Interim Results - 6 Months Ended 30th of June 2013
Carlsberg A/S
CEO Jørgen Buhl Rasmussen
CFO Jørn P Jensen
August 21, 2013
9:00 am CET

Operator: *Welcome to the Interim Results Conference Call covering January 1st till June 30th, 2013. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session. Please note that this conference is being recorded.*

I'll now turn over the call to your host, CEO Jørgen Buhl Rasmussen. Sir, you may begin.

Jørgen B. Rasmussen: Good morning, everybody, and welcome to our 6 Months 2013 Results Conference Call. My name is Jørgen Buhl Rasmussen, and I have with me as usual our CFO Jørn Jensen and Vice President of Investor Relations Peter Kondrup.

The overall headlines for the first six months are:

- We delivered sustained earnings growth despite challenging European markets, with the Russian market being more subdued than expected.
- Despite the challenging markets, we keep outlook unchanged.
- We continue our commercial agenda and delivered particularly strong market share performance in Eastern Europe and Asia.
- We delivered a solid price/mix development.
- We also went live with BSP1 in Sweden without business disruptions.

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

And now to slide three please. Total market development differed in our three regions with challenging markets in Western and Eastern Europe while Asia continued to grow. For the six months, we delivered solid market share performance in all regions. We grew market shares in Eastern Europe and Asia, with particularly strong performance in Russia. In Western Europe, our market share was flat despite cycling strong performance last year when EURO 2012 activations impacted positively. We maintained a high level of commercial activities, including line extensions of existing brands, on-going rollout and deployment of best practice sales tools, and launch of innovations. Our international premium brands performed very well in spite of a challenging environment in Western and Eastern Europe. The Carlsberg brand grew strongly in Asia, but this was not enough to offset the anticipated overall year-on-year decline as we faced tough comparisons with last year's EURO 2012 volume growth. The brand declined 10% in premium markets versus last year when the brand grew 13% in the same period. The Tuborg brand grew strongly by 12%, with very good performance in China and India, and the Somersby brand continued its strong momentum and delivered 85% volume growth due to the increased geographical footprint and continued activations. And finally, Grimbergen was launched in an additional two markets with good initial results, and we continued the expansion of Kronenbourg 1664 and also 1664 Blanc into new markets.

And now slide four. Organic beer volumes for the first six months were flat as growth in Asia and Eastern Europe offset the decline in Western Europe. In Q2, our volumes declined organically by 2% as the Western European markets suffered from a weak consumer environment, tough comparisons, and bad weather in some markets.

Slide five. Organic net revenue growth was plus 2% supported by a positive price/mix of 1%. Price/mix improved by 3% in Q2 due to a very positive price/mix in Western Europe and a strong improvement in Russia versus Q1. Operating profit grew organically by 4%. Double digit growth in Eastern Europe and Asia more than offset lower profits in Western Europe and higher central costs largely associated with BSP1 implementation. The weaker organic operating profit growth in Q2 versus year-to-date was mainly due to the phasing of unallocated costs between quarters with a high level in Q2 this year.

And now slide seven please and a few comments on our regions. The Western European beer markets declined by an estimated 3 to 4% for the first six months. This was driven by the on-going challenging consumer environment, tough comparisons with the last year's EURO 2012 market impact, and bad weather in some of our larger markets. In this environment, we delivered a robust market share performance. Our overall Western European market share was flat despite that we are cycling the strong performance in first half last year due to the successful EURO 2012 activations. Our beer volumes declined organically by 5% mainly as a result of the challenging markets and de-stocking in France in Q1. We are satisfied that in spite of the volume development, net revenue declined organically by just 1% as we achieved 2% price/mix because of price increases and our value management efforts. Our non-beer volumes grew organically by 2%, primarily due to strong performance by Somersby. The Polish business performed well with flat volumes and a 3% positive price/mix. The French market declined by approximately 7% impacted by bad weather and a significant excise tax increase in January and overall weakening consumer environment. We lost overall market share as the mainstream Kronenbourg continued to decline but gained market share in the on-trade driven by our premium brands. The UK market declined by approximately 4%. We continue to gain market share in the on-trade while our off-trade market share declined mainly due to last year's very good Q2 performance related to the EURO 2012 activations. In the Nordics, we gained market shares in most markets and improved our financial performance. Operating profit declined organically by 5% as the positive price/mix and different phasing of marketing investments versus last year were not enough to compensate for the BSP1 related costs, the beer volume decline, and the impact from the French de-stocking. Adjusting for BSP1 and the French de-stocking, organic operating profit increased slightly in Western Europe.

And now slide eight and Eastern Europe. The Eastern European beer markets declined for the first six months. We delivered a 3% organic beer volume growth. The growth was mainly driven by our Russian business. While we continued to strengthen our Russian market shares, our market share in Ukraine declined slightly with tough comparables against EURO 2012 last year. The recently introduced Baltika Razlivnoe as well as Slavutich delivered good results. Organic net revenue growth was 2%, with a reported decline of minus 1% due to negative currency impact mainly from a weaker rouble. Price/mix was minus 1% for the six months and plus 3% in Q2. The very positive development from Q1 to Q2 was mainly driven by Russia, which I will address shortly. Organic operating profit grew by 14% and operating margin improved by 190 basis points to 18.5%. The earnings growth was broadly based with particularly strong performance in Ukraine. Our Russian business also grew profits and margins. The earnings improvement was driven by volume growth and consequently improved operational leverage as well as efficiency improvement as we continuously adapt the cost structure to the market environments. Lastly, costs were also impacted positively by different phasing of sales and marketing investments versus last year when we spent more in first half due to EURO 2012 and also ahead of the Russian marketing restrictions.

And now slide nine and Russia. The Russian market declined by an estimated 7% for the first six months. The market was impacted by a slower Russian economic growth which impacted overall consumer spending negatively. In addition, the transition following the closures of non-permanent outlets has taken longer than we expected. Some of the volume decline from the closed outlets has been picked up by modern trade, grocery outlets, and on-trade, but part of the volume has been lost as it has taken consumers longer to adapt to the changed retail landscape. Our Russian shipments grew by 3%, well ahead of the market. The growth was driven by strong market share improvements, lower de-stocking in Q1 versus last year, and a higher stock level at distributors in Q2 as consumer off-take in Q2 was well below our expectations. Driven by strong execution of our Russian team, our volume share improved by 130 basis points to 39.2% with a similar value share improvement. The improvement was broadly based in both traditional trade and modern trade across regions and segments, with particularly strong improvement in the super premium and mainstream segments. Driven by the price increases in March, May, and June, our price/mix improved as expected from Q1 to Q2 and was minus 2% year-to-date and plus 2% in Q2.

And now Asia and slide 10 please. The Asian markets continued to grow for the six months, and we continued to strengthen our overall Asian market share. We kept a high level of commercial activities, including rolling out our international premium portfolio, further strengthening of sales capabilities, and revitalising local brands. The Tuborg brand did particularly well with growth of 50%, mainly driven by China and India. The Carlsberg brand grew 5% despite tough comparisons with last year. The growth was mainly driven by China and India. The region achieved 7% organic beer volume growth and 12% growth including acquisitions. The volume growth was particularly strong in Indochina, notably Laos and Cambodia, and India. Our Chinese business delivered 5% organic volume growth for the six months. Regional volume growth slowed 2% in quarter two mainly due to slightly slower overall Chinese beer market growth in the quarter and different phasing of activities and activations across the region. Organic revenue growth was 17% driven by the volume growth and a very favourable price/mix. The latter was due to good performance of our premium brands, price increases and value management efforts, and country mix. Organic operating profit grew by 20%, and operating margin improved by 50 basis points. This was achieved with important contributors being China, Indochina, and Nepal and despite higher sales and marketing investments, especially in China, related to the Tuborg expansion.

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

Jørn P. Jensen: Thank you, Jørgen, and now please turn to slide 12. As already explained, we faced challenging market conditions in our two largest regions, Western and Eastern Europe; however, we delivered adjusted net profit growth of 5% driven by volume growth, positive price/mix and growth in gross profit per hectolitre across our three regions, phasing of marketing investments versus last year, and finally lower net financial costs. For the first six months, free operating cash flow was impacted by higher receivables in Eastern Europe in June due to lower than expected consumer off-take. The high level of receivables is now being reversed. The preparations for the further roll-out of BSP1 are on-going with the next markets to go live being Norway followed by the UK. The BSP1 project is very important and represents a significant change in the way we operate our business in Western Europe. As has been true for many years now, we have a strong focus on earnings and cash flow in all business units. The challenging conditions in our important markets only further emphasise the importance of our Group-wide efficiency agenda, but we must not and will not underestimate the necessity of continued investments in our brands and the future growth of our business.

And now slide 13 and the income statement. Organic net revenue increased by 2%, or 747 million. The negative currency impact was mainly due to the Russian rouble and the Malawi currency. Cost per hectolitre remained at a high level this year. In line with our expectations, cost per hectolitre was up organically by 1%. However, we have offset the increase through price/mix and gross profit per hectolitre was up 2% in organic terms. In Q2, gross profit per hectolitre was up 5% organically. Reported gross profit margin was stable, whereas organically the gross profit margin improved by 40 basis points. Total opex was positively impacted by a different phasing of marketing investments versus last year due to the marketing restrictions in Russia from mid-2012 and EURO 2012. Offsetting this was slightly higher sales and logistic costs and 190 million of BSP1-related costs. All-in-all, operating profit was 4.1 billion and up by 1% versus last year. Strong growth in Asia and Eastern Europe was offset by lower profits in Western Europe, driven by declining volumes, and higher unallocated costs which were impacted by the BSP1 implementation.

And now to slide 14. Special items were minus 153 million. Generally speaking, special items relate to restructuring initiatives. Net financials were down 104 million compared to last year, of which 17 million were lower interest charges as a result of lower average funding costs. Other financial items were down 87 million, mainly due to currency movements, pensions, and financial fees. Tax rate was still 25%. All-in-all, reported net profit was 2.1 billion. Adjusting for special items after tax, net profit was 2.2 billion, up 5%.

And now to cash flow on slide 15. The sum of the first three lines, EBITDA including other non-cash items, adds up to 6.3 billion, an increase of 215 million. The change in trade working capital was minus 1.5 billion, a significant change versus last year. As usual, trade working capital was impacted by normal seasonality. However, in addition, trade receivables in Eastern Europe were higher primarily due to the higher than normal inventories at distributors in Russia, driven by lower than expected consumer off-take. The increase in trade working capital was to a large extent offset by other working capital, which was positive by 1 billion due to higher duties and VAT payables. This high level was due to the same reasons as those explaining the change in receivables and therefore it makes sense to see the two lines together. I'd like to emphasise that our focus is on reducing the average trade working capital during the year and not the number period-end. We have now for a number of quarters and years been successful at reducing the average trade working capital. At the end of Q2, the 12 months average trade working capital to net revenue was 0.7% compared to 1.6% end of last year. Paid net interests were 1.3 billion, down 222 million due to lower funding costs. All-in-all, cash flow from operations was 3.3 billion, on par with last year.

And now slide 16. CapEx was 2.6 billion and was as usual primary driven by investments in sales equipment to generate top line growth, different projects in Western Europe to improve structure and efficiency, as well as capacity expansion in Asia to drive the future growth of the Group. Net acquisitions amounted to minus 738 million and were mainly related to prepayments in Q2 regarding the acquisition of shares in Chongqing Brewery. All-in-all, our free cash flow follows the normal seasonal pattern for our business and was minus 85 million. The difference of 2.7 billion versus last year was mainly due to the proceeds from divestiture of the Copenhagen brewery site last year and in addition to this, higher receivables, higher CapEx, and net acquisitions.

And now to slide 18 and the outlook. Based on our six months performance and our performance at the beginning of Q3, we keep earnings outlook unchanged for the year. This includes an adjusted view on the Russian market development for the year. We have previously anticipated a flattish Russian market development for the year based on a more rapid transition of volumes from non-permanent outlets to other outlets as well as improved market dynamics in the second half of the year. The outlet closures have so far impacted more than expected and based on this, and a slower macroeconomic growth in Russia, we now expect the Russian market to decline by mid-single digit percentages for the year. We are, however, able to mitigate the impact from the volume loss through gaining slightly more market share in Russia than anticipated, a tight cost control, and a better cost development in supply chain functions. All other major assumptions are kept unchanged. All-in-all, our earnings outlook for 2013 is unchanged and we expect an operating profit at around 10 billion and a mid-single-digit percentage increase in adjusted net profit, or clean EPS.

As always, and in accordance with Company policy, we will provide 2014 guidance on input costs in February when we report full year numbers. As a result of this and due to commercial considerations, we will not beforehand give any comments on outlook for input costs in 2014. In addition, I just want to remind you that both raw materials and packaging materials are significant cost items.

Jørgen B. Rasmussen: Thank you, Jørn. That was all for today. But to summarise our key messages, we delivered solid market share performance across all our three regions. We delivered solid price/mix driven by growth of international premium brands, price increases, and rollout of value management tools. We implemented BSP1 in Sweden and are preparing the rollout in the next markets. We delivered satisfactory operating profit and adjusted net results growth despite tough markets, and then we keep earnings outlook unchanged despite weaker than anticipated Russian market development.

And now with this, 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 any questions, please press star then one on your touchtone phone.*

Trevor Sterling from Sanford C. Bernstein has a question.

Trevor Sterling: Gentlemen, two questions please. **The first one relating to share movements in Russia, perhaps, Jørgen, could you just give us a bit more colour on what was driving that share improvement in Russia? And also I know the comps get tougher in Q3, but if I'm right looking at the math, even if you just held shares sequentially you'd still generate year-on-year share gains in Q3.**

Jørgen B. Rasmussen: Yes, Trevor, market share, I think there are many drivers as we have talked about before and it really started with all the analysis we did back in '11 in terms of changing structure, putting more resources into the modern key account management area. Value management has become part of how we do business in Russia and we have a dedicated team. We have dedicated leaders for value management in Russia nowadays and then a lot of focus on execution also driven by the leadership in Russia, including Isaac Sheps, and then the portfolio – it is back to what we have talked about many times. We have a portfolio being unique with national brands, international brands, and strong regional brands and we can, as a trend, drive market share up, we believe, in the long-term. It does not mean, as I keep saying, that we can grow market share quarter-on-quarter every time, but as a trend we should be able to stay on a growing trend line. So it's many, many factors. But if I have to summarise: leadership, portfolio, and lot of focus on execution, execution, execution. That's probably what's driving it.

Trevor Sterling: That's what driving. **And the second question, more technical, probably for Jørn, relating to unallocated costs, Jørn, you mentioned about phasing. I know some of the BSP costs are booked at the centre and some are booked in the regions. If you look at the unallocated costs, how should we look at that across the balance of the full year?**

Jørn P. Jensen: That on a full year, I think the market has a pretty good view on it on a full year basis. It's more the phasing which of course quarter-by-quarter which of course is difficult. So you can say that in quarters, when it comes to BSP, where it's more preparation for going live, there will be more central costs than local costs, and in quarters where there's go-live activity taking place, there will be more local than central costs and so on and so forth. But on a full year basis, it's as it has been expected throughout the year.

Trevor Sterling: Okay. Thank you very much, Jørn.

Operator: *Ian Shackleton from Nomura is on the line with a question.*

Ian Shackleton: Yeah, good morning gentlemen. **I'm just interested in sort of how you see the on-going trend in Russia. You obviously talked about the minus 7 for the market for H1. How has the disruption in terms of channel of trade gone during the year and how's that gone as we've gone into Q3?**

Jørgen B. Rasmussen: Good morning, Ian. As we have said, the minus 7 is clearly more than what we anticipated and therefore the impact of the closure of non-stationary outlets has been a little more disruptive than we anticipated going into the year, so it has taken consumers a little longer to get used to this new retail landscape. If we do our best analysis of the minus 7% in the first half year, we would say around two-third of that would be due to change in retail landscape and then the other one-third would be due to less growth in the overall economy in Russia and the consumer sentiment. We expect the second half to be better than the first half, and that's also why we're saying for the full year we expect mid-single digit decline, also because we have easier comps in the second half and we would assume the kind of impact of this change in retail landscape will come to an end certainly by end this year.

Ian Shackleton: And perhaps just a follow-up. **On the mix, you give us a slide at the back in round percentage where it looks like things aren't moving very much in mix, but perhaps you can just talk a little bit around some of the dynamics. Is it still improving overall?**

Jørgen B. Rasmussen: If we take the total market for the first six months, it's around flattish in terms of mix, maybe slightly positive, but around flattish for mix overall. If I take us specifically, we are being negatively impacted by Baltika 7 being a very strong SKU in kiosk and pavilion segment, so having a negative mix or mix impact, but I would say overall flattish for the market, and we are kind of in line with the market. But as you have seen also, if you combine price and mix for the second quarter, as expected, we start seeing positive impact from price mix.

Ian Shackleton: Okay, thanks very much.

Operator: Søren Samsøe from SEB is on the line with a question.

Søren Samsøe: Yes, good morning. Just two questions from my side. **First of all, on the free cash flow line - - operating free cash flow, I understand the dynamics with the receivables in Q2 reversing in Q3, but are we in a situation where we will not see cash flow growth for the full year now? And secondly on Asia, 2% growth in Q2, just wanted to understand the dynamics of this slowdown. Is it China driving this and in that case what is happening in China?**

Jørn P. Jensen: Søren, the first question, of course you will see cash flow from operations, if that was the question, being up for the year. If it was more specifically to kind of trade working capital, then of course again it makes sense to see that together with other working capital, but we definitely expect an improvement and we are planning on improvement in our trade working capital to net revenue percentage for the full year.

Søren Samsøe: Okay. **So that must imply when you're talking about operating free cash flow that - - operating cash flow that you see a quite strong development in the second half?**

Jørn P. Jensen: Yes, as always. So it is always so that in the first half due to seasonality, basically only due to seasonality, there's always a pressure on cash flow in the first half, which is also where you do most of the CapEx, so to speak, especially on sales equipment for obvious reasons and then vice versa in the second half.

Søren Samsøe: **Yeah, but I was just - - since given the lower performance in first half versus first half last year, I was just wondering if there's any particular reason for the stronger implied second half, but I guess it's driven by working capital.**

Jørn P. Jensen: Sure.

Søren Samsøe: **And Asia?**

Jørgen B. Rasmussen: Yeah, second question, so on Asia, the second quarter versus year-to-date, we are seeing a slight slowdown in the Chinese markets, so full year or year-to-date is probably around 4% growth and second quarter in China it's flattish. Part of that would be weather and also underlying a little less growth, but I think in places like China, developing markets, you do see variance quarter-on-quarter. We are certainly still confident about the future growth in this market and also based on consumption being still quite low and not least in the regions we are in. Also what's having an impact sometime on numbers and in our case in quarter Q2 an impact in Indochina, that's the phasing of activities in our Indochina region. We had planned to have less growth in quarter two than the average for the year, but China is a part of it. But again, you do see variation by quarter normally also when you look back and weather would have an impact.

Søren Samsøe: Okay, thank you.

Operator: Samar Chand from Barclays is on the line with a question.

Samar Chand: Good morning, gentlemen. Just two questions from me. **The first one, I'm particularly interested in your comment that you made around the inventory position in Russia being high towards the end of Q2. Does that imply you do expect some sort of de-stock, particularly for your shipments in Q3? Any colour around that would be very helpful. And then secondly, your other lovely European competitor has just come out and said that the weather in July has been favourable for them for Western Europe, so I'm just interested if you have any comments around weather for you guys in Q3 to-date in both your regions.** Thank you.

Jørgen B. Rasmussen: The inventory situation in distributors, they are carrying high inventories in quarter two because they probably or bought inventory to cover a good quarter two in terms of the consumer uptake. And as you know, it did not happen and therefore they are carrying high inventories. We do assume they will de-stock going into Q3 and we have seen some of that already taking place in July. So yes, when we get to end quarter three, we will certainly assume inventories being lower than end quarter two.

On July weather, yes, it does have a positive impact in July. It was very good in Western Europe, but for the other two regions, I would say weather did not have a major impact in July.

Samar Chand: Okay, great. Thank you very much.

Operator: Michael Rasmussen from ABG Sundal Collier is on the line with a question.

Michael Rasmussen: Yes, good morning. A few questions here. **I'd like to start out coming back to Asia again, if we could speak a little bit about profitability. Should we expect to see margins go up towards the 20% mark now in the near future with the profitability in China continuing to improve? And then secondly, talking about costs kind of overall or Western Europe, you do talk about having lowered your cost base here in 2013. Is this something that has been seen in Q3 with some actions – sorry, in Q2 some actions you took in the second quarter as you saw top line slowing down or is this a Q3 thing where we're going to see the cost base coming down, something initiated towards the latter part of Q2? And when are we going to see the first effects from Sweden on the BSP1 programme?** Thank you.

Jørgen B. Rasmussen: Michael, to your first question about Asia, I think the answer is very simple. It's still Asia having some quarters, some periods be higher on margins, some lower. It's all dependent on what we think is right for the business in terms of investments whether we have big launches, big activities, whether it's in brands or in sales and other areas, so it can be up and down. Don't read too much into a trend, but I would say also the old guidance we had on Asia, 15 to 20% margin range, that's what we also expect to see going forward.

Jørn P. Jensen: And on costs, it is more - - it's more so that we are basically at all times reducing our cost base in Western Europe. So it's not really about that if you in one month or one quarter see something like, for instance, bad weather in the bigger markets that we do something on cost. We are working on costs basically every day in all our markets and we will continue to do so. So there's nothing extraordinary on cost in Q2. There's nothing extraordinary in Q3. We'll continue to work on this in general. Of course you'll start to see, as we have talked about before, the BSP cost reductions coming into effect gradually and of course, as you said, it'll be from Sweden initially but also more to come from Norway and the U.K. next year and so on and so forth.

Michael Rasmussen: Great. **Can I just have a quick follow-up question on France? Can you talk about kind of when we should expect to see the market share declines in Kronenbourg turn around please?**

Jørgen B. Rasmussen: Yes, we can, and obviously of course we expected this to happen earlier. It has taken longer than what we expected turning around the market share. So again, the headlines on France we have done extremely well financially, but market share has been more difficult than expected. It's all about the mainstream Kronenbourg brand. We are working on it. I don't want to give a timeline, but we certainly expect to crack it, but let's see. But our premium brands are all doing extremely well, so Grimbergen and Carlsberg and 1664 all doing extremely well.

Michael Rasmussen: Great. Thank you very much.

Operator: *Casper Blom from Handelsbanken Capital is on the line with a question.*

Casper Blom: Thank you. A couple of questions please. **First of all if we could turn towards Russia again, maybe if, first of all, you could give a little update on the competitive situation, any changes to that? And secondly, maybe if you could comment a bit on how you mean to get consumers driven back into the beer stores now that they have lost their lovely kiosks. And then finally, I just noted that you mention Somersby a bit more than you normally do in an earnings release, could you reveal maybe a few numbers on Somersby, what is maybe the sales and maybe also profitability in that brand?** Thank you.

Jørgen B. Rasmussen: Thanks. If I start with the competitive landscape in Russia, it's more of the same, so it's still a very competitive landscape, but it's more or less irrational compared to what we saw one and a half year ago on pricing. So very competitive as it should be, but less irrational.

And I don't really want to make a lot of specific comments on individual competitors. As you know, we are gaining share. If you look at Efes/SABMiller, they're still losing share and also ABI have a lost a bit of share. I think that's all to say about competition in Russia.

If you talk about how we're going to get consumers back into the category based on the change in retail landscape, we did say we expected to see some disruption, yes, it was worse and taking longer than what we expected. But we also think as soon as the consumer get used to this new landscape, it will not have a negative impact on category. We already see some signs of new stores being opened and that's very small stores kind of selling very small assortment close to a kiosk assortment but a little broader range including some grocery products. That could be a positive development if that takes off and the same in the on-trade, we certainly notice more and more discussion about new players establishing themselves in the on-trade market. If that takes off, also could be a positive trend for the beer market.

And last about Somersby, yes we talk more about Somersby now than we did a year, two years ago. It's simply based on Somersby now is in more than 35 markets I believe, so broad distribution in many of our markets, doing extremely well in a lot of our markets and therefore we've talked about Somersby a little more and we have a number also in the release talking about 85% growth in the first half compared to last year. It's doing very well in a lot of markets.

Casper Blom: **But no further numbers?**

Jørgen B. Rasmussen: Not at this point, no.

Casper Blom: Okay. Thank you, guys.

Operator: *Andrea Pistacchi from Citi is on the line with a question.*

Adam Spielman: Hello. Actually it's Adam Spielman with a couple of questions here. **I really am trying to quantify a couple of effects, and in particular you talk about de-stocking in - - oh sorry, over-shipping in Russia, and I was wondering if you could quantify that in any way. Obviously you looked at the impact on**

trade working capital, which was up about 1 billion kroner versus - - a little bit more versus first half of last year. Is that a way of quantifying the impact of the over-shipping in Russia? That's one point. The second question relates to the Asian market of Malawi. Obviously it had a very big impact on FX, but was there a corresponding sort of price increase you took that may have helped the organic sales growth that then unwound on the FX or was it purely a negative the fact the currency went down there? Thank you.

Jørn P. Jensen: So the first question around the stock levels at distributors in June, if you want to kind of quantify it in EBIT terms, it is around DKK 100 to 150 million. So you'll not use directly receivables as such, but in EBIT terms 100 to 150 million.

Adam Spielman: Thank you.

Jørgen B. Rasmussen: And on Malawi, yes we did take significant price increase in Malawi to counter some of the negative impact on currency, and we are talking not far from a 50% price increase in Malawi.

Adam Spielman: **So in other words, although you had something, from memory, a 6% negative FX impact in the region you called Asia, that was probably offset by sort of Malawi contributing maybe as much as 6% organic sales growth as you took that price thing, so it was roughly speaking a wash to your reported results. Is that a fair assumption?**

Jørn P. Jensen: Not quite. Actually we don't have the numbers just excluding Malawi here, but it's not as dramatic, so to speak, as the picture you're painting.

Adam Spielman: Yeah, that's fair enough. **And then finally, are you able to quantify in any way the impact of the A&P? You mentioned a couple of times a sort of phasing on A&P both in Western Europe and indeed in Eastern Europe. Are you able to give any figures for that?**

Jørn P. Jensen: Well, we're not disclosing this quarter-by-quarter, but it's not very significant, but of course it is an element. But as you know, yes for instance when you take Russia and marketing restrictions, it is lower brands marketing. On the other hand, we're also spending more on trade marketing, so net/net it's primarily a EURO 2012 discussion.

Adam Spielman: **And that's probably, if anything, slightly more in Poland than it was in Ukraine?**

Jørn P. Jensen: When it comes to investments, no, that's a general thing for all markets everywhere.

Adam Spielman: Fine, okay. Thank you very much.

Jørgen B. Rasmussen: That's important to bear in mind when we talk euro, it's not just host countries, it's everywhere we invest in EURO when we talk about marketing and investment.

Operator: Hans Gregersen from Nordea is on the line with a question.

Hans Gregersen: Good morning. Three questions. **If we look on your guidance, you have been reiterating, can you explain to me how this is being made up as you lower**

the market guidance for Russia, i.e. where is that shortfall going to be covered from, including the destocking effect about 150 million you mentioned before going into the second half? The second question is on per capita consumption in Russia, if I recall correctly, you mentioned it was around 64 per capita in 2012. If we're guiding a market decline of 5%, we're getting to around 60 litres per capita, which is quite low in most regions. When do you see potential for this to rebound and what will the driver be? And finally in terms of the kiosk transition, you mentioned that was slower than you had anticipated. Can you explain what and why has gone wrong in your assumptions? Thank you.

Jørn P. Jensen: To the first question, Hans, it is, as I said, in a way being mitigated, so to speak. It's through us gaining a slightly more market share in Russia than we initially had anticipated. It's tied to the cost control and a better cost development in supply chain functions in general. So that is what is kind of mitigating on a full year basis the lower than expected market development in Russia.

Hans Gregersen: **But you said input cost in Russia was also contributing to recover this.**

Jørn P. Jensen: No, I said costs in supply chain functions in general.

Hans Gregersen: Okay.

Jørgen B. Rasmussen: And to your question about the capita consumption, you're right 60 litre is very low compared to standards in many other countries and therefore we also still strongly believe there will be a point when we get back to growth again in Russia. I will not talk about '14 at all at this point in time. We'll come back to that in February after we have been through '13. But we have to believe and every kind of indicator, which suggests consumption will go up sooner than later in Russia.

Hans Gregersen: **But, Jørgen, in this context, we have seen the production of vodka dropping 30%, at least the official production in the first half. Do you think that is a reflection of the underlying vodka consumption as well in this context?**

Jørgen B. Rasmussen: It is probably a little more dramatic sometime when you see production data but vodka is also down and in general has been more down than beer every year except 2009. So take the last four years, vodka consumption has been down more than beer, which also implied that the Russian average person does consume less alcohol today than what they did some years ago and we estimate they're down around to about 13 litre per alcohol per year where it used to be 15/15.5 in the past, but it's still high, so pure alcohol consumption is still high in Russia and 30/40/50% above many Northern European countries, but beer is below. And that's why we think the mix will change and therefore beer, per capita consumption, should come up and start growing again.

On the kiosk transition, what we did not get right in our assumptions, as always, it's a long discussion and you make a lot of assumptions and it's not all science, but you have to make all the kind of different assumption on universe. So if I start with universe, the universe of kiosk we said going into this, we expect about two-third of the kiosk pavilion universe will close and not exist in terms of selling beer, one-third will stay because they were permanent or will turn themselves into permanent. That assumption is close to being correct. What we have seen, so far probably half, 55% of the universe has closed in terms of being able to sell beer. So the biggest factor what we did not get right would be consumers getting used to they cannot buy beer in the kiosk being just below where they live. And before they adapt to that, it takes time. And if they go in somewhere and they cannot find beer, it does not imply they go to another place to buy beer until they start thinking about it and start planning their behaviour in a different way. So it's more on the kind of behavioural side where we got our assumptions wrong, not on universe.

Hans Gregersen: **Could I just go back to the previous question, one quick follow-up? If I remember correctly, the official beer production has dropped around 20% since 2009 or '8 and we have seen the vodka production going down around 30%. That would have to me suggested that the pure alcohol consumption should have dropped more or less. We've seen the illegal segment has grown. Are there any inconsistencies in my perceptions here?**

Jørgen B. Rasmussen: I think in the ballpark, right, I would say vodka consumption is further down than beer; and I don't want to make too many comments on illegal versus legal production, but vodka in general more down than beer every year expect 2009. And your assumption on overall beer decline, volume decline is also in the ballpark, correct.

Hans Gregersen: Thank you.

Operator: *Philip Morrisey from Berenberg is on the line with a question.*

Philip Morrisey: Good morning. Thank you. **Given the big turnaround in Eastern European or Russian price/mix between Q1 and Q2, I wondered if you might be able to give us some indication as to what that number might look like for the full year. Secondly, forgive me for going back to the destocking in Russia, but historically for Russia you've quoted your Carlsberg's performance in terms of in-market volume growth or off-take growth within Russia and I wondered whether you might have those numbers available for us for Q2 and the first half. And then finally please, in terms of the Ukraine, there's been some suggestion that there might be quite a significant excise duty increase at some point in the Ukraine and I wondered if you had visibility, both as to the quantum and the timing of that.** Thanks very much.

Jørn P. Jensen: Let me take the first one. Then as we also discussed after Q1, then you would basically just continue to see gradual improvements in this average price throughout the year. So also with latest the price increases, we expect that to still be the case so that the price will continue to improve throughout the next quarters.

Jørgen B. Rasmussen: And if we take the in-market sales development for the first half, it's minus six for our numbers versus the market being minus seven. As you know, sometime you cannot mathematically always correlate that, but minus six I don't have the exact number for Q2. It's about the same from memory, minus six thereabout.

Ukraine on the duty, it's still under discussion. And as you recall, there was this proposal about the 190% increase in Ukraine duty, later on a discussion around 30% only, lately also a discussion about just a normal increase of 5/6%. It's still being debated between the industry and many other stakeholders, no conclusion yet.

Philip Morrisey: That's great. Thank you very much.

Operator: Sanjeet Aujla from Credit Suisse is on the line with a question.

Sanjeet Aujla: Hi guys. **Most of my questions have been asked, but can we just get an update on the situation in Uzbekistan, and can we get an update on the replacement for the head of Europe - - head of Asia rather?** Thank you.

P. Jensen: There's not a lot to say about Uzbekistan. We're still not producing in Uzbekistan. Of course we are working on improving that. It's very difficult to say if we will be successful or when that brewery can really start to operate again, so don't expect anything coming from Uzbekistan for now.

Jørgen B. Rasmussen: On the recruitment of the SVP Asia, it's on-going and again we'll come back as soon as we have new news. But I think the important point would be the team we have in Asia, as I said also when Roy Bagattini left us, we have a very strong team in Asia and I have no concern about anything in Asia. That will kind of continue as it used to be. So as soon as we have new news on SVP Asia, we'll come back.

Sanjeet Aujla: **Just one last one, just to clarify on pricing in Russia, did I get that correct, so you would expect price/mix to accelerate from the 2% we saw in Q2?**

Jørn P. Jensen: Yeah, we expect it to continue to improve.

Sanjeet Aujla: Okay, thanks.

Operator: Andrew Holland from Société Générale is on the line with a question.

Andrew Holland: Yes. Hi. **Could you just update us on the level of control you've got at Chongqing at the moment and the progress of that and perhaps just remind us how that process is expected to unfold? And as I look at your supplementary slides on China, you've got a whole range of ownership levels there from 33% up to 100%. Can you just remind us, what determines your ability to control businesses in China and whether there is scope to increase your ownership level in any of the other many businesses that you have part ownership of?**

Jørn P. Jensen: To the first part of the Chinese question, so to speak, Andrew, then we are at 30% as you know in that sense. We are not controlling the Chongqing Brewery. We are well into the process and there's not really any news. It's moving on. To get all the approvals for increasing our shareholding, it's moving well along in line with kind of the anticipated timeline, but of course we are not controlling that brewery now.

Andrew Holland: **But the CapEx, you say you've - - an element of your CapEx is increasing your ownership, so presumably you're slightly out of kilter between…**

Jørn P. Jensen: No, that's a prepayment in the cash flow statement for the share increase, but there's nothing on CapEx as such.

Andrew Holland: Right. **So does that mean that your ownership is actually higher than 30% at the moment?**

Jørn P. Jensen: No, no, no, no. So that's a prepayment to the seller awaiting that we get all of the approvals in place before we're able to do a transaction.

Andrew Holland: Okay.

Jørgen B. Rasmussen And to your second question, Andrew, on China in general, yes, we have different ownership percentages across the different business. In general, we have said many times we do believe in the strength of having a strong local partner initially and then over time get control and influence more. That's part of our strategy. Timing will vary depending on circumstances, depending on the region and that's why you see differences by region. But as a trend, I would say probably you should expect us to grow up in ownership.

Andrew Holland: **And there's no sort of government limitation on that?**

Jørgen B. Rasmussen: Normally not.

Jørn P. Jensen: No.

Andrew Holland: Okay, thank you.

Jørgen B. Rasmussen: Not in China.

Andrew Holland: Thank you.

Jørn P. Jensen One more question.

Operator: Tobias Bjorklund from Danske Bank is on the line with a question.

Tobias Bjorklund: Yes. Good morning, gentlemen. I have two questions. **You're talking about an improved performance in the on-trade in Russia and that's despite the lower consumer sentiment, how do you see this develop here and the reasoning behind that? And also for Russia, the Q4 2013 inventory build prior to the tax increase, what should we expect there? If you can give any comment on that. Is it similar to what you saw in Q4 last year or can you give some view on that?** Thank you.

Jørgen B. Rasmussen: Tobias, to your on-trade question, again bear in mind, on-trade is a very small market of total market in Russia still, but the point I made was we have seen lately, all based on the kiosk and pavilion closure, some more interest in investing into on-trade, which could be positive for on-trade over time, but at the moment we don't see a significant change in on-trade share of total market in Russia.

Jørn P. Jensen: And Tobias, to the second question, yes, you're basically spot on that what we are assuming in our outlook is that the distributors will want to keep the same stock level end of this year as they had end of last year.

Tobias Bjorklund: All right. Thank you.

Jørgen B. Rasmussen: We have time for one more question.

Operator: Mitchell Collett from Goldman Sachs is on the phone with a question.

Mitchell Collett: Hi there. **I just wanted to come back to price/mix in Eastern Europe. It's obviously improved significantly since Q1, but 2% for Q2 I guess is still a long way below inflation and below what you've achieved in prior years and I just thought it was notable that one of the things you didn't mention that's helping your market share was perhaps price. Can you confirm that price isn't something that is driving the market share gains we've seen this quarter? And I know you mentioned Baltika 7 has had a negative mix impact, perhaps if you could just confirm that the ex-brewery price for the sales that are transitioning to modern trade is pretty much the same as the ex-brewery price for the sales that are - - or that used to go through the kiosk channel, that would be helpful.** Thanks.

Jørgen B. Rasmussen: I think the best let's say evidence would be when we look at consumer price data, so if you take Nielsen, our price increase for the first six months or end of that period would be in line with the increase for the total markets, so the increase in consumer price is close to the kind of 10% in that period as an average for the portfolio and ours would be completely in line with that. A second point would be if you look at our value market share in Nielsen, we see exactly the same increase in value market share as we do in volume market share also confirming it's not price driving the market share improvement.

Mitchell Collett: Okay. **So if price is at 10 and price/mix is two, does that imply mix is minus eight? Is that the right way to do the math?**

Jørgen B. Rasmussen: No, but there's all the price increase to cover the duty increase.

Mitchell Collett: Okay.

Jørgen B. Rasmussen: And that's of course going through to the consumer, but not getting into our P&L.

Mitchell Collett: **So at your level, so once you've at the net level taken excise out of it, what would be I guess the price component and the mix component of that plus two?**

Jørn P. Jensen: It is basically price. I said before, mix impact was quite flattish.

Mitchell Collett: Okay. **And there's no impact from volume transitioning from kiosk to…**

Jørn P. Jensen: Of course there is. Of course the price is not the same to modern trade as it is to traditional trade, so of course there is also a channel element in all of this, but we we're not discussing it, these kind of things in that great a detail.

Mitchell Collett: Okay, I understand. All right. Thank you very much.

Jørgen B. Rasmussen: I would say thanks for dialling in, and I'm sure we meet many of you the coming days. Thanks.

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