Carlsberg Conference Call
Carlsberg A/S
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'll now turn the call over to your host, CEO Jørgen Buhl Rasmussen. Sir, you may begin.

Jørgen B. Rasmussen: Good morning, everybody. Welcome to our Six Months 2012 Results Conference Call. My name is Jørgen Buhl Rasmussen, and I have with me our CFO Jørn P. Jensen and also Vice President of Investor Relations Peter Kondrup.

The headlines for the first six months are: We delivered market share gains across all three regions. Our Russian market share improved further in a slightly growing Russian market. Execution of the EURO 2012 event was excellent and delivered strong visibility of the Carlsberg brand. Operating profit declined due to destocking in Russia in Q1, the very bad weather in Northern & Western Europe in Q2, and then planned higher sales and marketing investments in the first half of the year. We keep outlook unchanged as the positive RUB impact offset the negative impact from bad weather during the summer in Northern & Western Europe.

After a summary of our performance for the six months, I'll go through the regions and after that Jørn will talk you through the numbers and our outlook and thereafter we'll be happy to take your questions.

Please turn to slide three. Overall market development was mixed between regions. The Northern & Western European beer markets declined impacted negatively by poor weather conditions and a tough consumer environment, especially in Southern Europe. Eastern Europe grew modestly, driven by a Russian market that grew by an estimated 2%. In our Asian markets, the growth trend continues at a very satisfactory pace. We continued our efforts to grow both value and volume share across all our markets for the long-term. This was supported by a high level of commercial activities, including further development and rollout of value management tools, increased channel marketing efforts, portfolio optimisations, product launches, as well as revitalisation of existing brands across our markets. An important event was EURO 2012 where the Carlsberg brand was very successfully activated in more than 70 markets across the world delivering strong impact and visibility of the brand. The events was another important milestone in our long-term efforts to drive the Carlsberg brand that we initiated last year. The Carlsberg brand grew 13% in our premium markets for the first six months. We initiated the rejuvenation of Tuborg with a new campaign, including new tagline, new visual identity, and new communication. Rollout has happened in major markets like China, India, and Russia delivering encouraging initial results in all markets. Somersby was rolled out in new markets, including Poland and the U.K., and is now available in as many as 22 of our markets. Although we still expect sales and marketing investments to remain at last year's level for the full year, the spent was skewed towards the first six months due to timing of some of the major activities like the EURO and Tuborg launches. Our focused efforts and investment in the commercial area during recent years are successfully driving volume and value share. For the first six months, we improved market share across all three regions with very good performance in Northern & Western Europe and Asia and it is particularly satisfying to see firm signs that our efforts initiated last year in Russia are starting to bear fruit.

And now to slide four please. Group beer volumes declined organically by 1% for the first six months. Adjusting for the Russian destocking of an estimated 1.3m hectolitre in Q1, Group volumes grew by 1%. The growth was mainly driven by continued strong performance of our Asian business. Northern & Western Europe grew slightly while European volumes declined modestly, although the trend improved significantly in Q2.

And now slide five. Organic net revenue growth was plus 1% supported by positive price/mix for total beverages of 3%. Operating profit declined 13% with an organic 18% decline. The decline was due to Russian destocking in Q1, the expected higher input costs, and the planned different phasing of sales and marketing investments compared to last year and then the poor weather in parts of Europe.

And now to slide seven please and a few comments on our regions. We saw a mixed market development in Northern & Western Europe. We estimate the overall market, excluding Poland, declined by around 5% in Q2 and therefore 3-4% year-to-date impacted by bad weather in Q2 and by a challenging consumer environment in some markets, especially in Southern Europe. In this estimate, we have excluded Poland where the market due to exceptional circumstances like the EURO grew by 6%. We continue the positive market share trend across the region. The excellent execution of EURO 2012 was a key driver and was used to strengthen the Carlsberg brand and our local power brands. Sales and marketing investments increased as planned, driven by significant activities in the first half of the year. We're focusing our investments behind our key brands and activities to strengthen our volume and value share and at the same time drive category growth. Our strong market share performance meant that we grew beer volumes organically by 2% for the six months. Volumes were flat for Q2, but excluding Poland our volumes declined by 3.5% in the quarter. We didn't achieve the volume uplift we expected as a positive EURO performance was offset by very poor weather in many markets. The Polish business was the main contributor delivering more than 20% volume growth. This was supported by the strong execution of the EURO 2012 and continued strong performance of the Carlsberg brand as well as our regional brands. We strengthened both our Polish volume and value share with our volume share growing by 90 basis points to 17.5% in Poland. The U.K. market declined 5% in Q2 and therefore around 3% for the first six months with the poor weather more than offsetting the Jubilee and the European Championship. Mainly driven by strong performance in on-trade, our market share improved by 70 basis points to 17% in the U.K. The French market declined by an estimated 4%. Our premium brands - Carlsberg, 1664, and Grimbergen continued to grow while the Kronenbourg brand maintained its share in the mainstream category. But as consumers continue to trade up, the mainstream category is declining, bringing down our total market share in

France. In the Nordics, we gained market share in Finland, Norway, and Sweden, driven by our focused commercial initiatives, including product launches, portfolio optimisation, and value management efforts. We lost market share in Denmark mainly because we took price leadership in connection with the excise tax increase in the beginning of the year. Organic net revenue for the region was flat. We implemented price increases in most markets in the region. This was, however, offset by a negative country mix as low priced markets like Poland grew while markets like the Nordics and France declined. Operating profit declined organically by 8% with higher input costs and higher sales and marketing investments more than offsetting price increases and our continued efficiency improvements.

And now to slide eight and Eastern Europe. The Eastern European beer markets improved slightly during the first six months with our in-market-sales or consumer off-take being largely in line with the market; however, our shipments declined by 10% for the first six months and 1% for Q2, impacted by the Russian destocking in Q1, higher inventory levels at distributors in Russia in June last year, and suspension of production in Uzbekistan. Adjusting for the destocking, our shipments would have declined by an estimated 4% of which 2%, or two %-points, relates to Uzbekistan. Although the Ukrainian market in the beginning of the year was impacted by the macro economy and poor weather, it grew by an estimated 3% for the six months. We continue to gain share, mainly due to strong performance of Lvivske and our Baltika brands. Sales and marketing investments grew significantly as the spent is skewed towards the first six months due to the EURO 2012 activations, Tuborg rejuvenation, and a high level of activations in Russia ahead of the marketing restrictions that came into effect on July 23. Organic net revenue declined 2% with a 4% growth in Q2. Price/mix was plus 8% as we have taken price increases across our markets to offset the higher input costs and as we saw a positive mix in Russia and Ukraine due to positive brand and packaging mix. Organic operating profit declined due to higher operational expenses, lower volumes and the consequent impact on operational leverage. Due to higher revenue per hectolitre, we mitigated the higher cost of sales and grew gross profit per hectolitre. The growth in operational expenses was mainly due to the higher A&P spend due to different phasing. Full year sales and marketing cost to revenue is still expected to be at last year’s level.

And now turn to slide nine and some additional comments on Russia. The Russian beer market grew by an estimated 2% for the six months, supported by improved consumer dynamics, including pre-election spending and improved weather in Q2 compared to last year. Our shipments declined by 10%, impacted by destocking in Q1. Adjusting for this estimated 1.3m hectolitre impact, our shipments would have declined by 3%. Our in-market-sales or consumer off-take grew by 1% with a slight acceleration to 2% in Q2. Our market share continued the positive trend from Q4 last year and increased by 30 basis points from Q1 to 37.3% in Q2. And our value share grew faster at 60 basis points to Q1. The improvement was mainly driven by brands like Baltika Cooler, Carlsberg, and to a minor extent Holsten that was included from the second half of May. Since the beginning of last year, we have implemented many initiatives and changes to our commercial organisation, of particular importance our portfolio optimisation by type of outlet, including complexity reduction, channel marketing, value management, structure, and people changes. We achieved a 6% positive price/mix in the market. The positive pricing was driven by price increases in November, March, and May that more than offset the two rouble duty increase at

January 1. We have announced another price increase of slightly more than 1% in August. The positive mix continues to be a result of our focus to balance volume and value share and was mainly driven by good performance in super premium and mainstream and a positive mix from packaging changes, i.e. less PEGs.

And now slide 10 and Asia. The Asian market growth continues and all our Asian markets grew for the first six months. We continue to gain market share in most markets driven by innovations and a high level of marketing activities. The Tuborg launch in China and rejuvenation in India were particularly important events. With 50% Tuborg brand growth in the region, the first signs are very encouraging. Our Asian Tuborg volumes now account for approximately 15% of the Group's Tuborg volumes. In addition, we continue to roll out our international brands with Somersby and 1664 Blanc entering new markets. Activation of the Carlsberg brand was focused around the Chinese New Year and EURO 2012 and both helped the brand to grow more than 10% in the region. The region delivered 12% organic beer volume growth driven by most markets in the region. Growth was particularly strong in market like Indochina and India, which grew 25% and 40% respectively. In Indochina, the growth was mainly driven by local power brands while the Indian growth was driven by Tuborg and Carlsberg. Organic revenue grew by 19%, driven by volume growth and our premiumisation efforts both with strong growth of our international brands and the ongoing upgrade of our local brands. Organic operating profit grew by 10% at a lower pace than our top line growth due to negative country mix, higher input costs, and higher sales and marketing investments driven by the Carlsberg brand, the EURO 2012, and Tuborg initiatives. Including acquisitions, operating margin was flat. On top of the strong organic growth, we continue to expand our Asian business through structure changes and increased our ownership in our Indian business. In addition, we signed an agreement to establish a new brewery in the Xinjiang Province in China.

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 please turn to slide 12. As already explained by Jørgen, our Q2 results were impacted by the Russian destocking, very bad weather in Northern & Western Europe, as well as the planned phasing of sales and marketing investments being skewed towards the first half of the year. Top line performance was solid but less positive than planned due to the weather. Price/mix was positive and Asia delivered strong volume growth. Cash flow was strong with contribution from improved trading working capital, which remains an important focus area in the business. Free cash flow was positively impacted by the sale of the Copenhagen brewery site in Q2. We maintain a strong focus on earnings and cash flow in all business units. Our efficiency agenda throughout the business continues while being balanced with continued investments in our brands and the future growth of our business.

And now slide 13 and the income statement. As you can see in the table, organic net revenue increased by 1%, or 365m. Jørgen has been through the net revenue development, so I'll move on to gross profit. COGS per hectolitre was also this year at a high level, not least driven by the poor quality of last year's harvest in Russia, making imports into Russia necessary again this year. COGS per hectolitre were up by a single digit percentage, in line with our plans, and impacted by the destocking in Q1. We have offset the absolute organic increase in input costs through pricing and our continuous efficiency efforts. However, organic gross profit declined by 1%, or 214m. If adjusting for the effect of the estimated destocking of 1.3m hectolitre, organic gross profit would have been up. Organic operating margin declined by 125 basis points. Organic total opex, including brands marketing, were impacted by a very different phasing of sales and marketing investments this year, driven by the successful activation of our EURO 2012 sponsorship. Opex was also impacted by expected higher logistic costs, mainly in Eastern Europe. We are still working on increasing efficiency in the business and many bigger initiatives are currently being developed and implemented. Admin costs were down organically in the first half. Other income net was at last year’s level. So all in all, operating profit was 4bn. The organic decline was 885m for the six month. For Q2, operating profit declined by 340m with negative contribution from Northern & Western Europe and Eastern Europe. In Eastern Europe, net revenue grew on the back of positive price/mix and the decline in operating profit was expected and mainly explained by destocking in Q1, phasing of sales and marketing investments, and higher logistic costs.

And now to slide 14. Special items were plus 1.4bn. They were positively impacted by 1.7bn coming from the sale of the brewery site in Copenhagen and negatively impacted by 200m from the dismantling of the Vena brewery in Russia, which has not been used for brewing in recent years. Generally, special items relate to the many restructuring initiatives in the business. Net financials were down 306m compared to last year. Interest charges were down 51m as a result of lower average funding costs, while other financial items were minus 83m and amongst others relate to currency movements. So all in all, net profit was 3.3bn, up 1.1bn from last year. Adjusted net profit was 2.1bn against 2.4bn last year, and that is when adjusting for special items after tax of 1.1bn.

And now to cash flow on slide 17. The sum of the first three lines, EBITDA including other noncash items, adds up to 6.1bn, a decline of 660m and it is explained by the development in the operating result. Change in trading working capital was minus 205m, a significant improvement versus last year. Trading working capital was impacted by normal seasonality. The focus on reducing average trading working capital continues and 12-month average trading working capital to net revenue was 1.6% at the end of Q2 compared to 1.9% in last year. Other working capital was positive by 180m, slightly less than last year. Paid net interests were 1.6bn. The difference between the accrued interests in the P&L and paid interest shown in the cash flow statement is of course due to the differences in timing of payments. In the second half last year, paid interest amounted to approximately 0.5bn versus 1.5bn in the first half. The split this year will be approximately the same. All in all, cash flow from operations was 3.3bn, an improvement of 339m versus last year.

And slide 16. Capex was at the same level as last year and was again driven by investments in sales as well as capacity expansion in Asia to drive the future growth of the Group Net acquisitions amounted to minus 393m and were mainly related to the acquisition of associates, including the JV in Xinjiang in China. The very positive cash flow from real estate was the proceeds from the sale of the brewery site in Copenhagen, which had a positive cash flow effect of 1.9bn. All in all, free cash flow was 2.6bn, up 1.7bn from last year.

And then to slide 18 and our outlook. Overall, we keep our earnings outlook unchanged for the year but have made some underlying adjustments reflecting the significant negative weather impact in Northern & Western Europe in Q2 and July and the positive impact from the EUR/RUB exchange rate. Driven by the weakness of the euro, we have adjusted our EUR/RUB assumption to an exchange rate of 40.5 compared to the previous assumption of 43. This positive earnings impact is offset by the negative weather impact in Northern & Western Europe in Q2 and July. All in all, we maintain expectations of an operating profit at last year's level and an adjusted net profit slightly higher than 2011. Remember that the adjusted net result is adjusted for the after-tax impact from special items and does not include any impact from the voluntary offer for the Baltika minorities. And when it comes to the Baltika minorities, the voluntary offer was open for acceptance until August 9th. As soon as the administrative process of collecting the tendered shares is finalised, we will announce the result of the offer.

And now you, Jørgen.

Jørgen B. Rasmussen: Thanks, Jørn. That was all for today, and just to summarize the key points: We gained market share across all our three regions. Our Northern & Western European business was impacted by poor weather. The Russian market grew slightly and we see signs that our efforts to change our market share trends is starting to pay off, and Asia continues to grow and we successfully executed several important commercial projects in the region.

And now we're happy to take your questions.

Operator: *Thank you. We will now begin the question-and-answer session. If you have a question, please press star then one on your touchtone phone. If you wish to be removed from the queue, please press the hash key or the pound sign. If you're 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.*

Søren Samsøe from Enskilda is online with a question.

Søren Samsøe: Yes, good morning. Three questions from my side. **First of all regarding your market share development in Russia, do you have a feeling for how much of the sale of Holsten is included in this figure, i.e., what is the market share gain you've done quarter-over-quarter if you exclude for the Nielsen -- or sorry, for the Holsten sales? Secondly, your sales and marketing costs up 800m roughly or eight to 900m in first half and you expect to go down the same amount in second half. Do you think you'll be able to keep the positive trend in the market share in second half with lower marketing efforts? And finally, if we look at the higher comp prices, could mean higher food prices in Russia going forward and do you think we'll see a repeat of 2009 and 2011 where higher food price meant that there was less room in the budget for consumers to buy beer?** Thanks.

Jørgen B. Rasmussen: Thanks, Søren. First point about market share and Holsten, Holsten is minor, a very small part of the increase as Holsten does not come into our numbers until very late May, so minor, minor impacts.

In terms of your question about market share trends second half versus first half, I think all along we planned our phasing of the sales and marketing investment based on initiatives in terms of product launches, Tuborg relaunch, EURO, so the way we have planned our expenses also support what we are kind of aiming for on the market share development. I don't want to make comments yet on market share development second half, but I think what we can confirm: We are back on a positive trend and let's talk about market share development in the second half. But we think the money we have available for the second half is exactly right, what need the way we plan the business.

Jørn P. Jensen: And the answer to the third question, Søren, is basically no. We have no reason at all to believe that that is what we will see repeated in Russia with everything we know at this point in time.

Søren Samsøe: Okay, thank you.

Operator: Michael Rasmussen from ABG Sundal Collier is online with a question.

Michael Rasmussen: Good morning, everybody. Three questions for me please. **First of all, can you give us an update on the regulatory side in Russia? It's been awhile since we've heard any news from the PET ban and if you can also just update us on how you see the market right now with the marketing ban and what else is going on there? Secondly, on input costs and looking towards the end of this year and particularly looking into 2013, am I right in assuming that the net impact will be positive as we see packaging costs going down despite the fact that soft commodities have started to move up again? And finally just on the margin in Eastern Europe, should we still expect that to stay flat from 2011 here and 2012?**

Jørgen B. Rasmussen: On the regulatory side, there's not a lot of new news to report. PET still under discussion. No conclusion at all on the technical regulations across the customs union, and we don't really have a timing for when there will be a final draft on the technical regulation. The position would be the same. We would be surprised if there will be a PET ban, but still on the discussion with a lot of different views and, as we've said before, also many being strongly opposed to a PET ban because of not just an impact on the beer category but could have a much wider impact for Russia across many, many categories - in food, et cetera. On the returnable bottle, still the same. It's in there as a law, but we believe still likely to be reversed and not taking place from 2014. It's still something being planned for 2014. And then the kiosk ban of course is still planned for next year coming into place or the non-stationary outlets and, as we have said all along, we see an evolution happening so some kiosks are already disappearing, some are turning themselves into stationary outlets, and some of the volume going into other channels.

Then you had a question about...

Jørn P. Jensen: Input cost next year, Michael, we don't want to go into a long discussion about input costs for '13 at this point in time, but I guess you can say that we're not as of today seeing anything very different from what we did see three months ago and have kind of assumed for '13 at this point and time.

And the last question on margin, yes, no change to that.

Jørgen B. Rasmussen: And to your last question, your second question about the market development, if you see any impact from the marketing ban, first of all, it's far too early to make comment on it, but we still have the same view as we had before the marketing ban. It's going to be limited in terms of category development. Some times the marketing ban can influence how you can move market share, but then being the biggest player having the strongest brands if anything should probably benefit the one with the strongest brands.

Michael Rasmussen: Okay, thank you. **Can I just ask a follow-up in terms of the PET and the packaging issues in Russia? Recently Rexam was out saying that they were planning to build another can plant in Russia. Is that purely due to an organic development, i.e., you also said that right now you saw people move away from PET and potentially into other packaging types or are they actually expecting for the PET ban to go through do you think?**

Jørgen B. Rasmussen: I think you have to ask them why they're doing it, but I mean in general we do see growing can trends in the Russian market, so it could be building on what they see as an underlying trend in the market.

Jørn P. Jensen: And there's probably also a question around performance and not just about kind of volumes in total, so sometimes you need to build a new line if suddenly the performance in the market is changing.

Michael Rasmussen: Okay. Thank you very much.

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

Trevor Stirling: Good morning, gentlemen. Three questions please. **The first one, can you actually help us quantify the impact of the A&P phasing? Your net margin was down 200 basis points in Q2, can you put an absolute number on the amount of A&P that we shifted from one half to another or the impact on margins, that'll be great? The second thing is: Gross margins were down 120 basis points in Q2, so not including the impact of the Russian destocking. Perhaps just give a little bit more colour on exactly what was going on in Q2, was that country mix from Poland? Was that pricing not quite covering COGS or was the logistics effect? Can you just give us a little bit of colour on the makeup of that 120 basis points? And the third thing in your comments on guidance, you mentioned about July being weak as well, is that implying that July is even worse than it was last year or just July was worse than you might've hoped at the start of the year?**

Jørn P. Jensen: The first question, as you know, we're not in great details disclosing our A&P spend. One reference point could be the detail P&L or the detailed income statement in the release where you're saying yes, the sales and distribution expenses is up around half a billion in the second half and the vast majority of that is brands and trade marketing in the quarter.

When it comes to gross profit margin, then it is so that we are having this year, as you know, higher input costs. Those we are offsetting with higher prices on a per hectolitre basis, but of course it is negatively impacting gross profit margin in relative terms. And of course eventually when, hopefully, input costs will be lower, then that will be the other way around.

Jørgen B. Rasmussen: And to your last point about Northern & Western Europe and July in our outlook, it's less about versus last year, it's more about versus expectations.

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

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

Ian Shackleton: **Yes, a couple of questions around Eastern Europe please. You have pretty good price/mix in the first half and the further price increase in August, I wonder if you could talk about how your competitors follow pricing. It looks like there's very little discount activity, different to last year. Secondly, on Uzbekistan front, that sounds like it's not a one-off, it's probably a fact that's it's going to be there for the rest of the year. Perhaps you can just give us a little bit more colour of what's actually happening in Uzbekistan.**

Jørgen B. Rasmussen: To your first point about price/mix, yes, we do see positive effect from price/mix and it's pricing, but also consumers trading up both in the market and certainly in our business. If you look at the market dynamics from a pricing point of view, I would say what we're seeing in the first half this year is very much in line with what we saw the second half of last year.

Your question about if everyone is kind of following what we're doing on pricing, I would say in general yes with one exception.

Jørn P. Jensen: Ian, on Uzbekistan, as we're stating, then we have currently ceased production and the reason for that is basically that we have no raw materials, imported raw materials, as we cannot really get conversion of local currency to hard currency at the moment. We're working hard on getting that solved. And then when that is solved, then of course we'll start production again. But it's true that it could be that it will last for the year, but all those things are included in our outlook for the year.

Ian Shackleton: **And just to be clear, you've given us some idea of the volume impact, is this is a similar type of profit impact or is that even a bigger profit impact?**

Jørn P. Jensen: As you know, it was not the most profitable, so to speak, market in Eastern Europe.

Ian Shackleton: If I could just ask one supplementary. **The non-allocated division wasn't up and yet normally you've taken a lot of the Carlsberg brand marketing spend in that division and obviously you have the Euro Football, has there been some reallocation of that spend to the divisions this time?**

Jørn P. Jensen: No change in any principles, but of course if you take, for instance, a sponsorship like the EURO, then you can say in the build up up to the EURO, there's more central costs. But then when you get to kind of activation, then that is local costs. So it is more that the costs, for instance, in Q2, are far more local costs than is central costs, but there's no change in principles or anything like that.

Jørgen B. Rasmussen: But as always, the allocation of how we spend the brands marketing is also, we have some big Tuborg initiatives and also, as you know, in Russia, there was a change to the law in July, so, yes, we did have some incremental spend in Russia in the first half also due to the marketing ban.

Ian Shackleton: Very good. Thank you.

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

Jon Fell: Hi there. Yeah, two things. **First one, just one more go at the increased marketing spend, can you give us.... Well you mentioned that about 500m kroner was the rough effects of the increase in brand and trade marketing in the quarter, in the half, sorry, can you give us some feel for what proportion of that was phasing and what proportion was actual just a normal run rate of increase in spend? And then finally on the Baltika minority purchase, I know there's some things about this which aren't completely straightforward, so I just wanted to check. In terms of our models, is it the fourth quarter that we need to build in no more Baltika minorities and also just a little bit of increase finance costs from having bought that minority out?**

Jørn P. Jensen: The first question, which was back to the halfbn increase in sales and distribution expenses as you can see in the income statement in the release, then what I said was that a vast majority of the 500, but definitely not all of the 500, was increased in A&P. And as we also said, it is - - on a full year basis and to revenue there will not be any changes. So there's nothing that is kind of underlying growth in A&P, it is all about phasing within the year versus how it was phased last year.

Jørgen B. Rasmussen: So our percent of A&P spend of net sales will be aligned - - or in line with our spend last year for the full year.

Jon Fell: Okay thanks.

Jørn P. Jensen: On Baltika minorities, it is - - as I said, it's now in process with the registrar in Russia and then when we have the outcome, we will be announcing that. The eventual interest impact on paying for this will not be that significant. It won't change that much in your models as I have it for this year.

Jon Fell: Sure. **But I think you mentioned in the statement that the last day of trading for Baltika will be the 4th of October this year, so is that the point at which you have formally brought in all the minorities then?**

Jørn P. Jensen: Oh no, those two things are not related to all.

Jon Fell: Ah okay.

Jørn P. Jensen: So you can say that the delisting is just a delisting so to speak and the VO and so on is a process in its own.

Jon Fell: **So we still don't know what the actual completion date is going to be.**

Jørn P. Jensen: Exactly.

Jon Fell: Okay, thanks.

Jørn P. Jensen: Because the registrar is now running the normal process on this in Russia and we don't know when he has finalized that.

Jon Fell: Got it. Okay. Thank you.

Operator: Hans Gregersen from Nordea is online with a question.

Hans Gregersen: Good morning. Three questions. If... **Regarding your full year guidance, the downgrade you do on an organic basis, which is kind of by FX, how much of that is related to weather conditions in Northern/Western Europe? Is it the whole thing or just a proportion of that? Secondly, in terms of Asia, you have quite some time been aiming at making acquisitions out there, when should we expect you to start delivering on those expectations? And thirdly if you look on Eastern Europe, if I read your press or your presentation correctly, you say a organic volume decline of 4% in the first half for Eastern Europe. You talk up in Russia. Of course, you have Uzbekistan, but where else is volumes trading down if I read this correctly?** Thank you.

Jørgen B. Rasmussen: To your first question, Hans, it's all related to bad weather in Northern & Western Europe in terms of the underlying assumptions changing on the outlook. Asia, as you would expect, when we have new news, we will make comments on it. But as we have also said, it's certainly on our agenda and something we are working on, but specifics we will give you at the time something or when we have specifics.

On Eastern Europe, I'm not sure I quite or fully understand your questions, but you...

Jørn P. Jensen: Yeah, I think what you're trying to do is kind of reconcile shipments and market selling or consumer off-take. As Jørgen also said before, there is now lower inventories at distributors versus last year, so the consumer off-take, is those in the market, is plus 2% in total and then shipments when it comes to our shipments is down, if you exclude Uzbekistan, those 2%, some of that is of course due to that if it's just on a year-over-year comparison, we are still losing a little share and quarter-over-quarter we're gaining and then it is these different inventory levels as distributors this year being lower than they were last year.

Hans Gregersen: Exactly. **So the point is those inventory reductions we're looking at on the distributors, is that a part of them optimizing the business or is anything unusual going on?**

Jørn P. Jensen: There's nothing unusual going on.

Hans Gregersen: Okay, thank you.

Operator: David Tovar from Skyline is online with a question.

David Tovar: Yeah, morning, guys. **Just a quick follow-up on Russian and specifically on your comments around point of sale restrictions and selling our restrictions in Russia, a couple of the larger Russian retailers have cited significant top line headwind for their groups from lower alcohol sales on the back of these restrictions. Is that something that is a temporary effect**

that you've noticed in July and into August as well or is this - - you sort of mentioned kiosk volumes being picked up elsewhere, where else would they be coming up?

Jørgen B. Rasmussen: We cannot... I mean the same conclusion, we cannot get to. We don't see a significant change in July following the marketing ban early August, but I think it's far too early to make any comments on it. Let's see much later if there'll be an impact. But can I repeat, we still believe also based on similar experience elsewhere, a lot of the volume will move to other channels or some of the kiosks, some of the outlets when we talk about the kiosk and non-stationary outlets will make themselves still stationary. And marketing bans, and is proven again, again in Europe, does not change category dynamics, but can change some of the market share dynamics.

David Tovar: Perfect. Thank you, guys.

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

Melissa Earlam: Good morning. **I've got two questions please on your full year guidance. You don't actually specifically mention Russian market volume guidance for the full year in your statement. Would you like to update the previous comments of a return to growth? You've obviously seen the market up 2% in the first half, can you give us an update on your full year expectations? And then secondly, on the input costs, they were a little more of a headwind in the second quarter than I had anticipated. Can you just clarify your previous full year guidance for input cost per hectolitre being flattish both for Eastern Europe and Northwest Europe?** Thanks.

Jørgen B. Rasmussen: To your first question about the Russian market, and here we're talking total market, not our volume, we still expect and assume the markets will be around flattish for the full year, so despite we're seeing slightly better trend for the first half with some growth, which we believe is also positively impacted by the pre election spend, before the election of the president, by the government and also because weather was a little worse last year in Q2, so maybe the trend for the first half year is slightly better than what you would see as an underlying trend, so flattish is still our full year assumption.

Jørn P. Jensen: And when it comes to COGS relief, there are no changes in what we have said previously, so we still expect for the full year that COGS per hectolitre will be up with a low single digit percentage.

Melissa Earlam: Great. Thank you very much.

Operator: Casper Blom from Handelsbanken Capital is online with a question.

Casper Blom: Thank you. Just one question left please. **With the changes happening in advertising loss in Russia, you've earlier said that you wanted to allocate more of your spending into digital media, which now looks to become quite difficult to do. What is the plan now going forward?**

Jørgen B. Rasmussen: The plan is still to probably spend close to the same as we have spent before the bans on marketing, but again within a slightly different allocation, but I'm sure you'll see more events, more event marketing, but also probably more in-store activity. So overall, we don't see a significant change to what we spend to support our business, but of course will be spent in a different way.

Casper Blom: Okay, thanks.

Operator: Samar Chand from Barclays is online with a question.

Samar Chand: Morning, gentlemen. **Just one question on the Russian market share position, I mean I can see they're both SAB and Efes have lost a lot of share. Can you please try and instruct us into what's driven that? And then just following on from the market share, do you still have your target of being at a higher market share position than Q4 last year, the 36.8% to my memory?** Thanks.

Jørgen B. Rasmussen: If I take your last point first, yes, we still have the clear target to be at a higher share than coming out of 2012, coming out of 2011, so has not changed. I don't really want to go into long debate why some are losing or not gaining. But you're right, I mean the three losing is SABMiller-Efes and ABI, and I think you should talk to them in terms of what's happening in their business. The only comment I can make probably on SABMiller-Efes, we haven't yet seen any kind of them combining into one business, in one company, so hasn't really happened yet.

Samar Chand: Great. Okay, thank you.

Operator: James Edwardes Jones from RBC is online with a question.

James E. Jones: Yeah, morning. **Can you help me just understand this full year guidance slightly better. The change in the exchange rate seems to boost full year operating profit by something between 200 and 250m kroner for the full year, but the miss against consensus for Q2 was somewhere in excess of 400m kroner, so there's 200 that I can't really get my head around. Is that just the consensus is wrong that it hadn't taken into account this change in the phasing of marketing or is there something else going on?**

Jørn P. Jensen: The short answer to the question is yes, you're absolutely right, so I think where the wrong consensus, so to speak, was based definitely on Eastern Europe as we can understand it and, yes, again then the impact from different base in sales and marketing. So, yes, there seems to be a miss on Eastern Europe, but kind of versus our plan, it is exactly in line with what we have planned and expected for for 2012, also for Q2.

James E. Jones: Thank you.

Operator: Philip Morrisey from Berenberg is online with a question.

Philip Morrisey: Thank you. **Could I ask regarding Russian excise duties? There seems to be or has been a lot of commentary from various political figures regarding the outlook for the excise duties and my questions is whether beyond 2014 you saw any prospect of a moderation in the environment for excise duties on beer in Russia? The second question regard to the outlook for Northern/Western European margin, EBIT margin for the full year, could you give us any guidance? Is it likely that that margin might still increase the full year '12 versus '11, notwithstanding obviously the poor weather**

and the Q2 performance? And my last question on Baltika. I appreciate the uncertainties about the timing of completion, the offer did, though, close on the 9th of August and I wondered whether you had any preliminary indication as to whether you were likely to exceed 95% acceptance threshold? Thanks very much.

Jørgen B. Rasmussen: To your first question about Russian excise duty and plans going forwards, as you know, probably know, we have the three years planned already in terms of what's the rouble increase for beer and also for spirits. As far as we can see, they seem to be following that plan. What will happen 2015 thereafter, I think is far too early to make comments on. I know there's always a lot of speculation as soon as someone make a comment in Russia, someone in the government, and sometime it's too much speculation and not enough reality. But as far as we can see, there's a firm plan for the next two years in terms of what will increase when it comes to beer and also when it comes to spirit and also bear in mind they did increase the minimum price on spirits quite recently here in July.

Jørn P. Jensen: When it comes to Northern & Western European margins then, then of course that's also the built in logic in our guidance. Of course the beers that we did not sell in Q2/July due to weather, of course we will not sell the them this year either at any point in time, which of course means that Northern/Western Europe, including the margin, will be slightly lower than what we expected going into the year, so kind of more flattish I guess is a better estimate for the full year.

When it comes Baltika minorities, no, I really can't say more due to Russian stock exchange regulation. So now the regulator is going through all the tendered shares and then when/if we get to more than 95%, then of course we will have to, and also Baltika, by the way, will have to as well to send out a stock exchange release, so it is all I can say at this point in time.

Philip Morrisey: That's great. Thanks very much.

Operator: Adam Spielman from Citi is online with a question.

Adam Spielman: Hello. **Yes, I'm trying to get a handle on whether that you would say the competitive intensity has in Russia has and Eastern Europe as a whole has changed in the second quarter versus previous quarters and I guess one way specifically of measuring that is can you say whether you think your share of voice in marketing has increased or gone down or how it's developed in Eastern Europe?** Thank you.

Jørgen B. Rasmussen: As I indicated earlier, I think the best kind of short version of what's happening in terms of competitive intensity in Russia, what we have seen in the first half, and that include Q2 versus Q1, is quite similar to what we saw in the second half of last year, and second half of last year was a little better than the first half of last year. So similar to what we saw in the second half, that's what we're seeing in the first half. At the same time that many, many initiatives we've been working on since the early part of 2011 as you can see start coming through in terms of paying off and that's a combination of many, many factors, whether it's channel marketing, value management, what we used to call "Newport", et cetera, et cetera, and also I think the new leadership and what we have changed in terms of structure is also paying back.

The share of voice for the first half year or quarter two, we are slightly up to flattish on share of voice, but probably slightly up, and that is in line with our plan because we would expect to be slightly up, especially when we have a big event like EURO 2012 and maybe one of our competitors did spend a little less in the first half, did allocate their spending slightly different in the first half.

Adam Spielman: Thank you very much. And that's very helpful. **And can I ask another question please, which is about the cost cutting initiatives in North/Western Europe and the various restructurings you're doing? Can you give us an update on where we are on that and how we should expect that to develop over the coming years?**

Jørn P. Jensen: There's no change whatsoever to our programs in Northern/Western Europe. We are very, very, very busy in the business at the moment on implementing some of these very big initiatives. We have talked about them before, centralisation of supply chain located in Switzerland, our BSP project, and so on and so forth. It's all in line with what we have talked about previously, so next, for instance, implementation of BSP, including the functionality that's needed for the centralized supply chain, will take place first of March next year in two markets and so on and so forth, but no change. We're working hard on getting those savings through as fast as possible.

Adam Spielman: Thank you very much.

Operator: *Christian De Roualle from Redburn is online with a question.*

Christian Pitcher*: Hi, there. It's Chris Pitcher. A couple questions. **On the Russian capacity, could you share with us a figure for what you think your Russian capacity is? I know you're able to give a bit more colour on your sort of plans post the Baltika minority buyout in terms of using that capacity maybe into the market. And then secondly, following on from the competitive environment, you mentioned that one of your major competitors haven't followed up pricing. I was wondering if you could say whether that was the competitor who was gaining market share or not?**

Jørn P. Jensen: Chris, first - - to the first part, no change really in free capacity versus previously, so at around 70% utilisation. Obviously with very small volume developments up or down at the moment, it doesn't change that much either, so there's no changes there. There's no changes in kind of our thinking on what we eventually, subject to that BSP and so on and are fully implemented, can do supply chain-wise in a broader European scope.

Jørgen B. Rasmussen: And to your second question, it's probably a good guesstimate the indication you're giving here, and just let me repeat: When we look at let's say our share development and that's what we have been saying for years, we do focus on balancing volume/value and you're seeing our volume share, but our value share going up twice of our volume share and for some of the others, that's not the case where value share follow volume share.

Christian Pitcher: Thanks very much.

Operator: *Sanjeet Aujla from Credit Suisse is online with a question.*

Sanjeet Aujla: Hi. Sanjeet Aujla from Credit Suisse. Most of my questions have been answered, but just a couple**. Firstly on Asia, your margins declined by 50 basis points and higher than that on an organic basis. Can you just give us a bit of an idea as to the underlying dynamics there? Also on the kiosk ban, what proportion of kiosks do you think have converted to permanent outlets? And thirdly just on market share again, there seems that Others are taking market share in Russia at a much higher pace, can you just remind us who the main competitors are there and the main dynamics of those market share gains there?** Thanks.

Jørgen B. Rasmussen: If you start with the Asia margin, the main driver, as always, for Asia is depending on what activities initiatives we have planned in the sales marketing ,so the margin is clearly impacted by first of all big initiatives in the marketing area, the Tuborg launch, and the rejuvenation in a couple of markets. So if we have big initiatives where we want to invest and think it's right to invest in the long-term, you will see margin going up and down in Asia. And another factor would be country mix where if you have faster growth in lower price markets, then of course that also impact margin.

On the kiosk ban and what we're seeing so far, we are seeing - - if you look at the channel, kiosk, pavilions together, it's going down as a share of a total market, so part of this natural evolution since the ban was discussed. And it used to be more like a 21/22% of total market, it's probably closer now to 17% of total market in terms of what they account for and they keep turning themselves into ether stationary outlets or close down and then it does move to other channels, the volume it seems to be.

And in the category others in market share, we have one key player, Mospivo, and they have gained share. If you take the last couple of years, now they're kind of flattening out in terms of share, and then you have a number of very small players across many, many regions. So it's not one or two or three in the group of others, it's a number of many, many players being across Russia.

Sanjeet Aujla: Just a couple of follow-ups. **Firstly, which of the channels are benefiting from the decline in kiosk and pavilions and what sort of market share would you say Mospivo have today?**

Jørgen B. Rasmussen: The channels benefiting from the closure of some kiosk or pavilions would be primarily supermarkets. It's grocery, and that's the kind of outlet you find very nearby. So if you walk in a city or in a town in Russia often close to a kiosk, you find a smaller grocery outlet or a supermarket and that's where you tend to see the volume moving towards and of course in general the modern channel because the modern trade are gaining share of the total market, but still traditional trade being by far the biggest part of total market in Russia.

Mospivo, I cannot exactly remember the share, but I think it's 2.5.

Jørn P. Jensen: 2.9.

Jørgen B. Rasmussen: 2.9.

Jørn P. Jensen: 2.9 to be precise, yeah.

Sanjeet Aujla: Okay great. Many thanks.

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

Gerard Rijk: Yes, good morning. Two small questions. **First about the Business Standardisation Program, how is that affecting of the further costs after this second quarter? And secondly on your market share Vietnam, is that - - I understand that the data are difficult to collect, but is your market share increasing in your view or not?**

Jørn P. Jensen: To BSP, you can say that we have been investing over the last years in developing and building the BSP solution. A lot of that of course has been booked as capex on software as it should've been. The opex is basically implementation costs that will then come country-by-country. It's not huge numbers that we're talking about when it comes to kind of new opex year-by-year for implementing that.

Gerard Rijk: Okay.

Jørgen B. Rasmussen: And your question about market share in Vietnam, in general, we are increasing our share a little in Vietnam and we've entered into the thirties, mid thirties.

Gerard Rijk: Okay, thank you.

Jørgen B. Rasmussen: One more. I think now it's one more question and then we have to close the call.

Operator: Dirk Van Vlaanderen from Jefferies is online with a question.

Dirk Van Vlaanderen: Hi, guys. Thanks very much for taking my question. **Just a quick one on the Holsten brand in Russia and just trying to get an idea of the magnitude of this for you perhaps maybe if you could mention maybe on revenue or profit or even in market share. And also, is your assumption on or your expectation of gaining market share in the year, does that include an additional benefit from the taking on of this brand in the second half?** Thanks.

Jørgen B. Rasmussen: The Holsten brand as a starting point is definitely a plus for our portfolio. It's a very attractive brand to get back into our portfolio. We think we can develop this brand together with the rest of our portfolio in a very positive direction, so it's a big plus. What we're getting is a brand probably now being - - it has lost some share lately in the SABMiller portfolio, so probably national share would be about 0.3% market share of total Russia and, as I said earlier, it's coming into our business in Nielsen end of May. So of course the impact in terms of market share for quarter two is minor, close to nonexistent.

Dirk Van Vlaanderen: Okay. **And in terms of revenue, anything for you? Can you comment on that or is it a bit sensitive?**

Jørgen B. Rasmussen: I think I've said enough about: It's a strong brand. It's something we believe we can develop, and will be important in our portfolio.

Dirk Van Vlaanderen: Okay, thanks very much.

Jørgen B. Rasmussen: Than it’s time to close the call. Thanks for attending and I’m sure we’ll talk to many of you the coming days. Thanks a lot.