Carlsberg Q2 Conference Call
Carlsberg A/S
CEO Jørgen Buhl Rasmussen
CFO Jørn P Jensen
August 17, 2011
9:00 am Greenwich Mean Time

Operator: *Welcome to the Carlsberg Q2 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'd now like to turn the call over to your host, CEO Jørgen Buhl Rasmussen. Sir, you may begin.

Jørgen B. Rasmussen: Good morning, everybody, and welcome to our Six-Month 2011 Conference Call. My name is Jørgen Buhl Rasmussen and, as always, I have with me our CFO Jørn P. Jensen and Senior Vice President Eastern Europe Anton Artemiev and also Vice President of Investor Relations Peter Kondrup.

Overall, the headlines for the six months are: Performance in Eastern Europe was below expectations due to a disappointing Russian market performance. In line with plan, the Northern & Western European and Asian regions showed good positive performance with market share growth and profit improvements, and we have continued our efforts to balance volume and value growth, through value management, sales execution, and product introductions. The efficiency agenda remains a high priority and during 2011, we have started the implementation of some large projects which will be important levers in the Carlsberg journey towards becoming a more modern FMCG company. I will first give you a summary of our performance for the first six months and then go through the regions. And as always, Jørn will walk you through the numbers and our outlook and thereafter, we're happy to take your questions.

And now to slide three please. Our half-year performance was not as strong as expected as the Russian market did not revert to growth as we had anticipated. Despite the improved macroeconomic conditions in Russia, the Russian consumers have not yet fully adjusted to the substantial price increases of some 30% during the last 18 months, resulting in an extended period of declining consumption. In addition, weather conditions in Q2 were unexpectedly poor. So consequently, the Russian beer market declined by 1% for the first six months, with a 2% decline for Q2.
Aside from Russia, most other markets in the Group were on plan. The overall Northern & Western European market grew slightly for the first six months, and the Asian beer markets continued their overall growth trend.
We are continuously increasing focus on our commercial efforts and because of this and supported by the slightly higher sales and marketing investments, we gained market share in Northern & Western Europe and Asia and also in Ukraine. In Russia, we gained market share in Q2 compared to Q1, but we lost market share compared to last year. Our year-to-date Russian market share is not developing and increasing as fast as expected and has not yet recovered from our price leadership during the last 18 month of extraordinary price increases. As usual, we have a balanced approach and aim at growing share in both volume and value trends. Consequently, we have in some markets

accepted a lower volume market share in order to drive category value. A number of significant commercial activities took place in the first six months. One of the most important activities in the second quarter was a new positioning of the Carlsberg brand that kicked off in April. It is a long-term project, but the initial signs have been encouraging. In the second quarter, we have launched several products, including the two group innovations - Copenhagen Beer and Beo, which will be rolled out in more markets over the next years.

Organic beer volume growth was plus 4%. Adjusted for the Russian destocking in Q1 last year, organic volume growth was an estimated 1%. Q2 volumes were flat.

As part of the overall Group agenda, we continuously work to strengthen our commercial capabilities and we managed to grow value faster than volume for the first six months with a price/mix improvement of 4%.

And now slide four. Organic operating profit declined by 5% for the six months and 11% for Q2. For the Group, cost of goods sold increased as anticipated due to the higher input costs across all regions. Operating expenses increased as sales and marketing investments grew in line with plan to support our commercial agenda and priorities. In Eastern Europe, logistic costs grew slightly more than anticipated. The Northern & Western European and Asian regions continued a trend of profit growth we have now witnessed for a while, while Eastern European profits did not develop as planned due to a weak Russian market development. The Russian business was, as expected, impacted by higher input costs, higher sales and marketing investments, and higher logistic costs. However, our Russian volumes were below expectations as the recovery of the beer market did not happen as fast as anticipated. The lack of growth in Russia in Q2 impacted profits negatively by approximately 300 million, with the rest of the shortfall compared to Q2 last year split between logistic costs, sales and marketing investment, and currency impact.

Based on the Russian market performing below expectation for the first six months and the full year, we have revised our 2011 earnings outlook and expect now an operating profit at around 10 billion compared to last year of 10.25 billion. As usual, Jørn will come back to this later.

Let's now turn to the regions and begin with Northern & Western Europe on slide six. The overall Northern & Western European market grew slightly for the first six months with variations between markets. The growth was supported by favourable weather conditions in some markets. Again, we managed to grow our market share for the region. The gains were driven by our intensified commercial focus, including product launches.

Organic beer volume growth for the region was 1%. The Polish business contributed strongly due to market growth and continued market share gains. And in addition, the businesses in Denmark and the Baltic States were among the main contributors. Our UK volumes declined as the business faced very tough comps due to the successful World Cup activation last year, but our portfolio continues to support market share gains in the on-trade. In France, we gained market share with the premium brands - 1664, Grimbergen, and Carlsberg - while the mainstream brand - Kronenbourg - lost share.

Organic net revenue grew by 2%. Price/mix for the region developed positively by 2% despite a negative country mix from Poland where prices are below regional average and also a negative channel mix with the off-trade continuing to grain from the on-trade. Revenue per hectolitre increased across our markets due to price increases and value management efforts. Some of the main

contributors to the positive price/mix were our businesses in the UK and in France.
Organic operating profit grew by 6%, and our operating profit margin grew by 50 basis points to 13.6%. The improvement was achieved despite the higher input costs and was driven by several factors, including the continued efficiency improvements.

And now to slide seven and Eastern Europe. Organic volume growth was 5%. Adjusted for the Russian destocking in Q1 2010, volumes declined by an estimated 2% for the six months, with a 6% decline in Q2. Despite Ukraine being impacted by poor weather in June, the market grew slightly. Driven by continued strong execution in the marketplace, we grew our market share in Ukraine.
As planned, we increased our sales and marketing investments in the region, with particular focus on channel marketing.
Organic net revenue grew 16% for the six months and 5% in Q2. Six months year-on-year performance is distorted by Russian comps due to last year's destocking.
Price/mix was plus 11% for the six months, as well for Q2. Apart from the phase in of last year's excise tax increase in Russia, we have taken price increases across our markets to offset the much higher input costs this year. In addition, we saw a positive mix in some markets such as Russia and Ukraine due to primarily positive brand mix but also some packing mix. Due to the higher revenue per hectolitre, we managed to mitigate the input cost pressure and delivered a growing gross profit per hectolitre. Nevertheless, for the first six months, gross margin declined as expected.
Apart from the higher input cost, operating profit declined due to the planned higher sales and marketing investments and increasing logistics costs. In Q2, profits were further impacted by the reduced Russian volumes.

And now to slide eight and some additional comments on Russia. The Russian market declined by 1% for the six months and 2% for Q2. As mentioned now several times, this development was disappointing to us as we had expected the improved macro economy to support growth in the category. Based on our analysis of consumer behaviour and revising our price models and sensitivity analysis, we conclude that the substantial consumer price increases taken from November 2009 of around 30% has delayed the market recovery as consumers need more time to fully adjust. In addition, weather conditions were particular weak in Q2.
As mentioned earlier, this different consumer behaviour than expected is the main reason why we reduce our growth expectations for the market this year to a low single digit decline compared to previous 2-to-4% growth.
Despite the volume decline, we have kept our sales and marketing spend as planned.
Our market share grew 20 basis points versus Q1. We gained market share in super premium, premium, and mainstream. And not withstanding some share contraction in the large economy segment, our value share grew 50 basis points versus Q1, underpinning the objective to grow both volume and value share.
For the six months, our volume share declined by 90 basis points year-on-year. Our price leadership compared to most players in the market has been a disadvantage and our overall market share declined. With a year-on-year loss seen in first half and despite the increasing efforts behind our brands in the economy segment while maintaining the balance between volume and value, we no longer expect our Russian market share to grow this year; however, we do

remain confident that we will soon reverse this current Russian volume share decline.

And now to slide nine please. Our in-market sales, or consumer uptake, declined by 2% for the six months and 5% for Q2. Our shipments grew for the six months, which was due to Q1 last year being distorted by the destocking. Adjusted for this, shipments would have declined by 2% for the six months. Our Q2 shipments declined by 9%, i.e., our shipments to distributors declined faster than our in-market sales. The reason for our lower shipments are mainly inventory reduction at distributors and wholesalers, reflecting a weaker 2011 market outlook. This is also a reversal of what happened in Q1 where shipments exceeded in-market sales as distributors built stocks in anticipation of a growing market during the season.
Price/mix improved by 10% for the six months and 9% for Q2. While the beginning of the year was impacted positively by last year's phasing in of the tax increase, the Q2 price/mix improvement was mainly driven by a positive brand mix and a positive mix from packaging changes, i.e., less PET and, as discussed before, more focus on mainstream, premium, and super premium.

Now to slide ten and some comments on the recent changes in the Russian regulatory environment. I'm here referring to the new law regulating when and how beer and alcoholic products can be sold, which was signed by the president in July. The law provides further clarity of the regulatory framework of the Russian brewing industry. Despite our efforts to influence and be part of the dialogue with all governmental authorities, it is fair to say that we were surprised by the toughening of the proposal between first and second reading. However, for the first time, the implementation includes a transition time giving us more time to prepare and adapt.
Please note that there are still a number of definitions as well as technical issues in the law that are not entirely clear and need to be further clarified.
Nevertheless, our current assessment of the key elements of the law is the following: The sale of beer with more than 5% alcohol content in so called non-stationary outlets will not be allowed as of July this year. As of January 2013, this ban will be extended to all beer above 0.5% alcohol. The detailed definition of non-stationary outlets is not completely clear, but we estimate that today around 20-to-22% of total beer volumes in the off-trade are sold through these kiosks and pavilion channels and that a number of the outlets in these channels already are stationary. Note that off-trade is about 90% of the total market. Another key element is the ban on sale of beer with more than 5% alcohol content during night time in the off-trade as of July this year. As of January 2013, this ban will be expanded to all alcoholic products with more than 0.5% alcohol content. The amount being sold in the off-trade during night time is relatively small and the impact should be minimal. The third and final thing which I would like to highlight is the further expansion of marketing restrictions as of July 2012. It will no longer be legal to advertise alcoholic products in TV, radio, on outdoor posters, and in buses and alike. Printed media, digital, and in-store marketing are still allowed with some smaller changes.

And now to slide 11 please. The new regulatory changes will accelerate trends that are already happening in the marketplace today, and we have started to implement a range of actions aimed at speeding up our already existing plans. The tighter restriction on non-stationary outlets will very likely to lead some of the impacted outlets being made permanent, some will relocate to permanent facilities, while others will close. The restrictions will accelerate the channel shift, which we have witnessed for some years with the modern trade growing fast and taking share from other channels, in particular the kiosk channel. In the cities, modern trade now accounts for 34% of off-trade, and that's up from 25% in 2008, while kiosks have declined from 18% to 14% in the same period. In response to the change in retail environment, we are improving our key account management capabilities as well as channel marketing efforts to grow our presence in the modern trade and with very good results this year as our share in modern trade has increased in the first six months. These efforts will accelerate, including structural changes in sales, driven by the regulatory changes.

As 20-to-25% of beer sold in the kiosk and pavilion channels are more than 5% ABV, we are adapting our portfolio to the new legislation, including introductions of new products within existing brand families, and please note that kvas is not impacted.

The outlet restrictions, as well as the night ban, is over time likely to support the development of an on-trade sector, which today is small in Russia, being less than 10% of the market. A larger on-trade sector will be positive for the beer category as it, for instance, improves the branding opportunities. Preparing for the increasing importance of these channels, we will start reallocating more resources from impulse to the on-trade channel. The marketing restrictions will impact the allocation of sales and marketing cost. When the ban is fully implemented, some of the marketing investments will move from brands marketing into trade marketing, i.e., more channel marketing and activities at the point of sale. This is something we have already started and includes a substantial cooler investment programme. In addition, we believe the marketing restrictions will benefit the strongest and well established brands, making it more difficult for less known brands. With our number one portfolio and a strong national sales and distribution system, we should be able to benefit from this.

We still firmly believe that the Russian beer market offers attractive volume and value growth opportunities. For 2011, per capita consumption is expected to be around 64 litres. However, as the economy grows, we are still confident that consumers will move away from high alcoholic products to lower alcoholic products such as beer. As we have seen in our long-term trend studies for several historical spirits markets, beer capture a larger part of throat as an economy develops. Also, we believe premiumisation will return to the Russian beer market driving market value growth, which was already witnessed in the first half of 2011. Premiumisation and overall market dynamics will also be helped by category pricing, returning to a situation where prices are increased closer to inflation. Although there will be short-term disruptions, we believe that all fundamental drivers and characteristics in the beer category supports a growing Russian market and profit pool. For the second half of 2011, we expect the law to have only minor negative impact.

And now to slide 12 and Asia. The majority of our Asian markets continue to grow with particular strong market growth in China. The Vietnamese market was an exception due to cold weather in the beginning of the year and a challenging macro economy.

We continue to gain market share in most markets, driven by innovations and a high level of marketing activities.

Organic volume growth was 10%, with particular strong growth in India, China, and Indochina. In particular, the Indian business is performing very strongly, supported by increased availability, good performance of Tuborg Strong, and introduction of Carlsberg Elephant. Our Indian market share is now around 6%.

Asian organic net revenue grew strongly by 16%, driven by volume growth and the ongoing premiumisation efforts with product launches, line extensions, and re-launches combined with price increases.
Organic operating profit grew by 11%. Margins were negatively impacted by the expected higher input costs.
In the first half, we increased our shareholding in our Indian business and now hold 90% of that business. Recently, we have made another joint venture in China with our partner in Chongqing and expanded our presence in China and are now directly or indirectly involved in 42 breweries in the country. The JV still needs certain approvals.

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

Jørn P. Jensen: Thank you, Jørgen, and now please turn to slide 14. As already explained, our results were impacted by the Russian market decline.
The performance in Northern & Western Europe and Asia was in line with plans, delivering both organic growth in volumes, net revenue, and operating profits in both regions.
As we have already highlighted on previous occasions, we were faced with higher input costs, particularly in Eastern Europe. In all regions, input costs developed in line with plan. Nevertheless, gross profit grew despite a decline in gross margin. As also stated previously, we are very focused on increasing the absolute gross profit per hectolitre, which we did by 2%.
Despite the results being weaker than anticipated, we remain committed to our Group priorities and we keep a strong focus on earnings and cash flow. We continue to support our brands and activities this year by increasing our sales and marketing spend slightly. The efficiency agenda is still ongoing and we have started the rollout of some large Group projects. The Business Standardisation Programme was implemented in May in our Swiss business and will be implemented in more European markets. SKU harmonisation is another important lever in our efficiency efforts. During the six months, we started the rollout in the Nordic countries.

And now to slide 15 please for the income statement. As you can see in the table, organic net sales increased by 2.2 billion, or 8%. We have been through the organic revenue development, so I'll move on to gross profit. COGS were impacted quite significantly by higher input costs - barley in Eastern Europe in particular and COGS per hectolitre increased by 6% in line with our expectations. As you know, the Russian harvest was severely hit last year, making it necessary to import by far most of our barley and malt needs, and this drow malt costs to unprecedented heights. We have offset the absolute increase in input costs from a positive price/mix and our continuous efficiency efforts achieving an organic increase in gross profit of 4%. Reported gross profit margin declined 150 basis points. In organic terms, the margin decline was 180 basis points with strong impact from Eastern Europe of minus 400 basis points. However, in Eastern Europe, gross profit margin in absolute terms, i.e., DKK per hectolitre, increased 220 basis points. As mentioned many times, the volatility of the relative or percentage margin is high when input price volatility is high. Organic total opex, including brands marketing, increased by 816 million. As we planned going into the year, we have increased our sales and marketing spend as a percentage of net revenue slightly. The higher spend is based on a long-term view on our brands providing them the right and necessary support for long-term growth.

Opex was also impacted by higher logistics costs, mainly due to higher fuel prices. Other income net was down by 40 million organically. The main reason for this decline was a gain on sale of fixed assets last year. So all in all, operating profit was 4.7 billion. The organic decline was 237 million for the six month. For Q2, the operating profit declined by approximately 600 million, which is explained by Eastern Europe. Of the Eastern European earning shortfall, approximately 300 million came from lower Russian volumes, 100 million from negative currency impact, and the remaining 200 million was almost equally split between higher logistics costs and higher sales and marketing investments.

And now to slide 16. Special items amounted to minus 185 million and relate to our many restructuring initiatives, particularly Northern & Western Europe. Last year's number was, as you may recall, impacted by the non-cash/non-taxable income of 390 million relating to the accounting treatment of step acquisitions. Financial costs net were up 367 million compared to last year. Interest charges were down 147 million as a result of deleveraging and lower interest rates. Other financial items were minus 338 million due to currency movements of Eastern European currencies against primarily US dollar and to a certain extent also the Euro. The tax rate was 25%. All in all, net profit was 2.2 billion. Adjusting for last year's IFIS accounting impact of 390 million on net profit, the decline was 477 million. The decline was driven by input costs, the planned higher sales and marketing investments, higher logistic costs, and the increase in other financial items.

And now to cash flow on slide 17. The sum of the first three lines, i.e., EBITDA including other non-cash items, adds up to 6.8 billion, a decline of 443 million. The change in working capital was minus 1.3 billion due to seasonality. The focus on reducing the average trade working capital throughout the year continues, and trade working capital to net revenue was 1.9% at the end of Q2 this year compared to 2.1% after Q1 and 2.6% in 2010. The continued reduction of trade working capital revenue in Q2 was in spite of unusually high accounts receivables and inventories in Switzerland due to the recent pilot implementation of the Business Standardisation Programme. This isolated impact will be reversed over the next few months. When comparing to the first six months last year, it's important to keep in mind that the change in working capital was significantly positively impacted by the unusually high level of receivables in Russia at year-end 2009 prior to the 200% increase in taxes. The increase of 187 million in net paid interest is driven by the settlement of financial instruments as interest payments have been reduced due to the lower net debt. So all in all, cash flow from operations was 2.9 billion.

Slide 18 please. In line with our plans, capex increased as we invested in sales, network optimisation, and capacity expansion in Asia to drive the future growth of the Group. Net acquisitions amounted to 133 million, i.e., all in all, free cash flow was 875 million.

And finally from my side now to slide 20 and our earnings outlook. We have revised our 2011 earnings outlook as the Russian market is performing below expectations. The reasons behind the weaker Russian market development this year versus previous expectations are that it has taken longer than expected for the consumers to adapt to the higher price level, the unfavourable weather in Q2, and lastly the new legislation that is expected to have a slight negative impact in H2. Please note that in our Russian market expectations we include a weak July

as the market declined compared to last year's very strong July. Consequently, we have revised our market expectations for Russia down this year from previously 2-to-4% growth to now a low single digit Russian market decline. It is primarily the lower Russian gross profit from reduced volumes that filter through to operating profits and reduce our expectations for Russia for the year. In our outlook, we have also included the poor weather conditions in many Northern & Western European markets in July, which we are mitigating through accelerated efficiency improvements. Our outlook does not take into account any significant change in consumer sentiment caused by a further deterioration in the macroeconomic environment. We will continuously evaluate the development per market to be able to take the necessary actions and adjust our investments in sales and marketing if consumer sentiment so requires.
Hence, we have reduced our operating profit expectations with operating profit now expected to be around 10 billion compared to last year's 10.25 billon. Net result outlook has been adjusted accordingly, and we now expect an adjusted net profit growth of 5-to-10%.

Jørgen, please.

Jørgen B. Rasmussen: Thanks, Jørn. This was our last slide for today, and to summarise: We are clearly not pleased with our Q2 performance that was impacted by the Russian market performing below expectations, and we have had to adjust earnings outlook because of the disappointing Russian market development. But Northern & Western Europe and Asia delivered as planned and we are closely monitoring consumer response to the current global economic uncertainty and we'll be ready to act accordingly. The new Russian regulation will impact, but with actions already taken or planned, including pricing decisions, we believe we're well prepared. Although there'll be short-term disruptions, we believe that all fundamental drivers and characteristics in the beer category support a growing Russian market and profit pool. Our efforts to drive value in the beer category continue with a very satisfactory price/mix as a results and, lastly, we continue to optimise our business and have started the rollout of important projects to drive that process.

With this, we're happy to take your questions, and I'm sure there'll be many questions this time. Could we please ask all of you to try to keep to two or three questions? Thanks.

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.*

Our first question comes from Trevor Stirling from Sanford & Bernstein.

Trevor Stirling: Morning, gentlemen. Two quick questions, please. **You were able to give us a split of the shortfall in operating profit in Q2. If you look at your reduced guidance, it's roughly about a billion less operating profit. Are you able to allocate that across in the same way that you were able to do for the Q2? Second thing: Jørn**, y**ou referred to some remaining uncertainties around the implementation of the Russian regulations, could you just give us a bit**

more colour on what are the definitions and the technical issues that are yet to be resolved?

Jørn P. Jensen: Sure. Trevor, if you take the first question, you can say around 80%; around 80% of the changing guidance is volume, directly volume related...

Trevor Stirling: Okay.

Jørn P. Jensen: ...including whatever will come from regulation. We'll come back to that in more detail, but that's included in the reduced volume expectation for the year and the remaining 20% is more or less the same split as we had in Q2 amongst the logistics and sales and marketing investments.

Jørgen B. Rasmussen: I can start with regulation, and Anton can add if he wants to add. But I mean the main kind of uncertainty still regarding definition and specific technical kind of issues will be linked to non-stationary outlets. So how do they exactly define a non-stationary outlet? It's not very clear. All the other things are quite minor. This is the main one.

Trevor Stirling: Okay. Thank you very much, gentlemen.

Anton Artemiev: We can say that there's still some uncertainties related to what kind of retail activities you can do in the future - -how exactly the advertising ban will be implemented. But largely, as we mentioned, there will be a lot still possibilities, like digital media, like in-store activities, and limitations will largely concern TV advertising, and outdoor media. Yeah, that's it, and radio. Yes.

Operator: The next question comes from Ian Shackleton from Nomura.

Ian Shackleton: Good morning, gentlemen. **You don't talk in the statement at all about the medium-term margin targets, and clearly it looks like you're going to have a lower margin in Eastern Europe this year than the 26-to-29 range, is that range still relevant, and when do you see yourself getting back into that 26/29 range if it is?**

Jørn P. Jensen: Yes, we do not talk about that. That's true, but that's also because there's no -- we don't see any reason to change our medium-term target outlook at all. We will obviously be below the 26% this year, but we will gradually over the next few years get into the range again.

Ian Shackleton: **And for the other divisions, there's no change. I think it's 15-to-17% in North/Western Europe, that still remains very much the target, does it?**

Jørn P. Jensen: No changes, and now no changes to the total of 20% either.

Ian Shackleton: Very good. Thank you very much.

Operator: The next question comes from Søren Samsøe from Danske Markets.

Søren Samsøe: **Yes, just to follow up on the question regarding the margin impact. You mentioned the impact from volume and from A&P, logistics costs, but what about mix effects? Were there not any negative mix effects impacting this?**

Jørn P. Jensen: On actuals or kind of in the outlook?

Søren Samsøe: **Yeah, both on the Q2, but also on the outlook.**

Jørn P. Jensen: No, no negative at least. Actually we have improved, as you can see, in mix quite substantially in Q2, and we do expect to be able to continue to improve mix both for the remainder of this year but also into next year.

Søren Samsøe: Okay. **And then on the medium-term growth outlook, you say the -- for Russia, you say that all the right drivers are in place, but you don't mention your usual growth expectation of 3-to-5%. Is that changed in any way or do you still see it long term being in that level?**

Jørgen B. Rasmussen: I'll come back to that question, but just add to what Jørn said about mix. In fact, I think the positive mix is to a great extent driven by us in Russia, but also total market. We start seeing positive mix driven by brand mix but also a little packaging, but more brand mix, and we do see that kind of continuing going forward in Russia.

To your second point about medium-term outlook for the market, we don't see any reason for why we should not come back to this 3-to-5%. We have been through a couple of very extraordinary years with a lot of price increase to the consumer. It has made the last couple of years very different to what would be normal, a normal year so to speak in Russia. And as I said in my presentation, if you look at all the underlying kind of category fundamentals, it does support growth in beer consumption. It's very low compared to average Europe, 64/65 litre versus 80 litre in Europe. Yes, alcohol consumption will come down, but probably still be at least at European levels, if not higher. And as we've seen in any other spirit market when we look at history, lower alcoholic beverages take share over time versus higher alcoholic beverages, so beer/wine/those kind of beverages should benefit. So, yes, we believe that story is still intact.

Søren Samsøe: Okay. **And then finally just on unallocated costs, should we expect this year's number to be sort of a high number or how should we look at it?**

Jørn P. Jensen: As slightly higher. For sure, slightly higher than last year, which is very much due to the very, very many marketing activities, including the re-launch of the Carlsberg brand this year.

Søren Samsøe: Okay. **So from next year, it's coming down somewhat?**

Jørn P. Jensen: That we'll come back to in February, and of course depends on how many central activities that we would put in place next year.

Søren Samsøe: Okay, thank you.

Operator: The next question comes from Adam Spielman from Citigroup.

Adam Spielman: Hello. Can I ask two questions please? **First of all, you say about the disappointing volume in Russia, that it's to do with consumers being -- taking longer to adjust to the price increase than you previously expected, but I want to know how you really know that, and why you think -- why suddenly that's occurred when these price increases have happened most**

sharply 18 months ago now, and why you say that as opposed to saying "weakening consumer sentiment"? So I guess the question is: How you really know why volume has been weak, and how confident are you that it's not to do with consumer -- weakening consumer sentiment? So that's the first question. The second question is: In terms of the new regulations in Russia, my understanding is there's also a ban on consumption in some open areas, for example, parks, and I want to know, one, is that really true; and secondly, what effect, if any, you think that would have on the market going forwards? Thank you.

Jørgen B. Rasmussen: I start and then I hand over to Anton. On the how we know that the significant increase in consumer price has -- or it has taken longer for the consumer to adjust, it's really: When we analyse across a lot of consumer categories in Russia. There is a link between the higher the price increase in the category, the less increase in terms of volume, volume uptake, so it's not only in the beer category. Other categories where you see very high pricing, you do see slower growth compared to categories where you have less consumer pricing. And because of this tax increase in beer, we had to take significant pricing in our category. So it's as we see it and based on all the analysis we do and we have a lot of pricing sensitivity analysis tools in Russia, it is a delay until consumers gets adjusted to this higher price level.

Anton Artemiev: There is some more evidence supporting the view that the it is a higher, significantly higher price level which influence consumption rather than an overall consumer sentiment is that when you analyse different consumer categories, fast moving consumer goods, we can see some correlation in where the inflation was highest, then the consumption has not developed as for those categories where inflation was lowest. So it's not just sentiment, it is a high unprecedented price increase over last 18 months.

Jørgen B. Rasmussen: But you still have to keep in mind also: So, yes, volume is definitely disappointing and below our expectations, but consumers have still increased their spend significant in the beer category. So if you include the price increase, it's close to 20% up on spending on the beer category. So it's not consumers not spending more in the beer category, but because of the price volume is not coming in line with our expectations.

Anton Artemiev: And when we are talking consumer, we probably need to mention that this year we are facing one-time impact of the high food inflation where different categories of the brand and this urgency is tough to buy, they have increased more than the other and that may impact consumer somewhat, but this is one-time that we don't think that food inflation will persist too high for long.

Jørgen B. Rasmussen: Did that answer all your questions or (inaudible)...

Adam Spielman: One final follow-up question on that. **Do you think actually consumer sentiment in Russia... I mean I've heard what you've said, but going beyond that, do you actually think consumer sentiment is weakening in Q2 or is it on an upward trend?**

Anton Artemiev: It is probably not improving as we wished, but that is what we can say.

Adam Spielman: Fine.

Jørgen B. Rasmussen: But we don't think it's weakening. And if you look at retail index, I mean retail index in Russia is positive. So retail index is up by 5/6% if you look at the first six months, so consumers are spending.

Anton Artemiev: And spending on beer, again, plus up 20% as much.

Adam Spielman: Okay, thank you very much on that question.

Anton Artemiev: And second one was the ban on consumption of beer in public places. In fact, it is not a new restriction as such because there was a prohibition of consuming beer in the public places. What's new in this legislation and the law adopted in July is that there is a list of these places and there is a long list. I'm not going through it, but basically understanding of public places was the same in the past. You couldn't on the pavement drink and how well will that implemented remains to be seen, but what we know is that consumption, even in those places, will be allowed if provided by entrepreneurials having a catering license. It can even be a non-stationary outlet which has a license to provide catering service and so with the other channels like kiosk moving to other channels, we believe that actually draft beer and horeca segment will grow significant as it is of today, a very underdeveloped channel in Russia and people will start drinking beer most realised way.

Adam Spielman: **So in terms of your thoughts, you don't think this more specific ban on drinking in public places will really have any impact on volumes?**

Anton Artemiev: Very minimal. Very minimal.

Adam Spielman: Thank you.

Operator: The next question comes from Chris Pitcher from Redburn Partners.

Chris Pitcher: Good morning, gentlemen. A **couple of follow-up questions on the pricing situation. Again, you mentioned that it was due to a prolonged adjustment by the consumer, but part of that obviously has to be due to your decision to phase in the excise duty increase. On my calculation, I mean the full impact really wasn't felt by the consumer probably until the second half of last year. Can you just sort of confirm where you think retail pricing now is at the second half -- at the end of the first half, sorry, for beer in Russia? And then secondly, the outlook for pricing for the second half of the year. And then following on from that point looking at the regulatory environment, one issue that hasn't been discussed is the proposed, I believe proposed, increase in excise duties in 2013 by another RUB 3, or 25%, and again in 2014, which again would put further pressure on the retail pricing of beer. Do you think this time around you'd pass that on on day one or do you phase it through again? I'm just trying to get a feel for how the pricing environment could further drag on beer over the next couple of years.** Thank you.

Jørgen B. Rasmussen: I can start with the the kind of the pricing, where pricing is. As I understood you, it's kind of where pricing is today versus …. I said before we started all the price increases driven by not least the tax increase, we can say on average for the category is close to 30% up on consumer price compared to where it was 18 months ago.

Chris Pitcher: **And in absolute terms, is that about RUB 60 a litre, just to give us an absolute figure?**

Jørgen B. Rasmussen: Yes, it is.

Jørn P. Jensen: Mainstream beer.

Jørgen B. Rasmussen: As an average year.

Chris Pitcher: Yep.

Jørgen B. Rasmussen: To the second point about...

Anton Artemiev: Yeah. Yes, what do we know at the moment about the planned excise increases is that for the next year, it's going to be RUB 12, which is if you take RUB 2 difference and you take an average ex-factory price for our beer, that would mean between 5/possibly 6% ex-factory increase of the price to take in the impact of the growth in excise. Our normal approach is that we pass on excise on the consumer, but the way we do it is phasing that we of course wouldn't like to share with competition.

As to the coming years, what we know in the paper, which is by now submitted by government to the Duma for discussion, there is suggestion to have excise of RUB 15 a year after and RUB 18 the year after that one. So it is of course in our opinion still relatively high growth in excise as we all along argued that excise increase should follow inflation and that has been true for some years before 200% increase. But then what we see in the coming years is that the proposed growth in excise for stronger alcohol is far more balanced with that one for beer, which of course is a more balanced approach than it was when beer was kind of taxed somewhat discriminatory. So I think at least we know what is coming. We have time to adjust and to work out our options for pricing policy for all these years and we're certain that we should be able to cover these excise increases and some more.

Jørgen B. Rasmussen: And in addition, I would just like to mention: When we talk about what's the next increase in roubles means in terms of consumer price, it is assuming distributors/retailers take the normal margin on the tax increase. Let's see what will happen at the end. I think Anton mentioned the point about also on vodka and spirits, there are plans on taking or increasing the taxes and even further discussion on minimum pricing and that's not linked to price increase, but then we talk mix and brand mix. We still plan to have this balanced approach to volume/value, but selectively clearly with what we're seeing in the marketplace, we will be doing more in economy segment, a lower mainstream segment, to drive harder the volume development of our total portfolio.

Chris Pitcher: **And can I just... In following up on the excise duty situation, when we were in Copenhagen last year, the prospect for -- or your outlook or expectation for the regulation was not the most extreme and you felt that the dialogue between the brewers and the government was improving, but in fact the regulation has turned out to be pretty much as extreme as it could have**

been and, on top of that, the excise duty strategy appears to be working. You mentioned that retail spending on beer is up and therefore, the government will be getting a much bigger revenue take as well. So fiscally and socially, those strategies are working. Is your lobbying with the government or your relationship with the government, is it weaker than it was a year ago or... I'm just trying to get a feel for this going forward.

Jørgen B. Rasmussen: I don't think it's weaker. I think we are in very frequent dialogue and I do think we listen to each other. Yes, it was tougher than we expected. We certainly had not anticipated the final law to be as it was. At the same time, we have always said, also a year ago in Copenhagen that we do see an evolution anyway in trade channels, where kiosk, the impulse channels are kind of reducing in size despite having legislation -- or not legislation, but the law accelerating this, but at the same time, at least we get transition time. We have about one and a half year until they completely will be banned. That helps. So here I hope and I think they have listened to some of our point of views in the past. We need transition time when there are changes to the law.

Chris Pitcher: **Sorry to belabour this point, but I mean the transition in channel to the supermarkets and what have you where the government is constantly increasing excise duty ahead of inflation, it feels like the UK. Can you give us reassurance that the brewers in Russia are not going to end up in a situation where both the government and an increasingly robust grocery channel do not eat into the profit pool?**

Jørgen B. Rasmussen: Yeah, I still believe it's recognised by the Russian government to tackle the misuse in alcohol. They need to think about strong spirit and vodka, but beer will not kind of -- not be impacted at all, but you will see over time more action also taken in the stronger spirits area. That's also why we believe that kind of underlying fundamentals about beer will take a higher share of total alcohol consumed will drive growth in this category. It is by definition a very low alcoholic kind of beverage when we talk beer.

Anton Artemiev: Yeah, and you're right by saying, we will have to certainly to keep the dialogue and maybe to intensify that, but it's not right to say that we are not listen. One example is this transition period, but then also in the new legislation you won't see some extreme proposal which would we have been strongly arguing against like excise stamps for beer or licensing and there is no restrictions on on-trade, so there a number of things we have been heard for.

Chris Pitcher: Okay, thank you very much.

Operator: The next question comes from Jesper Breitenstein from Carnegie Bank.

Jesper Breitenstein: Yeah, hi. Good morning. It's Jesper here. Two questions. **The first one is on marketing. With the changes following the marketing ban, do you expect to lower your overall marketing spend going forward or will you just spend more in the in-channel promotions? And can you elaborate a little bit further on the substantial cooler investment programme you mentioned? Would that be booked as a cost or will actually go to the cash flow as investment? That's the first question. The second one is on the midterm guidance of the 26-to-29% margin, will that require the volume to come**

back or will you go back and look at the overall cost base again in Russia following the disappointment in this quarter?

Jørgen B. Rasmussen: On the sales marketing spend, it will come down. So when we get the ban on certain parts of advertising from mid 2012, the total spend will come down, but some will be allocated into other types of media like Anton referred to earlier - digital and other type of media - and also part of it will transfer into below the line - so in-store, execution, and trade marketing, but expect it to come down overall.

Jørn P. Jensen: And coolers is capex, so that is also one of the reason why capex is up to last year in general as you could see in the cash flow statement.

When it comes to the margin target, then you can imagine with what we're facing now, we're looking at everything in Russia but also kind of in the rest of the business and that whatever it takes to get into our targets will be implemented in general and we will -- yes, we will look at cost again and we look at efficiency again. We will look at volumes again and so on. So we are -- we're of course basing this statement that we will get back into the 26-to-29 on a slightly more cautious volume outlook in the short-term, not in the medium-term but in the short-term, and then we will look at the rest of the business as well in general.

Jesper Breitenstein: **Can you maybe quantify the total marketing spend? Are we talking high single digit decline next year or is it only marginal lower than this year?**

Jørgen B. Rasmussen: I think you have to kind of divide this into two discussions. Up till mid next year, don't expect a big change because we can advertise as we can today up to mid next year. After July next year, we will see a reduction and it's more than probably high level single digit, but it's not halving the sales marketing spend. Far from it.

Jesper Breitenstein: Okay, thank you.

Jørgen B. Rasmussen: So I think be more specific on this would be giving too much away to competition what we're thinking at the moment.

Jesper Breitenstein: Understand. Thanks.

Operator: The next question comes from Casper Blom from Handelsbanken Capital.

Casper Blom: Thank you. Casper here. **Just a question on your capacity in Russia. Now we're seeing from the third year in a row that consumption is coming down in Russia, will you be taking any measures to adjust your capacity in Russia? As I understand it, you have more than enough at the moment. And secondly, you mentioned in your press release that you have revised your understanding of price elasticity in Russia. You have touched upon this, but can you give us any indications as how you see price elasticity in Russia? What are the impacts, for example, from taking a 10% higher price increase than the what inflation suggests, or something like that?** Thank you.

Anton Artemiev: As to capacity, yes, we have some free capacity in Russia. At the same time, as we said, midterm growth opportunities in Russia, our outlook remains intact, so we believe in the market. And to rush to a certain conclusion just now would be in our view inappropriate. Of course we shall look how to use the capacity in the best way, and we have some ideas. But I mean, we see no reason to rush and close breweries and alike.

Casper Blom : **Can you see a situation where you temporarily close down...**

Anton Artemiev: There is a lot of different variables in this equation, including logistics costs, including the attachment of the consumer to locally produced beer, and many more factors we take into consideration. We don't rule out any possibility if we can save the cost and that will not kind of undermine our future growth opportunities, but there is no specific plans on the capacity just now.

Jørgen B. Rasmussen: And also as we have sometime referred to in the past, also we're thinking more and more across markets when we look at sourcing and we have given examples earlier on sometimes sourcing from Russia into Denmark, so that's also part of the whole planning and thinking when we think about capacity in the short-term. And remember, we do believe the market will come back to growth and medium-term the 3-to-5%.

Jørn P. Jensen: And Casper, as you can imagine, then with the capacity situation that we are now in at the moment in Russia is not so that all lines and all breweries are running seven days a week/24 hours per day. So of course, we are as we go adjusting to the -- to kind of the volumes that we are actually producing.

Jørgen B. Rasmussen: On the pricing model, no, we cannot give you specific kind of price elasticity for different segments and brands. But, yes, we had to revise it and any of you have done price elasticity modelling, I think you understand and know when you talk about price increases within a year or one and a half being 30%, it's really difficult to get right in what is a complicated analysis anyway and also have to assume a lot about competition. We didn't get it completely right. That we have adjusted, and we have our new estimate and price elasticity, but can clearly not share those in the public.

Anton Artemiev: But what we have said remains true is that we believe with the pricing which takes it into account the growth of excise plus some more, we should be able still to enable the market to return to the growth next year.

Casper Blom: Great. Thanks a lot, guys.

Operator: *The next question comes from Hans Gregersen from Nordea.*

Hans Gregersen: Good morning. Three questions, if I may. **First of all, the legislative changes in Russia, how will that affect your route to market? Do you believe that your sales and distribution network is going to be let's say relatively disadvantaged versus the competition? That's the first question. Second question: Has it been a mistake to sort of defocus from the economy segment, at least from a volume perspective, to keep volumes through your distribution system? And the third question: If we look up -- look at the build up of the profit warning during Q2, could you try to give some insight in how the negative division has built up during the period?** Thank you.

Anton Artemiev: Yes, regarding to route to the market, I mean our route to the market was not changing in principle, and it is not going to be changed in principle, but it will change reflecting the changes in the channel. Modern trade is growing in Russia and kiosk will be either converted into stationary or some of them will close, and that will be reflected in the way we sell to the market. To majority of national chains, we do supply directly, and that share of our distribution will grow. But in principle, the ways we sell, they should not change dramatically.

Hans Gregersen: But, Anton, sorry if I asked the question incorrectly or not too clear. **My point is: For example, in the modern trade in Moscow, there you have had a relatively weak position versus the other regions in Russia. My point is: If we argue that more is going to the modern trade, is that going to disadvantage -- are you disadvantaged right now in your sales and distribution set up versus the competition?**

Anton Artemiev: No, because it is exactly the channel where we have grown our market share in the recent periods and very substantially compared to the beginning of the year. We have grown more than 4% in the modern trade. And again, the volume share loss which we are showing is only due to low mainstream and primarily some channels in the traditional trade like kiosks. So in the way, we have been, you're right, underrepresented in the modern trade historically, partly due to a somewhat weaker position in Moscow. But it is of today, we are growing our market share in Moscow and we are growing our market share in modern trade, so we're well preparing ourselves for the future.

Jørgen B. Rasmussen: And I think if you look at our organisation today and the capabilities we have today in modern trade, key account management, and channel marketing, we have a lot of extra resources, Anton, in the Russian organisation kind of managing/focused on channel marketing, key account capabilities, and key account management, so it has been an evolution and we are a lot more kind of geared up to managing the change we see in the channels and the legislation of course will accelerate that from 2013, but I believe we're extremely well prepared.

Anton Artemiev: Your second question was about defocusing on the economy segment. It's not exactly defocus as we see, but primarily the larger focus was on the upper segments and some channels and some geographies. What happened is we need to admit that we may be didn't expect such heavy activities of the competition on the economy segment, that is true, but not so that we have defocused. But reflecting on this competitive moves, we will also review our focus on -- say level of focus on different segments.

Jørgen B. Rasmussen: But we will never move to a strategy that we only go for volume if we don't get some value. It's also about having profitable growth, and that's part of our let's say strategic decision making too.

Jørn P. Jensen: And, Hans, when it comes to the third question, you know how steep the seasonality is in this business. And for that reason, we obviously needed to see and understand July, even the beginning of August, being two of the largest months of the year, before we had a clear understanding of how the year will end.

Hans Gregersen: Thank you.

Operator: The next question comes from Andrew Holland from Société Générale.

Andrew Holland: Yeah, hi. **You focus a lot on how you're hoping that the market's going to bounce back next year, but looking ahead to 2013 when this sort of full kiosk ban comes in, by then I guess you're seeing a further decline in the share of kiosk, but it could still be around 15/perhaps 17% of the market and on the face of it, that's going to go to zero. How confident are you that that is either going to switch into other trade channels or the definitions will allow kiosk to continue to exist? In other words, why is the market not going to go down again quite dramatically in 2013?**

Jørgen B. Rasmussen: If I start here, I mean this has been evolution and it's not something that suddenly will change January 1st in 2013. We have already seen a lot of kiosks and less so pavilions, but certainly some pavilions, also disappearing. If you go to place like St. Petersburg and some other big cities, there are not that many anymore. It doesn't mean the market has been in more decline in those places compared to places where they have not disappeared. So it tends to be an evolution where the volume being sold in kiosks transition into other channels, could be small grocery outlets. We see modern trade taking share and because we have one and a half year, I'm sure many of the kiosk owners or pavilion owners will also look at: How can they make maybe the outlet stationary or can they open another permanent outlet nearby or some of the volume will move into current grocery outlets or other kinds or type of outlet. And as Anton said earlier too, also on-trade which has not been developing and partly because of pavilions and kiosk channel; I think we'll see more now starting to invest in on-trade and long-term because it's a good kind of channel to market and advertise your brands and products could be good for the beer category.

Anton Artemiev: And on the top of course, we had some historical references. We saw in Belarus, for example, in the different regions not simultaneously restrictions or ban on the kiosk introduced in 2008 and 2009 and only in 2009 we had seen a slight increase in the total consumption, which has actually been less than in other countries because of the crisis. All the other years, there was growth. So the reality that this ban on the kiosks in Belarus has proven to be very, very limited in its impact and you may lose some sales say in the month or two or three max and then it almost turn out the channels.

Andrew Holland: **And so you're optimistic that, all else being equal and if sort of consumer recovery continues, then you would actually see growth in 2013 in the beer market, perhaps not in the first quarter but for the year as a whole?**

Anton Artemiev: Well hard to predict by quarter, but again we believe in the growth, yes.

Andrew Holland: Okay. **And just as a follow up, and coming back to Chris's point on the sort of wider alcohol market in Russia, it does seem that you've been really quite heavily penalised for being involved in alcohol in Russia. Are you aware of any measures that are going to hit the vodka category in a sort of way that would make it slightly more proportionate to where the social problems really are in Russia?**

Anton Artemiev: Yeah, well what we see now, as we just mentioned, in the coming year, legislation and especially regarding proposed excise taxation of the different alcoholic beverages is far more balanced approach. And what of course remains to be seen is the policy of the state in terms of minimum price for vodka, but so far the proposals of Minister of Finance were, in our view, very, very adequate when the discussion of the minimum price goes about at least 150, possibly 200 and maybe more roubles per bottle compared to present 98, so no... I mean specific proposal in the discussion just not in the Duma, I mean the thinking in the government as we hear it is far more balanced going forward.

Jørgen B. Rasmussen: And I think it's important to keep in mind also if you look at year-to-date development, vodka is down more than beer, so it's not like vodka has taken share from beer. In fact, it's down kind of mid single digit compared to we're saying the beer category being down about 1%.

Jørn P. Jensen: In spite of lower price increases, yes.

Andrew Holland: Okay, thank you very much.

Operator: The next question comes from Gerard Rijk from ING.

Gerard Rijk: Yes, good morning, gentlemen. A few questions. **First about the expected malt price decline in Russia, do you have any feel what your pricing policy will be with this decline coming up? Second question is on the -- on Western Europe, on BSP and SKU programmes. Those programmes, BSP started in Switzerland, can you indicate how many years that will take, and also an indication of potential savings? And thirdly, about your kiosk sales, is that above the 20-to-22% of the market or below that?**

Jørn P. Jensen: First part, malt Eastern Europe, including Russia, yes. As you know, we have -- we are currently working at very high price levels. The harvest in Russia is ongoing. It looks fine, so we definitely expect to have reduced malt prices for -- as of basically as of Q4 this year. So that is all. It's basically kind of all in line with plan if you take malt as a category only, then of course we are in general seeing, as everybody else, a little inflation on packaging materials. But still if you take input costs in total, then they will come down in Eastern Europe also next year.

Gerard Rijk: **And do we see that back in your sales price?**

Jørn P. Jensen: That's a completely different discussion.

Gerard Rijk: Okay.

Jørn P. Jensen: And it's back to the discussion from before that we are not basically discussing in public our pricing strategy.

Gerard Rijk: Okay.

Jørn P. Jensen: When it comes to BSP, no, no news kind of in the sense that we're still expecting to get most of the savings of the -- or only one-third of the savings being 700 million in -- kind of in the mid-term, being included in our guidance and the rest kind of following that. The plan is to roll it out to all of Northern & Western Europe within the next around three years. We are actually at the moment looking into if we can do it faster, but it is -- it's all in line with the plan.

Anton Artemiev: Yes, and about the kiosk, the share of our sales in kiosk is about the same as share of kiosk in total.

Gerard Rijk: **So it's 20/22.**

Anton Artemiev: No, if you take only kiosks without pavilions, it's between 14 and 15%.

Gerard Rijk: **I'm sorry, between.**

Anton Artemiev: If you take the market and us, it is about 14/15%.

Gerard Rijk: 14/15%, okay. **And is there an update on the total capex number for the full year?**

Jørn P. Jensen: No changes to what we have been expecting three month ago or six month ago for that matter.

Gerard Rijk: Okay, thank you.

Operator: The next question comes from Paul Hofman from Credit Agricole Cheuvreux.

Paul Hofman: Yes, hi. Good morning. This is Paul Hofman. A few questions left. **In your guidance, what can you say about your FX, your rouble exchange rate, has that changed? I mean there was a slight negative impact in the second quarter, but for the full year guidance is that still an element? The second question on Russian shipments 9% down, for some obvious reasons perhaps, but what do you see now at your distributors, your primary customers? Are they now running at let's say inventories which are below average or do you still expect also that for that gap between shipments and your off-take sales to come together? And finally, yeah, you still mention some weak weather in Q2, market down, which are 2%, yeah, how much was more or less weather related, if you can quantify that?** Thank you.

Jørn P. Jensen: To the first one, to first question around on forex, it's based on kind of actual rates as they have been for the first -- or actually for the first seven months and then around 41 euro/rouble for the remainder of the year.

Inventories in Russia.

Anton Artemiev: Inventories in Russia, we are presently running at normal levels, so nothing specific.

Paul Hofman: **And do you have a feeling about your customers? If you look at shipments, which were 9% down, that there's quite a gap between what you see in the market.**

Anton Artemiev: Still now, it's included in our outlook.

Jørgen B. Rasmussen: I mean the dynamics here, but I'm sure you'll understand, but it's kind of because they always base inventory or we base inventory, on number of inventory days on forwards and of expected sales and based on our expectation has come down on category developments, clearly inventories have to come down; and we saw that in Q2 and probably see a little of that going forward, but they're at normal levels in terms of forward days.

Paul Hofman: Okay.

Jørgen B. Rasmussen: And temperature, we -- I mean it has clearly an impact on Q2, probably around a percent thereabout, close to a percent.

Anton Artemiev: And it's really hard to be very precise because it's not only temperature, it was quite the wet weather, a lot of rain, especially in June, so... But yes.

Paul Hofman: Yeah, I understand. Thank you.

Anton Artemiev: Up to 1% but not more, maybe with some less, a little less.

Paul Hofman: Yes, thank you.

Operator: The next question comes from Mitch Collett from Goldman Sachs.

Mitch Collett: Yeah, hi. **I just wondered if you could give us some confidence that the weakness you've seen in Northern & Western Europe is weather related for July? What makes you think it's weather, I guess, rather than a weak consumer environment? Secondly, I'd like to know perhaps why higher fuel prices impact Russia, in particular. We haven't necessarily seen that anywhere else. And then, finally, just to revisit the medium-term guidance. I know you think 3-to-5 is still very much achievable, but is that only really once we've seen the current regulatory headwinds wash out, and do you think is it not fair to assume that post those regulatory headwinds there will probably be further regulatory changes given the government's stated agenda to reduce alcohol consumption?** Thanks.

Jørgen B. Rasmussen: If I take the Northern/Western Europe, if it's really weather related, we do think no and believe it is very much weather related. If we look across all the Western European -- more or less all the Northern/Western European markets apart from up in the far/far north where they had some okay weather, it has been extremely wet and we can see total markets are down. It's definitely not about losing market share, so total markets are really down and the feedback we get from our customers in on-trade and off-trade, it's not a lot to do with the kind of global uncertainty, certainly not July. It's really weather related when we talk Northern/Western Europe with one or two exceptions in terms of market, Finland being one of them.

Jørn P. Jensen: When it comes to logistics in Russia, one of the elements, as I said, definite the fuel price in Russia for the first six months versus last year. Another element is also kind of the demand supply balance on transportation in Russia versus a year ago where during the crisis you can imagine that a lot of supply, so to speak, was taken out of the market and now when demand in general expect to that actually the economy Russia is doing well and that retail in general are up of course means that more volumes needs to be transported, i.e., kind of the demand supply balance is slightly different, quite different actually on transportation this year in Russia versus a year ago. So that plus the fuel prices in Russia for the first six months, that is what is driving logistics up, yeah, as we have now been discussing.

Jørgen B. Rasmussen: You had one more question on midterm guidance. Could you just repeat very shortly the question?

Mitch Collett : **Yeah, I just felt that you're obviously you're happy with the 3-to-5% volume guidance for Russia, but presumably that we won't really move back into that range until the current regulatory headwinds have stopped having an impact, and I just wondered what gives you confidence that you won't have further regulatory headwinds after those given that the government has a stated agenda to reduce alcohol consumption?**

Jørgen B. Rasmussen: It's very much linked to this fact about let's say if today's alcohol consumption, total alcohol consumption in Russia is maybe more like a 15/16 litre, that will come down, and we support that agenda. A lot of that has to come from spirits, so let's assume they get down to maybe 12 or 11, it's still above European average and if we all agree on because we have seen that as kind of historic trends that in spirit markets, lower alcoholic beverages over time will take higher share. Then by definition, beer should come up in consumption if they kind of stay at 11 or 12 litre. So despite lower alcoholic consumption, beer/other lower alcoholic beverages should benefit if you look at any kind of trend from any other similar market from the past. So I think it does support... We get back to 3-to-5% midterm growth, probably not in '13 but thereafter because regulation also, as Anton referred to earlier, maybe, hopefully will be more balanced also going forward between periods and with other alcoholic beverages.

Mitch Collett: Okay. **I mean but it sounds like this quarter, it wasn't even the trade-off between beer and spirits; it sound like people -- the government is actually achieving what it's trying to do, which is people are drinking less because you suggested that there was a greater decrease in vodka than there was in beer.**

Jørgen B. Rasmussen: True it is coming down and it should come down, but we should also bear in mind: Yes, we got it wrong versus our expectations, but it's the market declining 1%. It's not like a radical change. But certainly versus our expectations, it's disappointing and not expected.

Jørn P. Jensen: And don't forget kind of pricing, but what we've been saying now many, many times on pricing that the pricing development on the beer category have been dramatically different from the pricing development on other alcoholic drinks for the last 18 months.

Jørgen B. Rasmussen So they have still spent 20% more on beer despite volumes down by 1%. I think we only have time for one more question.

Operator: The last question comes from Jonathan Cook from RBS.

Jonathan Cook: Thank you. **Could you just talk a little bit about the margin differential between the kiosk channel and the modern trade in Russia? Would it be... Would I be right to think it's about one-third lower in the modern trade?**

Anton Artemiev: No. No, it's not correct because margins in fact are quite similar. The truth is that the pricing in the kiosk is visibly higher than in the modern trade, but so the cost is also. So again, what we earn in the modern trade is not essentially different from what we earn in the kiosk.

Jonathan Cook: Okay, thank you.

Jørgen B. Rasmussen: I'm sorry, we have to close here and the final kind of closing from me would be repeating what I said in my summary: Yes, clearly we're not pleased about our Q2 performance, but we do believe we are on top of our business. We have big part of our business, Asia/Northern/Western Europe, being very much on track with our plans, so it's all kind of the issue, the challenge to Russia, and we have a lot of plans in place to also tackle those challenges and continue at very healthy trends for the business. Thanks for all listening in.

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