Carlsberg Conference Call
Interim Results - 6 Months Ended 30 June 2010
Carlsberg A/S
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CEO Jørgen Buhl Rasmussen & CFO Jørn P. Jensen
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Operator: *Welcome to the Carlsberg Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.*

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

Jørgen B. Rasmussen: Good morning everybody. Welcome to the conference call for our six months 2010 results. My name is Jørgen Buhl Rasmussen and I have with me our CFO Jørn P. Jensen, Sr Vice President Eastern Europe, Anton Artemiev and Vice President of Investor Relatiosn Peter Kondrup.

The Group's performance for the first six months was strong. Improvements in overall market share and a significant improvement in profits are the two key headlines.
Going in to 2010, following a challenging 2009 macro economic environment, we were clear in our ambitions to strengthen our market positions in the Group for this year and in the coming years. Therefore we have increased our spend behind brands and activities, a high number of product were launched and successfully executed campaigns and events drove the improved market shares in a significant part of our business.
At the same time we relentlessly continue our focused efficiency agenda as we still see a vast number of opportunities to improve the profitability of the Group.
After the very strong margin improvement for the first six months we believe that the Group is clearly on-track to meet our medium-term margin targets.
I will now give you a summary of the Group performance for the first six months and then briefly go through the regions. As always, Jørn will thereafter walk you through the numbers and comment on our upgraded 2010 outlook.

After that we will be happy to take your questions.

Please turn to slide 3. Going in to 2010, we had clear ambitions of improving market shares in both volume and value. After the first half of the year we are on-track.
In Northern & Western Europe our overall market share has started to improve after flat market share development in recent years. An important objective has been, and will remain, to grow share in both value and volume terms in the region.
We saw strong market share performance in Eastern Europe. There were particularly strong gains in Ukraine continuing the very positive trend. Our market share in Russian improved sequentially during the first six months to 40.1% in Q2.
In Asia we have once again obtained strong gains in market share across the region. Our business in Indochina was particularly strong.

One of the drivers of the market share improvements was the successful activation of the Carlsberg brand across many markets in connection with the World Cup. Volumes of the Carlsberg brand increased globally by 8%.
The performance in all regions is also a result of the acceleration of new product introductions, line extensions and events and promotions, successfully executed.
The increased investments behind our brands and activities - and the increased spend behind innovation as well - has been, and will continue to be, an important driver.
Our brands marketing spend has increased by double-digit percentages. Nevertheless, our total operating expenses are still declining as efficiency improvements more than off-set the higher marketing spend.

And now to slide 4
The financial performance for the Group was strong for the first six months as margins and net result improved substantially.
Operating margin improved strongly by 210bp to 17.2%. In Q2 the improvement was even stronger with a 290bp improvement to 23.6%. We did see operating margin improvement in all regions.
Organic operating profit growth was 4% and adjusted for the estimated de-stocking effect it would have been approximately 9%.
Group beer volumes declined organically by 3% for the first six months. For Q2 organic volume development was flat as Asia continued to grow strongly and Eastern Europe improved during the half-year following the substantial impact from Russian de-stocking in Q1. Adjusting the estimated impact from the de-stocking organic volume development would have been -1% for the six months.
Price/mix was flat with small positive pricing in most markets. Mix was slightly negative mainly due to a changed country mix.
Organic net revenue development was -4% with -3% in Q2.
Revenue was negatively impacted by portfolio optimization, or delisting, within non-beer products with low profitability in a couple of Northern & Western European markets and also a one-off impact from strikes in Denmark and Finland. Therefore total beverage volume declined organically more than beer volumes.
Net result growth was high at 80% due to growth in reported operating profit and lower financial expense.
Finally, we are upgrading our earnings outlook for the year – for both operating profit and net result. Jørn will get back to this later.
Overall, we believe the Group delivered very strong performance for the first six months with market share gains in a large part of the business combined with a strong profit improvement. This is line with our plan to accelerate spend behind market share growth while continuing our efficiency agenda.

Now let us turn to the regions and begin with Northern & Western Europe on slide 6.
After market shares remained flat in recent years, the overall market share in Northern & Western Europe improved in the first six months. This was done through a combination of more product launches, a higher activation level and therefore a higher marketing spend.
The markets that performed strongest in gaining market shares in the first six months were the UK, Poland, South-East Europe, Denmark and Norway. The UK continued the trend from recent quarters and year-to-date market share is now 16.2% with improvement in both on- and off-trade. Poland benefitted from strong performance of the Harnas brand and widened distribution in general. In Norway

an important driver was the launch of Tuborg Lime Cut and Kronenbourg 1664. Denmark continued a positive share trend, in particular in the off-trade, despite the negative impact from strikes.
Brands marketing spend increased organically by double-digit percentages to support key brands and activities. A number of new products were launched; for example Tuborg Lime Cut in the Nordics. Existing brands were rolled out in more markets like Tuborg in the Baltics, Kronenbourg 1664 in Norway and Finland and Somersby in Finland and Croatia. A significant number of activations took place in connection with the World Cup or in relation to music and summer events.
The Group's beer volumes in Northern & Western Europe grew organically by 1% in a market declining by an estimated 1%.
Organic net revenue development was -2% which was impacted negatively by portfolio optimisation within non-beer and the strikes in Finland and Denmark. Due to this portfolio optimization total beverage volume declined by 1% compared to the 1% volume growth for beer. In Q2 beer volumes were flat with -2% for total beverages. There was a small positive pricing in most markets, but a slight negative mix due to a changed country mix and the on-going channel shift. To support price and mix our value management efforts are becoming an increasingly important lever and an integrated part of the way we do business.
Organic operating profit improved strongly by 21%. Operating profit margin grew by 260bp to 13.1%. The improvement is driven by beer volume growth, lower input costs and efficiency improvements.

And now to slide 7 and Eastern Europe. There were clear signs of improving market conditions in the region as the macro economic indicators improved and consumer sentiment picked-up.
Organic volume development for the region was -13%. This was impacted substantially by the higher Russian excise duties and the de-stocking that took place in Q1. Adjusting for the Russian de-stocking impact in Q1, volumes would have declined by an estimated 7%. There was a notable improvement in Q2 with -3% organic beer volume developments which was driven by some improvement in overall market conditions and slightly warmer Q2 than last year.
Volume growth for the other markets in the region was 12% with particularly strong growth in Kazakhstan and Uzbekistan. In a flat Ukrainian market, the Group's beer volumes increased by mid-single digit percentages continuing the strong trend of market share improvements reaching 28% market share.
We invested significantly more behind our brands and marketing activities in the first six months and several significant product introductions took place in all markets in Q2, just ahead of the peak season.
Organic net revenue development was -15% for the six months with -3% in Q2. The improved revenue performance in Q2 reflects the overall volume trend, no impact from de-stocking and the phased implementation of price increases in Russia. Organic net revenue growth was positive in all markets outside Russia.
Organic operating profit development was -13%, but adjusted for the Russian de-stocking impact it would have been -2%. The markets outside Russia performed very strongly with 35% organic growth.
Margins grew substantially for the six months, with a particular strong 280bp improvement in Q2. This Q2 performance was driven by lower input costs, efficiencies and a gradual improvement in price per hl as the Russian duties were phased in during the six months. Margins improved in all markets.

Now turn to slide 8 and a few comments on Russia. The Russian market declined by an estimated 9% for the first six months. Market conditions improved

slightly at the end of the period as consumer dynamics became more positive and in combination with marginally warmer weather the market decline in Q2 was more modest at an estimated 7%.
Due to improved macro economics and slightly improving consumer sentiment we have adjusted our expectations for the Russian market development in 2010. We still expect the market to decline due to the excise duty increase in January, but we now expect a high-single digit decline compared to previous expectations of low double-digit decline.
Market share improved sequentially during the six months and was 40.1% in Q2 compared to 39.1% in Q1.
As part of our plans for Russia in 2010 to strengthen our market share we launched a number of new products just ahead of the peak season. In addition a detailed activity calendar was executed by region and channel throughout the first six months to optimise market performance. Within non-beer products Eve was launched, Kvass continues to perform strongly and we are building distribution of our mineral water product.
Our Russian in-market-sales, or consumer off-take, was -11% for the six months and -8% for Q2. Our shipments were lower at -17% due to the de-stocking at distributors in Q1. All the de-stocking took place in Q1 and stock levels were at a normalised level at the end of Q1. Shipments in Q2 were -5%.
To off-set the excise duty increase we have taken several price increases and since November of last year, we have increased prices to our customers by approximately 25% with significant variation between brands and regions. This is slightly ahead of the market.
As the tax increase was passed on in smaller steps, there was a negative price/mix effect for the six months of -5%. For Q2, the price/mix effect was slightly better at -3% as price increases were coming through.

Slide 9 please
Since January this year our market share continuously improved in both volume and value terms. This has been driven by the high level of product launches and strong execution and we believe we are well on-track to continue our positive trend of market share improvements in the Russia market.

And now to Asia slide 10.
Our Asian business continued its strong performance and reported 17% organic beer volume growth. The growth was not only because of overall market growth in the region but also through market share improvements driven by a high level of innovations and activities across all our markets.
All markets in the region reported organic volume growth with Indochina being a main contributor with 28% growth as a number of products were launched in all three markets strengthening the local product portfolios and contributing to the gains in market share.
The Chinese business continued to grow with both the international premium category and local Western Chinese brands delivering 10% volume growth. A number of the local Chinese brands were re-launched with the objective to premiumise in small steps and strengthen consumer appeal.
There were World Cup activities in most markets across the region and, in Malaysia as an example, these were a successful driver behind the volume development.
The premiumisation efforts with product launches, line extensions and re-launches combined with price increases drove a very positive price/mix for the region.

Organic operating profit growth was very strong at 48% due to volume growth, price/mix improvements, lower COGS and efficiency improvements across all markets.
Lastly, we are very pleased that we have made a conditional agreement to acquire an additional 12.25% of the Chongqing Brewery Company.

And with this I would like to hand over to Jørn who will walk us through the financials.

Jørn P. Jensen: Thank you, Jørgen, and please turn to slide 12.
We did deliver strong performance for the first six months. This was supported by FX movements as several currencies recovered versus the EUR or DKK. Those movements have positively impacted the reported results. Most importantly is of course the Russian Ruble as the average rate for H1 is around 10% higher than last year.
Net revenue declined by 2% that in total equals the effect from net divestments (divestment in Germany and acquisition in China in Q1). In Q2 reported net revenue was +2%.
Operating profit growth was 12% with 3% organic growth in the beverages activities. In Q2 the reported operating profit growth was 16% of which the beverage activities in organic terms contributed with +7%.
Driven by the 12% operating profit growth, positive special items and lower financial expenses, net profit increased significantly by 80% to 3.1bn – for Q2 alone net profit growth was 36%.
As the year has progressed we have not changed our focus – we will continue to support brands and activities by spending more on brands and trade marketing, we will continue to drive the efficiency agenda and at the same time keep focus on earnings, margins and cash flow.

And on slide 13 and the income statement. As you can see in the table organic net sales decline was off-set by the FX impact, i.e. the decline equals the net divestments. Jørgen has been through the organic revenue development so I'll move on to gross profit.
Despite the revenue decline the gross profit increased by 610m corresponding to a reported gross profit margin improvement of 290bp. In organic terms the margin increased 210bp with improvements in all regions due to lower input costs and efficiency improvements – and for Asia also with good contribution from higher sales prices. The organic margin improvement was +230bp for NW Europe, +180bp for Eastern Europe and +270bp for Asia.
A few words on the organic margin development specifically for Eastern Europe that improved strongly y-o-y in Q2 compared to a y-o-y decline in Q1.
The three main elements are sales price per hl, input costs or variable costs per hl and fixed costs per hl. Input costs per hl are quite similar in Q1 and Q2 and are down versus last year. In Q1 sales price per hl was down significantly due to the phased introduction of price increases to cover the significant duty rises in Russia on 1st January. By the end of Q2 the duty increase was fully passed on to sales prices but as an average across Q2 sales price per hl was still slightly down versus last year - but up significantly from Q1. In H1 this year fixed costs were lower than in the same period in 2009 due to the efficiency programmes. In terms of fixed costs per hl, Q1 was worse than in 2009 due to lower volumes, whereas in Q2 fixed costs per hl were better than both Q1 2010 but also Q2 2009. All in all this means that the Q1 margin decline of 160bp in Q2 turns into a margin improvement of 230bp. On top – in reported terms and due to the mix of

the FX changes in Eastern Europe – the margin impact is in both quarters more positive than the impact in organic terms.
Organic total Opex including brands marketing declined by 92m. The lower costs are due to lower logistics and sales costs whereas we increased our brands and trade marketing investments by double-digit percentages.
Other income net increased by 115m organically. This reflects the sale of a brand from the French business. The one-off contribution from this transaction equals the one-off negative impact from the strikes in Denmark and Finland in Q2, i.e. in the NW Europe region - and the Group - the net effect is neutral.
All in all operating profit was 5bn. The organic development in the brewing activities of 125m – or +3% - is including the de-stocking effect from Russia of estimated 300m. Excluding this effect the underlying organic development was +425m or +9%. Of the positive FX impact of 366m around 80% relates to the recovery of Eastern European currencies.

And now to slide 14.
Special items amounted to 354m. This number is impacted by the non-cash, non-taxable income in Q1 of 390m related to a new IFRS accounting treatment of step acquisitions following the Xinjiang acquisition.
Financial costs, net were down 633m compared to last year. The main reason is the improvement in other financial items of 511m due to FX movements; last year a sizeable loss, this year a gain. Interest expenses declined by 122m driven by the deleveraging and lower floating interest rates.
Tax rate was 27% excluding the non-taxable income of DKK 390m in special items.
All in all, net profit was 3.1bn. Adjusting for the IFRS accounting impact of Xinjiang of 390m, the net profit improvement was DKK 985m or 57%.

And now cash flow on slide 15.
The sum of the first three lines (EBITDA including other non-cash items) adds up to an improvement of 674m.
Change in working capital was flat, in line with plans. Our strong focus on working capital continues and as outlined before we have changed focus from period-end to average working capital in order to achieve a greater positive impact on *average* net interest bearing debt, i.e. we want an effect on both net profit and net debt. All in all cash flow from operations was DKK 4.7bn.

Slide 16 please.
Our focus on CAPEX continues to be high on the agenda and capex declined slightly compared to last year. In constant currency the decline would have even higher at approximately 100m.
DKK 1.1bn was spend on acquisitions. The majority of this amount relates to a prepayment for the additional 12.25% stake in Chongqing that was announced in Q2.
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 2.4bn.

And finally on slide 18 and our outlook. The performance for the first six months was strong. Primarily due to the FX movements, in particular the recovery of the Russian Rouble, we upgrade 2010 earnings expectations. We now expect an operating profit of around 10bn compared to previous expectations of operating profit in line with 2009 of 9.4bn. That corresponds to growth this year of 600m in

reported terms. If adjusting for the Russian stocking in Q4 2009 and the subsequent de-stocking in Q1 2010 of estimated, respectively +300m and -300m, the underlying growth would be 1.2bn or +13%.
Based on the expected operating profit growth and the de-leveraging of the company net profit is expected to grow around 40%, excluding the 390m contribution from Xinjiang.
And for the avoidance of doubt: All impacts from higher spot prices on some raw materials are included in the outlook.
In addition to this a comment to the recent speculation – or debate – around potential impact on 2011. We have for all the regions and markets started to secure volumes and prices several month ago. Obviously there as always are variations between the regions and markets that locally will impact sales prices, but for the Group we do not expect any material impact from increased raw material prices next year.

I will now turn back to Jørgen for a final comment.

Jørgen B. Rasmussen: Thanks, Jørn. This was our last slide for today. So just to summarise on the back of the first six months development, firstly, we are very pleased with the strong performance for the first six months. And secondly, we are spending more resources and more investment behind our brands and innovation and the fact that we have gained share in a large part of the business this year makes us even more certain that the portfolios we are building and activities that we are planning will drive further share gains. And thirdly, we continue to work on organisational values and processes to drive a performance-based culture with a strong leadership across markets and functions.

And now we're happy to take questions. And as said in my introduction, we also have our SVP for Eastern Europe here, Anton Artemiev.

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. It's Søren here from Danske. **First of all, question regarding your guidance for market growth in Russia. Just so I understand it right what you have assumed for second half because it's as I can see it at the same level as first half. Do you believe the consumer still needs to see some price increases and that's the reason why you're a bit cautious? Also, are your assuming a worse or a better macro scenario for second half compared with first half? And I mean we have 7% growth in Q2, was significantly more negative in Q1, I think minus 12% or something like that, don't you see a positive trend that you should actually also put into your numbers for - - or your assumptions for the second half?**

Jørgen B. Rasmussen: I assume, Søren, all this was about market growth and market growth assumptions.

Søren Samsøe: Yes.

Jørgen B. Rasmussen: And we're saying... For the full year now, we're saying high-end single-digits, and high-end single-digit doesn't necessarily mean nine. It could be eight. I mean time will show, but we're saying high-end single-digit could be in line the first half or slightly better than first half for the full year and that would change some of the assumption for the second half year.

Søren Samsøe: Okay. **If you could comment a little bit on the margin for second half so we know what to put into the numbers, what should we expect in terms of the A&P costs and other cost development in second half will be same level as first half or how should we see it? And also regarding the strong growth and margin in Asia, if you could confirm that there's nothing one-offish in the strong number reported in Q2.**

Jørn P. Jensen: When it comes to kind of major costs elements in the second half in Eastern Europe, then you will continue to see us spending more and more behind our brands and straight marketing investments. Then we have included slightly higher input costs based on what we know, not what we think for the second half for Eastern Europe as well.

Jørgen B. Rasmussen: Before I take, Asia, maybe I'll ask Anton if he wants to add anything about market development in general.

Anton Artemiev: Yes, certainly our small positive view on the market development in Russia compared to previous estimates, this related to a number of reasons. One of them is a certain recovery of the Russian economy and improving purchasing power of consumers and what we see is a tendency in the beginning of the recovery, people tend to save more than to spend, even if their incomes have improved. Now we see people spending more and more and that is certainly positive. Of course another factor was somewhat better weather. The very fact that industry has greatly undertaken price increase, so there has been in a way certain soft pricing and also the fact there has been successful introduction of the minimum price for vodka. So a number of factors have played in and some of them of course will keep going like we believe macro economy in Russia will not get worse in the second half. So that are the main reasons for our upgrade for an outlook for us long-term.

Jørgen B. Rasmussen: And on Asia, what you're seeing for the first half is the trend we've seen in our business in general out in Asia, so overall very strong performance in most markets, gaining market share, spending behind our brands and key activities, and no one-offs, no kind of unique things happening the first half, so expect to see more of the same in the second half.

Jørn P. Jensen: And also in the second half lower input costs than we had in the second half last year.

Søren Samsøe: Okay thanks.

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

Trevor Stirling: Good morning. **Please three questions. Firstly, concerning the input costs, Jørn, you mentioned that 2011 you expect it to be neutral versus 2010. Would it be fair to expect that that will be some slightly higher input costs in Eastern Europe and slightly lower in Western Europe? The second question then relates specifically to the weather impact in Russia in Q3. It seems to me there's a number of effects going on, including higher temperatures, which normally would drive higher consumption of beer, but also the smog in many regions is preventing people from going outside and socialising, which had a negative effect. And maybe Anton can talk a little bit about exactly what he sees happening at the moment. And the third thing, coming back to the base for the 40% growth in net profit, you are excluding the one-off benefits from the acquisition in China, but I presume it does include the big swing in other financial items from minus 3.35 to 1.76 so that more than 500 million net swing is included in the net profit gain.**

Jørn P. Jensen: If I just take the first and third. Then when it comes to input costs next year, then as said, there are variations between regions and markets and don't forget Asia is a more and more important region as such and there you are actually at the moment seeing a very good harvest also when it comes to quality. But of course there are variations from region-to-region and from market-to-market, which again also will impact to a certain extent sales price development in the different markets.

When it comes to the 40%, then you're right that it is excluding the 390, but of course it's including whatever else is changing, including changes on other financial items.

Trevor Stirling: Thank you.

Anton Artemiev: Yeah, on the weather in Russia, yes, it is very true that the warmer weather helps us to sell. At the same, there have been also smog issues. What will be the residual impact of the consumption, it is probably too early to say. Even estimates, exact estimates for the market for July are still to come. But what we saw is that nothing at the moment makes us to believe that our judgment for the high single-digit for the whole year should be different because of the weather.

Trevor Stirling: Okay, thank you very much, Anton.

Operator: Michael Steib from MS is online with a question.

Michael Steib: Yeah, good morning. **Just on your new guidance for around DKK 10 billion in EBIT, I'm trying to get a feel for what around means. Essentially just marketing to market the effects impact nearly gets you to 10 billion, 9.8, somewhere thereabouts, and I think that's where consensus is also. Should we really view the 10 billion figure as a floor for 2010 for the full year or in other words is that a conservative estimate or there are still considerable variations around that in your view? And then the second question I would have is on the margins in Western Europe, which were up strongly. Could you give us a bit more detail on some of the initiatives, some of the projects you're working on and how that will roll-out in the second half this year?** Thank you.

Jørn P. Jensen But around 10 means around 10 being best estimate at the moment and, yes, it includes and you're pretty precise on how kind of what the impact what was from forex and what the remaining impact was from the mentioned 9.8 up to 10 kind of underlying improvements as such, but it is our best estimate at this point in time.

Jørgen B. Rasmussen: Regarding Western Europe and margin development, there are two main factors here, so apart from we have a flat pricing mix overall, at the same time we do have in most markets small benefit in pricing. The key drivers are really lower input costs as we have this year in Northern/Western Europe and also in general for the many efficiency initiatives we have taken in Northern/Western Europe. Those we put in place last year in 2009. We're getting from many of those the full year benefit this year and then also we have put in place new initiatives. Without going into each of them in detail, a lot of this is around processes and, where we can, it's about centralising a process to support our business and do it in one place and this is achieved despite the fact we have increased our investment behind our brands in marketing and trade marketing the double-digit percentages.

Michael Steib: Yeah, okay. Thank you very much.

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

Paul Hoffman: Yes, hi. Good morning. This is Paul from Cheuvreux. **Two questions. The first one on input costs again. You said in Asia you expect still some lower input costs in the second half. Eastern Europe, if I understand it correctly, you expect an increase there. Have you now changed your overall view for input costs for the full year? I remember that you anticipated some 150/200 basis points improvement on the EBIT coming from input costs for North/Western Europe and Asia and some small benefits still in Eastern Europe for the full year. Has it now turned a bit more positive also looking at you had a gross margin jump? And secondly a question on pricing in Russia. Now that you have passed on everything, pricing's still a bit negative, but do you see opportunities now to approach the CPIs in Russia when it comes back to pricing - - regular pricing power that you have in the market? And perhaps a final third question is on special items. It's now 5 million plus I believe. There was of course a trend of negative 100/150. Yeah, what can you say about special items going forward also related to restructuring?** Thank you.

Jørn P. Jensen: To the first one, what I tried to say around input costs in Eastern Europe was that we now expect it to be slightly higher in H2 versus H1. If anything, I guess you can say that we have seen slightly lower than previously expected input costs in the first half. On the other hand, now we'll see a small increase on the lower than expected H1 numbers compared to how we previously had Eastern Europe.

When it comes to special items, then I guess you can say if you assume a big zero for the full year, I think you are more or less where you should be.

Anton Artemiev: And on pricing, that's correct. By June, we have included all the impact of the excise duty growth in Russia in our ex-factory price. As to the what else shall we do with pricing, we prefer not to comment on that. Thank you.

Paul Hoffman: Thank you.

Operator: *Frans Høyer from ABG is online with a question.*

Frans Høyer: Good morning. **Regarding Northern/Western Europe, you had 0% organic growth in the second quarter and 4% organic sales decline in the second quarter and you mentioned country mix and channel shift as reasons, but also you have highlighted that you've been introducing a lot of new products. Is it possible to break down the negative 4% price/mix effect on the country mix, channel mix, and new products?** Please.

Jørgen B. Rasmussen: Price/mix in Northern/Western Europe in the second quarter was minus 1%, flat minus 1%.

Frans Høyer: Okay.

Jørgen B. Rasmussen: So again, slight benefit from positive pricing and then a negative mix driven primarily, if not only, by country mix across Western/Northern Europe because some of the markets are slightly lower average pricing outperformed some of the other markets with higher pricing on average, so it was really driving the difference you see between volume development and revenue development. That's non-beer where we in some markets took some SKUs out with lower profitability, but also the fact we had strikes in Finland and Denmark, where soft drink or non-beer is quite a significant category.

Frans Høyer: **So if you were to give us a number for the effect on the top line of new product launches, which normally should help your product mix, do you have an estimate of that in the second quarter?**

Jørgen B. Rasmussen: No, I can't give you a number. I wouldn't like to give you a number, but at the same time I think the best indicator would be our market share performance because market was down in that six month period by 1% and we were up in volume by 1%, so we outperformed the market and clearly a lot of the new product introductions help us to gain market share.

Frans Høyer: Understood. Okay. **And with regard to the gross margin in Eastern Europe separately in the second quarter, I believe in the first quarter, the gross margin was down 200 basis points. What was the development in the second quarter please?**

Jørn P. Jensen: No, it was minus 160 basis points in the first quarter...

Frans Høyer: Right. Okay.

Jørn P. Jensen: ...and it was plus 230 basis points in the second quarter.

Frans Høyer: Many thanks. Thank you.

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

Ian Shackleton: Hey good morning, gentlemen. **Two questions. Could you update us where we are on the different regulatory measures that were supposed to be coming to the Duma ahead of the summer? It seems to go on very quiet**

there. And secondly, looking at page 27 and the market share numbers for Russia, could you just give an indication of how much your competitors have also passed on pricing, vis-à-vis the duty increase?

Anton Artemiev: Yep. So regulatory, you are quite right when saying it's been relatively quiet period with the law-makers on vacations. It's still on the table. There are different discussions on the different measures. Nothing is decided. Discussions will most probably continue through the end of the year and what we think might happen to our best knowledge we have included in our outlook. That's about regulatory.

As to the price, with one exception for Heineken, we have been ahead of the rest of competition in pricing. But by now, it is practically everybody has passed excise duty growth into the ex-factory prices.

Jørgen B. Rasmussen: But still has been slightly ahead of average.

Ian Shackleton: **So just to come back on the regulatory situation, are you saying that probably we don't hear anymore until the end of the year? Could this be a 2011 issue at the earliest?**

Anton Artemiev: Discussions would most probably continue in the fall, discussions regarding retail, universe, regarding advertising and alike, all the stories you know. But when and what decisions would we make, we wouldn't like to speculate in public as it is a matter for Russian government.

Ian Shackleton: Thank you very much.

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

Melissa Earlam: Hi. Good morning. **Two further questions on Russia please. The first one is following up on the market share question that Ian just raised. In Q2 this year, you say your market share is 40.1%. Now while that's a sequential improvement, it still seems to be down on a year-on-year basis. You don't give the Q2 '09 market share from last year, but your H1 '09 was 41%. I'm just wondering if you can explain the dynamics there a little bit, whether that's related to the phasing of price increases or innovation and whether your objective still remains to gain market share in Russia on a year-on-year basis for the full year. And then a second question is on the mix dynamic in Russia. Can you talk a little bit about whether that is a negative channel mix effect you've been seeing or whether that is trading down within your portfolio?** Thank you.

Anton Artemiev: Yes, regarding market share trends, we have the lowest market share in the period of December/January. And exactly you're right, it's been related to price decisions. We have started first with the price increases in November. It also relates to our phasing of innovations and the launches of a new product as most of our competition went into the market with the novelties. In the second half of last year, we have done most of our activities in the preseason just before season and effects of those is still come, though we already seen an improvement of our market share from Q1 to Q2.

And the answer is yes, we believe we will keep growing up our market share and the objective remains, so you'll have an improved market share year-on-year basis.

Melissa Earlam: **Could you possibly give us a Q2 '09 market share number? I mean you've got the 41% for the half, but it would be helpful to have it for the quarter a year ago as well, if that's possible.**

Jørgen B. Rasmussen: Q2 2009, we'll find it for you, Melissa.

Melissa Earlam: Thank you.

Anton Artemiev: It was 41.

Melissa Earlam: Okay thank you.

Anton Artemiev: So on the mix, what we saw is of course year-on-year basis is somewhat negative mix, but again it would take quarter-on-quarter development. It's been EBIT led or a slight improvement in our mix and what we see when we are coming to perhaps an easier comparison in the second half of the year, we are optimistic about our mix in general terms.

Jørn P. Jensen So just to answer that, Melissa, don't forget that we started to see negative mix in Q3 last year, so Q3, Q4, Q1, and Q2 has been negative. But of course coming into Q3 this year, we have somewhat easier comps when it comes to mix.

Jørgen B. Rasmussen: And then the improving consumer dynamics should also help in this area. I think one more point, we used to see more packaging mix change. In the last few quarters, there's been a mixture of packaging change and also some brands change.

Anton Artemiev: Yeah, so all and all, both packaging and brand mix is stabilising and has a relatively positive outlook for the rest of the year.

As to the mix in channel, that does not significantly impact our sales price as we sell with no substantial difference on margins and on pricing into different channel.

Melissa Earlam: Many thanks.

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

Gerard Rijk: Yes, good morning. **Three questions if I may. First is on Russia. Can you give a feel about the size, the relative size percentage sales in other products than beer and also the growth rates in these other products, like kvass, mineral water, and other soft drinks? Second question is about the 25% price increase in Russia. Can you give indication how that worked out on the retail sales price level for the consumer, was that around 10%? And third question is about the efficiency drive you said that is mainly based on closures and on centralising. That were the measures you took in 2009, early 2010, but you also gave the feel that still much more can be done. Can you give indication in which areas it might occur in North/Western**

Europe, Eastern Europe, or Asia and in where it can happen in supply chain distribution or other parts of the business?

Anton Artemiev: The first one, non-beer in Russia, our volumes for non-beer is just under 5% of our volumes in total, so it is relatively not so significant part yet of our business. Beer will remain our focus for the foreseeable future clearly and - but non-beer is good as the growth rates for non-beer are positive. So as a share of our portfolio, it is good.

Back to the retail price, when I said 25 and when Jørgen mentioned 25% increase in our prices, that was our ex-factory prices starting from November, so totally we on average increased prices 25 and then it takes a certain time for this price increases to go through to consumer price.

Gerard Rijk: Yep.

Anton Artemiev: We estimate now at the moment that the consumer prices have probably increased around 20% plus/minus.

Jørgen B. Rasmussen: I think some time when you say and some of you sometimes say, "It's only half the increase to consumers that we increase prices by," sometime I think you forget the margin being taken by the different segment in the chain in terms of distributors and retailers.

On your last point about efficiency, I think you have to look at this in the broader sense because we're really looking at changing how we work, not just in supply chain or closing a brewery, it's across all our functions - and it's sizing back in support functions where we look at: Can we centralise a process and do it only in one location or two locations across the group or within a certain region? That's what we've done a lot of, and we see more opportunities going forward. Many of you, if not all of you, have heard about business standardization programme, that will be an enabler when we look forward. We believe we have a lot more to do in the broader sense in supply chain, so a lot more to come. A lot has been done at a Group level, but also in local markets. So when we entered 2009, and we all talked about prices also in local markets, we changed in a lot of places processes how we work to try to streamline.

Gerard Rijk: Yeah. **And going forward, it's also in all fields that you still see savings, and how about further procurement savings in the Group?**

Jørgen B. Rasmussen: It's in general. It's in all fields, so it's in production. It's supply chain. It's in IT. It's in forward process and that's reflected in our margin targets, mid-term margin targets.

Gerard Rijk: Okay. **And to which year do you think that you can continue with this kind of heavy reductions, 2012/13?**

Jørgen B. Rasmussen: I don't think there's an end to this journey because what we don't know today, we maybe know in three years time, and we can continue looking at doing business differently. So I think this an endless journey. We should never think about this journey stops. And remember, as an industry and certainly as Carlsberg, we started later on this whole efficiency mindset.

Gerard Rijk: Yeah.

Jørgen B. Rasmussen: Some of the big FMCG companies, we are learning from all the things they did several years ago and can still apply a lot of that learnings into our businesses and there's a lot more to do.

Gerard Rijk: **And one the revenue management side, where are you in the cycle of improving that? Is that in the early phases or is that in the middle phases or end phase?**

Jørgen B. Rasmussen: We call it a toolbox. That's how we talk about it, so we have a number of tools here in terms of how to manage promotion, portfolio, SKUs, pricing, and that toolbox keep being expanded and developed. So value management is something we really have to get in to all markets as a mindset and I think it's out there to a great extent, but I'm also convinced we will have a much better toolbox in two years time than the one we have today. And here again, we can often learn from the best in class in FMCG companies.

Gerard Rijk: Okay, thank you very much.

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

Chris Pitcher: Good morning. **A couple of questions. Firstly, following up on your guidance, the around 10 billion to me implies that your organic profit growth in the second half goes negative. Is that largely a function of the sort of fourth quarter year-on-year de-stocking effect coupled with some higher input costs or are stock levels reasonably high post World Cup? Is there more of a top line slowdown going into the second half to justify that slowdown? And then on the working capital, you've had flat working capital in the first half, which would normally be a period for cash outflow. Should we be expecting a working capital inflow for the year now in the region of 1 to 2 billion looking at what cash flow looks like in the second half?** Thank you.

Jørn P. Jensen: To the first one, it's a great question. Yes, you're obviously right that we will have a, everything else being equal, negative impact coming from the simple fact that we do not expect a stocking up effect this year in Russia. But apart from that we have quite a good feel for this around 10 billion.

When it comes to working capital, you're right. Normally you will see a significant minus after the first six months. That's also why we are actually pleased, and we are delivering in accordance with plan so far this year. When it comes to the remainder of the year, don't forgot that we did see a significant positive impact in the last month of 2009 due to this I guess you can say more period-end focus versus average reduction focus, so the impact will in reported terms end the last day of December not be that different from what it was a year ago.

Chris Pitcher: **Actually said broadly, but what you're saying is you're working capital cash flow forecast given the way you reported will not be as significant would normally be implied by the second half inflows. Am I right in saying that? Sorry, just to clarify.**

Jørn P. Jensen: Yeah, what I'm saying is that this movement in working capital in the cash flow statement will be a relatively uninteresting number, but the average trade working capital reduction throughout the year would be and is significant.

Chris Pitcher: **I see, so the interest benefit will still be coming through even if you won't see it in the...**

Jørn P. Jensen: Actually and you'll probably see even more interest benefit this year than what you did see last year because it's the average reduction that we're now focusing on versus last year where it was period-end.

Chris Pitcher: Thank you. **One very final question on China. You talked about the strength of Indochina business. Can I just confirm within your Asia numbers that you saw a positive net sales per unit or price/mix effect in China as well as in the region?**

Jørn P. Jensen: Yes. The answer is yes.

Chris Pitcher: Thank you very much.

Operator: Graeme Eadie from UniCredit is online with a question.

Graeme Eadie: Good morning. **Two questions. You have a well known sort of miss match between the sort of revenues and the debt structure of the business, clearly that's going your way at the moment. In the like of that, do you see going forward a sort of change in the geographical profile of your debt? Is that something you're looking at? And second question just on marketing spend, you talk about I think strong double-digit increase, what has precipitated that increase? Does that reflect the fact that perhaps you under invested in the past or does it reflect an environment where you think you need to spend more or is it just simply you've identified more opportunities to invest behind your brands than was the case historically?** Thank you.

Jørn P. Jensen When it comes to the geographic split of our debt, that is obviously a thing that we are looking at more or less every day. We still think, as we did last year as well where it did not move in our favour, that it makes a lot of sense to work with the split that we currently have due to the price differences between different currencies. Of course eventually if we do believe that it makes sense or that it will be cheaper to fund ourselves in other currencies than what we do today, then we will change it. But for now, we are pleased with the mix that we have.

Jørgen B. Rasmussen: Regarding your question on marketing investments, in general, no, we have not under invested in the past in our brands. But I think we should all bear in mind, last year 2009 was a different year because of what happened in the world. We had major deflation, and I think everyone was holding back on spending behind brands because of a very challenging environment and so did we. But we didn't lose share voice last year because everyone else also held back on their investment and we had major deflation. But we also said because we expected some improvements overall in the macro economies across the world, we would accelerate our investment behind the brands to really start driving share growth, and that's reflected in our increased spend, but I... You cannot say we under invested in the past. But, yes, we have, if anything, further accelerated our investment behind brands to drive share.

Graeme Eadie: **Could you say what the actual increase was? You say double-digit, is there any way you can sort of firm that number up at all?**

Jørgen B. Rasmussen: Only it's more than double-digit across all our regions, so it doesn't mean we take the same average all markets. Really depends on the market what new products we have and phasing can be different, so I don't want to go into specific by market, but it's across the board, but some markets significantly higher than some other markets and often driven by product news, so new products, line extensions, some big campaigns on brands and in some markets this year World Cup was also a big driver in places like U.K., like Denmark, also our Asian markets quite a big driver.

Graeme Eadie: Great. Thank you very much.

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

Trevor Stirling: **Say one very quick follow-up, gentlemen, if I may. Jørn, you mentioned about slightly higher input costs in Eastern Europe in H2. Is that compared to H1 or compared to H2 '09?**

Jørn P. Jensen: That's compared to H1 2010.

Trevor Stirling: Thank you very much.

Jørgen B. Rasmussen: Maybe one more question, then I think then we should start closing the call.

Operator: Clementine Fletcher from Bloomberg News is online with a question.

Clementine Fletcher: Hi, gentlemen.

Jørgen B. Rasmussen: Hi.

Clementine Fletcher: Hi. **I was just wondering, you talk about commodity costs not having a material impact in your prices in 2011. I was wondering if you could elaborate further on what percentage change might be when you talk about material impact.**

Jørn P. Jensen: No, we never disclose our pricing strategy in advance, so to speak. But what we're saying is that we have seen plusses and minuses in some markets, some regions prices are going slightly up. In other regions and markets, prices are going slightly down so that when we add it all together, we do not think that it will have any material impact on the Group next year.

Clementine Fletcher: Great. **Can I ask about your value hedging for 2011, how much of your portfolio do you got hedged?**

Jørn P. Jensen: We have... It's basically the same kind of question. We have hedged or have insights into volumes and prices that gives us comfort that we can say that if you add all the pluses and minuses in the Group from the different markets, then it will not have any material impact on the Group next year.

Clementine Fletcher: Fantastic. Thank you very much.

Jørgen B. Rasmussen: I think we should close the call now. Thanks for your listening in and also for your questions. Thanks a lot.