN: Any timeframe for that announcement?

JØRN P. JENSEN: No, no, well we have internal plans but as you know, when it comes to those kinds of things, we don't talk about it before we actually do it.

HANS GREGERSEN: Okay, thank you.

OPERATOR: Our next question will come from Melissa Earlam from UBS; you can now ask your question.

MELISSA EARLAM: Good morning. Just a couple of follow-up questions on the Eastern Europe revenue per hectolitre growth please. Just to be precise on the price increases, just to clarify that you took one in September of last year of around 3 to 4% and a 4% second increase in the latter part of March to cover the excise increase. I was wondering if you could comment whether all the competition has followed at this stage in May. The second question is just regarding the market share improvement; you commented that you gained share in the traditional trade and in the modern trade, but can you just comment where you're taking share by price segment? Thank you.

JØRGEN BUHL RASMUSSEN: Yes, if I start with your question around price increase, you're right, we took a price increase last year in September and that was around the 4%. Then we also took one in March of 4% and I also just said we have announced already a price increase of 4% in May but of course not in Q1 numbers. Then we had earlier in 2013 also some price increases benefiting Quarter 1 this year.

MELISSA EARLAM: So just to clarify on that, the aggregate effect, is it notably greater than the underlying price increases that we saw in Q1 2013 or is there quiet a strong comparable benefit as well? Because your Q1 2013 revenue per hectolitre in Eastern Europe was down 7%, so I'm just trying to understand what is an easy comparable base versus what is incremental aggregate pricing.

JØRGEN BUHL RASMUSSEN: It is a slightly easy comps and also, if you go back to 2013 Q1, a lot of the reason for that negative price/mix was about how the whole destocking kind of happened in that quarter where the mix wasn't exactly right you could say, in terms of the stocking up by our distributors. So yes, we have easy comps and that's also why we say don't expect the 11% for the full year when we talk about price/mix benefit for Eastern Europe. If it comes to competition, in general I would say competition seems to be following our price increases. You always have some time a month or two moth time lag, there's maybe one lagging a little behind, but in general, competition seems to be following our price increases. Then you had the last question or were that the two questions you had?

MELISSA EARLAM: The last question was just on the market share improvement that you've seen year-on-year. You commented that you'd seen it in the traditional trade and in the modern trade, but could you just comment where you're seeing the market share gains by price segment within the market? Are you gaining share in the premium end of the market is another way of asking the question I guess.

JØRGEN BUHL RASMUSSEN: Yeah, if you look versus our market share in Quarter 4, we are gaining in all segments except super-premium. Super-premium we are kind of flattish but all our segments we are up against our market share in Quarter 4, including premium, so the one I referred to be would be super-premium where we are flat.

MELISSA EARLAM: Great, thank you so much for clarifying those points.

OPERATOR: Our next question will come from Mitch Collett from Goldman Sachs, you can now go ahead.

MITCH COLLETT: Hi there, you said that kiosks are still negatively impacting your volume performance, but can you clarify - I think last year one of the things that negatively affected price/mix was the mix impact of the kiosk closures and I think in particular the impact that had on brands like Baltika 7. Are you starting to see an improvement for that one and would you expect that to benefit your mix as we start to move through the rest of the year?

JØRGEN BUHL RASMUSSEN: Kiosk, yes, it is the last quarter we see negative impact on kiosk closure we believe, primarily to the first couple of months in the quarter. On Baltika 7 yes, we do see better performance of Baltika 7; in fact, it's one of the stronger performing brands in Quarter 1. We see slight benefit from mix in Quarter 1, what we will see for the full year, I think we still have this kind of uncertainty about the whole macro economy and the Russian market development, so it's really a little hard to talk about what would be mix for the full year with the uncertainty we have at the moment.

MITCH COLLETT: But I guess a mix drag from kiosk closures is probably now largely finished?

JØRGEN BUHL RASMUSSEN: Yes it is, completely finished.

MITCH COLLETT: A second question if I may; central costs are obviously higher and you said that's to do with the phasing of marketing which you've talked about how that will I guess back out through the year. But there are also I guess some other costs where there's been some phasing within central costs. Do you think central costs for the full year will be broadly similar to last year or should we expect the escalation in Q1 to continue?

JØRGEN BUHL RASMUSSEN: Yes to the kind of the last part of the question. When it comes to the phasing, yes, it is marketing investments, but it is definitely also supply chain costs, and that is pure phasing over the year versus the quarters last year. So it is, yes it is really all phasing and more or less in line with last year is also where we expect to end.

MITCH COLLETT: Okay, thank you.

OPERATOR: Our next question will come from Søren Samsøe from SEB; you can now go ahead, sir.

SØREN SAMSØE: Yes, just some follow-up questions firstly on the guidance. I'm sorry to take this up again, but the market growth you expect 5% down now for the full year and you said half of that was kiosk closures and half of that was from macro. I was just wondering what have you included in terms of the food prices going up in Russia because I remember in previous years you have used this as an explanation for sometimes when the market growth has been weak because there was less room in the budget for buying beer. So how much have you sort of included for that in the guidance?

JØRGEN BUHL RASMUSSEN: Just to clarify, Søren, we are not saying for the full year half of the 5% will be kiosk closure. We are saying for Quarter 1 of the 5% decrease half of that was driven by the impact of kiosk closure and the other half was underlying macro economy. For the full year we're saying minus five and that's mainly driven by macro economy and negative consumer sentiment.

SØREN SAMSØE: Okay, yeah.

JØRGEN BUHL RASMUSSEN: So kiosk closure impact is only Quarter 1 and therefore the full year impact of kiosk closure is very minor.

SØREN SAMSØE: But you're not yet included any affect for higher food prices that should impact your growth negative.

JØRGEN BUHL RASMUSSEN: No, we are assuming a kind of inflation rate high-single-digit percent.

SØREN SAMSØE: Okay. And another question regarding your goodwill on Russia because it looks like some companies are starting to make goodwill write-downs on their Russian assets - sorry, on their Russian goodwill – is this at all any consideration of yours or is that not relevant really?

JØRN P. JENSEN: That is not really relevant. It is as we have explained many, many times before, don't forget that the goodwill that we are carrying on Russia is the goodwill that we got in connection with the S&N transaction i.e. it's goodwill on 50% of the Russian business whereas we as you know, own all of it, so the impairment test on goodwill in Russia is basically 100% of the business cash flow wise versus the goodwill that actually was only on 50% of the business in 2008. So no, it's not really relevant.

SØREN SAMSØE: Okay, great. And then finally, on your working capital or your trade working capital, you're now including the all, the excess taxes are now being included in that. Could you maybe elaborate a little bit on that, on how that compares with last year? I mean how's that really impacting your trade working capital in absolute numbers? Thank you.

JØRN P. JENSEN: Yes we have now decided to include excise duty which I guess you could say we should probably have done from the beginning, in the sense that excise duty of course sits as a liability but is also part of accounts receivable, so it is part of - it's definitely part of trade working capital. So whenever that goes up or down, it normally follows also what happens on accounts receivable. There's nothing in particular on duties payable, so the change is more or less zero quarter over quarter.

SØREN SAMSØE: Okay, and for the full year what do you expect?

JØRN P. JENSEN: Well as you know, we're not guiding in those kinds of details for full year.

SØREN SAMSØE: Okay, thank you very much.

JØRGEN BUHL RASMUSSEN: I think we have time for one last question now.

OPERATOR: Okay, our last question will come from Tobias Björklund from Danske Bank.

TOBIAS BJORKLUND: Yes, I have two questions actually. First of all, the whole beer industry in Russia decided to stop selling beer in large bottles, I wonder how you, how this has played out? If you could give a comment on that. And second question, how does the split on the on and off-trade industry look here at the beginning of the year? Has the on-trade business increased or how do you see that playing out this year? Thank you.

JØRGEN BUHL RASMUSSEN: So your first question Tobias, on large bottles, we don't see a significant impact, I mean this voluntary proposal we agreed to implement where we said we will not sell beer in any PET sized above two and a half litre and also we will not sell strong beer being above 6% alcohol in any PET size above two litre, that was implemented in the early part of Quarter 1. Not seeing any big impact, don't expect to see any big impact from this neither for the full year.

The on-trade/off-trade, we don't see any kind of significant shift. We still see some outlet, some chains, they start opening very small grocery outlets to replace some of the kiosks but it's not like we see a big change in on-trade versus off-trade. So on-trade is still 10% or slightly below of the beer market.

TOBIAS BJORKLUND: Thank you.

JØRGEN BUHL RASMUSSEN: Thanks a lot for dialling in and listening. Thank you very much.