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Speakers: Cees 't Hart, Chief Executive Officer
Jorn P Jensen, Chief Financial Officer

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OPERATOR: Good morning, ladies and gentlemen, and welcome to the Carlsberg Q2 report for 2015 conference. At this time all participants are in listen-only mode and later we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to your host, CEO, Cees 't Hart. You may begin, sir.

CEES 'T HART: Good morning, everybody. Welcome to Carlsberg's six months 2015 results conference call. My name is Cees 't Hart and I have with me our CFO, Jorn P Jensen, and Vice President of Investor Relations, Peter Kondrup.

Before I hand over to Jorn, who will go through today's presentation and answer the majority of your questions, I would like to make a few remarks about my first two months at Carlsberg and what you can expect from us for the coming quarters. I joined the company in mid-June and have spent the first weeks getting to know the business and meeting employees and key stakeholders. There is clearly strong commitment and engagement among our employees and in the leadership team and also a clear aspiration to take Carlsberg to the next level.

To add to that, I have a few other observations that I can share with you at this point in time. I believe we do well commercially with our international brands, shown by the strong performance of, for example, Tuborg and Somersby, in addition to good execution on our local power brands such as Kasztelan in Poland and Huda beer in Vietnam. I also see good work on innovations, for example with the non- and low-alcoholic segment with new products such as Carlsberg Nordic and Tourtel Twist.

On the other side, our current financial position is not what it should be and that means we have to further improve profitability, cash flow and returns and reduce leverage. This need for improvement is supported by today's Q2 results and our changed 2015 outlook. Jorn will go through the changed outlook in a few moments.

For the future, my ambition is that Carlsberg is the most successful, professional and attractive company in the areas where we choose to operate; successful by winning in the markets, professional towards customers and partners, and attractive to shareholders, employees and the societies where we operate. We have just initiated a process in the leadership team where we will develop a new strategy for the Group. This will be done during the autumn and we'll be ready to announce and start the implementation during the first half of 2016.

With this, I will hand over to Jorn, who will go through the half-year results.

JORN JENSEN: Thank you, Cees. Now please turn to slide 3 for a few highlights of the first six months. We achieved strong market share improvement in the majority of our markets. This was driven by several factors such as strong growth of our international premium brands, especially in Asia, and good momentum of product launches.

Price/mix grew 5 per cent with particularly strong improvements in Eastern Europe.

Organic operating profit declined 13 per cent. The continued strong performance in Asia was more than offset by the continued weakness in Eastern Europe and, in Q2, weaker than expected results in Western Europe as the region was impacted by bad weather, also in itself leading to a 1 per cent negative price/mix.

The adjusted net result declined by 23 per cent. This was mainly a result of the organic operating profit decline.

We have revised our 2015 outlook and lowered our expectations for organic operating profit. We now expect organic operating profit to decline slightly. I will give more details on the outlook later in the presentation.

Now to slide 5, please, and an overview of the operating profit development.

Organic operating profit was DKK 3.5 billion. This was a result of growth in Asia, which, however, was offset by lower profits in Eastern and Western Europe. I'll go into more details per region shortly. The lower unallocated costs were mainly due to different phasing between quarters than last year. The currency impact was more positive than previously assumed as stronger Asian, Swiss and UK currencies more than offset the negative impact from the weaker Eastern European currencies. The small negative net acquisition impact mainly relates to the consolidation of the Chongqing Eastern Assets that was consolidated from November 2014. All in all, reported operating profit was DKK 3.6 billion, a decline of 12 per cent versus 2014.

Now to slide 6 and a look at the development per region in beer volumes, net revenue and operating profit. Beer volumes declined organically by 5 per cent, with the major impact coming from Eastern Europe. Despite the negative volume development, organic net revenue was flat year-on-year, driven by a price/mix of 5 per cent. The decline in operating profit was 12 per cent and a result of the lower volumes in Eastern and Western Europe and higher operating expenses, which I will elaborate on the next slide. The Q2 numbers, which are shown in brackets, were more negative than the half-year. This mainly reflects bad weather in Western Europe, in addition to different phasing versus last year due to earlier sell-in to Easter, as well as stocking in some markets ahead of the BSP1 implementation in early April, as we explained after Q1.

Now to slide 7, please. Taking a look at some of the individual P&L items, COGS per hectolitre was up organically 4 per cent due to the negative transaction impact from hard currency-denominated input costs in Eastern Europe. Thanks to the positive price/mix, we were able offset the higher COGS and gross profit per hectolitre was up 4 per cent organically.

Operating expenses were up 3 per cent organically and 4 per cent in reported terms. The main driver of the organic increase was higher sales and marketing investments in all three regions as a result of our decision at the beginning of the year to slightly increase these investments to support our brands and new product launches.

Special items primarily related to a number of restructuring measures across the Group, including the initiative taken in the spring when we reduced the headcount in central functions by around 20 per cent.

Net financials were minus DKK 770 million, which was an increase of DKK 56 million. The increase was only due to other financial items, which were negatively impacted by foreign exchange adjustments. Net interests were down 14 per cent or DKK 91 million, reflecting lower average funding costs. The tax rate was 28 per cent. This was three percentage points higher than last year and mainly due to the fact that Russia, where the corporate tax rate is lower than the Group average, accounted for a smaller proportion of pre-tax profits, and the acquisition of the Eastern Assets in China. All in all, adjusted net profit was DKK 1.7 billion.

Now to slide 8. Free cash flow showed significant improvement this year, reaching DKK 2.2 billion versus DKK 641 million in 2014. The improvement was mainly driven by improved working capital and lower capex. The change in trade working capital was plus DKK 86 million versus minus DKK 673 million last year. We succeeded in bringing down the average trade working capital to net revenue further to minus 3.9 per cent. This compares with minus 3.6 per cent at the end of last year. The change in other working capital amounted to DKK 394 million and was, among other things, positively impacted by VAT payables. As we communicated at the beginning of the year, capex will come down significantly this year. Net capex was DKK 1.7 billion, down DKK 483 million compared to the same period last year. Net paid interests were also down in the first six months, reflecting the lower average funding costs. The decline versus last year was DKK 65 million.

Slide 9, please. Net interest-bearing debt at the end of June was down DKK 372 million compared to year-end 2014. Net interest-bearing debt to EBITDA was 2.7 on a rolling 12-month basis. Reducing this ratio further remains a key focus area for the year and the target is still a leverage below 2.5 at the end of the year. 95 per cent of the gross financial debt is long-term and, of the net financial debt, 95 per cent is denominated in EUR or DKK and 78 per cent is at fixed interest rates. The specification of movements in net interest-bearing debt is shown in note 6 of the press release.

Now turning to slide 10. As communicated in February, we have intensified our focus on return on invested capital across the Group. The half-year numbers are not satisfactory, reflecting the continued difficult trading environment in Eastern Europe and lower operating profit in Western Europe. In Asia, the region was able to maintain return on invested capital unchanged versus 2014, despite the consolidation of Eastern Assets.

Now to slide 11 and the outlook. Based on the Group's Q2 and July results, we have revised our 2015 earnings expectations downwards, primarily due to three reasons. Firstly, the Q2 and July performance of our Western European region has been weaker than expected. The bad summer weather has impacted volumes and channel mix negatively. In addition to an overall challenging price environment, this leads to a more negative price/mix development than expected.

Secondly, our supply chain savings initiatives are progressing and we are continuously becoming more efficient and reducing costs. However, the benefits this year will be less than previously expected, also compounded by the lower than expected volumes in Western Europe.

Thirdly, the macroeconomic environment in Eastern Europe is deteriorating, putting further pressure on the consumers. Consequently, we expect organic operating profit to decline slightly versus 2014.

In spite of the recent weakness of the rouble, we expect the negative translation impact to be smaller than previously expected due to the strengthening of several Asian currencies. We now assume a negative translation impact on operating profit of DKK 300 million compared to the previous assumption of minus DKK 400 million. Other assumptions remain unchanged and we anticipate cash flow to improve significantly this year compared to 2014. Further, the Supervisory Board is expected to be able to propose to the AGM in March that the dividend per share is kept unchanged compared to 2014.

Slide 13 and Western Europe, where the markets were cycling tough comparisons with last year's favourable weather and the World Cup. Compounded by bad weather this year, especially in Q2, the market declined 1 to 2 per cent for the six months and 2 to 3 per cent in Q2.

The strong market share progression continued. Our volumes declined organically by 1 per cent for the six months and 5 per cent for Q2. As said, Q2 was impacted by weather and tough comps in addition to phasing between Q1 and Q2 due to earlier sell in to Easter versus last year and the stocking in Q1 ahead of the go-live of BSP1 in four markets in early April.

Price/mix was minus 1 per cent due to a challenging price environment and a negative customer and channel mix; the latter also impacted by the bad weather in Q2.

After many years of earnings improvement in Western Europe, we saw earnings and margin decline for the six months. The main reasons were the weaker than expected top line and that we didn't achieve the full range of anticipated savings. In addition, we have increased our sales and marketing investments to drive innovations and to further strengthen both international premium brands and selected local power brands.

Now to slide 14, please. Our volumes in the Nordics were flat for the six months, while the markets declined slightly. We gained market share in all four markets, achieving more than a one percentage point improvement in Denmark, Norway and Finland. This was mainly driven by sales execution and good performance of our products in the specialty segment.

Our French volumes grew 7 per cent. Strong performance of Kronenbourg 1664, Grimbergen, Tuborg Skøll and innovations supported the market share gain. In addition, the launch of the non-alcoholic Tourtel Twist brand has been promising.

In Poland, we continued the positive volume and value market share trend and grew our volumes by 2 per cent. The Okocim and Kasztelan brands delivered good performance and Somersby achieved strong growth of 38 per cent.

Our UK volumes declined by 6 per cent in a market that declined by an estimated 4 per cent, cycling tough comparisons with last year's favourable weather and the World Cup. The revitalisation of the Carlsberg brand, including the communication platforms "Probably the best …" and "If Carlsberg did", increased brand visibility and achieved initial favourable consumer response. The Somersby portfolio was strengthened at the beginning of the year with international flavour variants.

The Swiss market declined slightly due to bad weather in Q2 and the stronger Swiss franc, which has led to changing consumer dynamics and growth in the imported beer category.

Now to slide 15, please. As expected, the Eastern European markets remained very challenging due to the uncertain macroeconomic environment. The Russian market declined by an estimated 9 per cent. The market in Ukraine deteriorated even further and declined by an estimated 17 per cent. While the Russian market is declining in volume, the value of the market is still growing in roubles as a result of strong pricing.

Our regional market share was flat, driven by strong performance in Ukraine and Kazakhstan, while our Russian market share declined slightly in volume terms but was flat in value.

Regional beer volumes declined organically by 18 per cent as a result of lower volume in Russia and Ukraine and growing volumes in Kazakhstan. Volumes in Russia were impacted significantly by lower inventory levels at distributors, which I will address further on the next slide.

Price/mix was plus 14 per cent due to significant price increases in most of the markets in the region; mix was flat.

Driven by the strong price/mix and despite the negative leverage impact, we achieved 9 per cent organic growth in gross profit per hectolitre. However, as a result of the market decline, destocking, higher cost of sales, sales and marketing investments and the negative currency impact, operating profit declined by 45 per cent.

Slide 16, please. The weak Russian market development was as expected for the first six months. The market declined by around 9 per cent for the six months, with a slight acceleration of the decline in Q2. Our market share declined slightly as a result of our price leadership and last year's downsizing. Our value market share was flat. We executed three price increases in January, February and May of 3 per cent to 4 per cent each. During the recent year, inventories at distributors have been reduced significantly as a response to the market decline and the change in the retail landscape. Consequently, our shipments have been below consumer off-take. In Q2, shipments and off-take were largely in line in actual terms, but declined 19 per cent year-on-year due to the much lower inventories at distributors at the end of June this year compared to last year.

In Ukraine, the market decline accelerated in the second quarter as the macroeconomy deteriorated further and inflation went up. Local CPI is now running at more than 50 per cent, which also led to significant beer price increases. We gained market share in Ukraine as a result of the activation of the Lvivske brand and good performance of the Brewmasters Collection portfolio and regional brands. Finally, we gained market share in a slightly growing market in Kazakhstan. This was driven by the relaunch of the local power brand Irbis and packaging innovations.

Now to slide 17, please. We saw market growth in most of our Asian markets for the six months. India, Malaysia and Vietnam grew, while the Chinese market declined. We gained market share in most Asian markets and volumes grew organically by 5 per cent and 11 per cent including the Eastern Asset acquisition in China.

Price/mix for beer was plus 3 per cent, mainly driven by premiumisation in a number of markets, as a result of the growth of our premium portfolio. The Carlsberg brand grew 6 per cent in its premium markets, primarily driven by Carlsberg Elephant in India. Tuborg grew more than 60 per cent, doubling volumes in China and growing 50 per cent in India. In addition, we are continuously upgrading our local power brands. All in all, organic revenue growth was 9 per cent and 34 per cent in reported terms due to the positive currency impact and the Eastern Assets acquisition.

Organic operating profit grew 12 per cent, driven by top-line growth and tight cost control. The Asian business has been piloting our new budgeting framework and has already seen positive results. The profit growth was achieved in spite of tough comparables with Q2 last year, when we booked an income from a terminated license agreement. Operating margin increased organically by 60 basis points but declined in reported terms by 70 basis points as a result of the consolidation of Eastern Assets.

Now slide 18. We delivered 4 per cent volume growth in Indochina. A key driver was the strong performance of the Angkor brand in Cambodia, in addition to growth in Laos and Vietnam in Q2, when both businesses delivered mid-single-digit growth rates. In Vietnam, we have relaunched one of our local power brands, Halida, with promising results.

Our Chinese volumes grew by 1 per cent organically. We thus outperformed the market significantly as it declined by mid-single-digit percentages. The growth was mainly derived from our business in Xinjiang and the central parts of Chongqing. Price/mix improved by 4 per cent, driven by a healthy mix improvement as a result of our premiumisation efforts. The Chongqing Brewery integration is now completed.

Our Indian business grew 43 per cent organically in a market growing by an estimated 5 per cent. The business delivered significant earnings improvement, driven by the volume growth and tight cost control. The business is now close to breakeven, which is earlier than originally planned. In Q2, our Indian market share was around 15 per cent, the highest level ever, and Tuborg became the second-largest brand in the country.

In May, we opened our new brewery in Myanmar as the first international brewer.

Slide 19, please, and an update on our international premium portfolio. Most of our international premium brands continued their established strong performance. The Carlsberg brand grew strongly in Asia due to strong results in China and India. In Western and Eastern Europe, the brand declined due to the overall market decline and cycling last year's World Cup activations. All in all, Carlsberg declined 2 per cent in its premium markets. We started activating EURO 2016, as well as the tag lines "Probably the best…" and "If Carlsberg did", using a broad range of platforms. A few line extensions were launched and include Carlsberg 0.0 in the UK and Carlsberg NOX in Poland.

Tuborg grew 16 per cent as a result of continued very strong growth in Asia, particularly in China and India. The growth was driven by increased distribution, increased sales per outlet and well-executed above-the-line campaigns.

Kronenbourg 1664 grew 2 per cent, driven by continued growth in France and 20 per cent volume growth in Asia.

Grimbergen grew 19 per cent and remains the fastest growing international abbey beer. The growth was driven by continued growth in France, packaging innovations including a 70cl sharing bottle and further geographic expansion.

The Somersby cider brand grew 26 per cent, with strong results in several Western European markets and export markets such as Canada and Australia. In the UK, the growth was driven by the launch of the international flavour variants, while in Ukraine it was driven by line extensions and overall category growth.

Slide 20 and a few comments on selected power brands. The Kasztelan brand in Poland is positioned in the unpasteurised segment and has been a key driver of the growth in our Polish business in recent years. Again this year, Kasztelan has delivered strong results.

In France, we launched the non-alcoholic Tourtel Twist brand in two flavour variants. It is an important add-on to the French portfolio and is expected to play an important role in the growing non-alcoholic segment. The brand has already achieved a market share of close to 0.5 per cent.

In Ukraine, the Lvivske brand developed very well in a challenging market. Through a well-executed campaign around the 300-year anniversary of the Lviv brewery, the performance of the brand was a key contributor to the strong market share improvement in Ukraine.

After relaunching the Chongqing brand in November last year with new packaging, new communication and consistent pricing, the growth of the brand has been an important lever in the progress in the Chongqing province.

As mentioned before, in Myanmar we opened the brewery in May and we are in the process of launching a completely new local mainstream brand called Yoma. We are now building brand awareness and establishing distribution in key cities.

That was all from us for today. To summarise, the operating profit decline in Eastern Europe and in Q2 also in Western Europe was partly offset by operating profit growth in Asia. Based on the Q2 and July results, we have revised our 2015 earnings expectations downwards. Cash flow improved strongly as a result of lower capex and working capital improvements. Now we are ready to take your questions.

OPERATOR: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. So, if you have a question, please press star and then one on your telephone keypad. If you wish to be removed from the queue, you may press the hash or pound key. Once again, if you do have a question, please press star followed by one on your telephone keypads. There will now be a brief pause while questions are being registered.

Our first question comes from the line of Trevor Stirling from Bernstein. Please go ahead with your question. Your line is now open.

TREVOR STIRLING: Good morning, Cees and Jorn. Two questions from my side. They're probably more for Jorn.

Jorn, could you just give us a bit more colour on the margin contraction in Western Europe? I'm struck by the contrast between this year and last year. Last year, Q2 volumes were up 70 bps; margins were up 60 bps. This year, volumes are down 5 per cent but the margin contracts 280 basis points, so it looks like you are losing an awful lot more on the way down than you were on the way up last year.

The second question is around Russia. Volume market share is 36.1 per cent. That's quite a long way down sequentially and 30 bps down year-on-year and yet Q2 last year was when you were having a lot of difficulty around the legal status of Baltika and deliveries in Q2 were affected by that. So perhaps a bit more colour on that too would be great.

JORN JENSEN: Sure, Trevor. If we take the first one, Western Europe margins, basically, then it is, as we also at least tried to explain, about two things.

It is about a top line that has been quite weak versus last year for those several reasons that I just talked about. Weather is definitely a very important element to this, of course impacting volumes negatively, but also negatively impacting price/mix, which of course in itself is impacting the margin or the bottom line significantly versus the volume effect. On top of that, it's not so that we are not getting supply chain savings. We are getting supply chain savings. It's just so that we are getting less than what we had expected.

So, in short, the margin contraction is coming from a worse top line than expected; it's coming from increased sales and marketing investments, as said before; and it is coming from lower savings than planned for the year. Is that clear?

TREVOR STIRLING: Yes.

JORN JENSEN: Okay, good. On Russia, yes, volume market share was slightly down for the first half year; as stated, in value terms, the same as last year. So it is this balance between volume and value that we have been talking about for many, many years in Russia that we do our utmost to keep. So, as always, Russia is not just about gaining volume share; it is also about ensuring that our value share is developing at least in line with our volume share.

Then, as you know, we have tough comps in the sense that we downsized as the first ones last year, which is not fully reflected in the recent numbers.

Finally, as also said, price leadership, as always, too, especially in the years where we are seeing a lot of price increases, and this is definitely such a year for obvious reasons. Then we are in the shorter term, of course, negatively impacted by that.

TREVOR STIRLING: Thank you very much, Jorn.

OPERATOR: Our next question comes from the line of Ian Shackleton from Nomura. Please go ahead with your question. Your line is now open.

IAN SHACKLETON: Yes, good morning. Cees talked about presenting on this new strategy in the first half of 2016. I just wanted to confirm. Are we talking about with the Q4 results or could it even be later?

I know there will be a lot of new initiatives there, but one of the initiatives that you'd already talked a lot about was introducing ZBB across the Group. I wonder if you could just give us an update of how that is progressing.

CEES 'T HART: Thank you for your question. Good morning. Yes, we were talking about 2016. That will not be with the Q4 results, as we see it now, but slightly later. We're planning a strategic review. That will take some time.

I would like to distinguish the financial health of the business and the strategic health. Obviously, with regard to the financial health, knowing Q2, we need to make a significant step-up. That's what we will focus on in the coming days, weeks and months.

On the other hand, our strategy is not there for one or two years. It will be there for, hopefully, five to seven or even longer years. That means that we need to have a holistic and robust strategy. We'll take the time for that. It will not be a boardroom exercise but an exercise we do together with our 60 or 70 senior leaders of this business, so it will take a bit more time. But by that the implementation will go faster and more rigorously afterwards. So we will come back on that in the first half year of 2016.

JORN JENSEN: Yes. On ZBB, the short answer is that there's no news versus what we talked about three months ago, which means that we are implementing this, as we talked about three months ago. That means that where we are right now is that we are these days actually implementing or working on all the cost-saving potentials for next year with our regions and with local markets, and then the normal budget process is now slowly starting for everybody. When all of that is done, it will be done in this new ZBB too and then of course, when we come back in February and talk about 2016, we will be able to talk in more detail about what we expect to get out of all our cost initiatives.

IAN SHACKLETON: That's very useful. Thank you. Just a quick follow-up on Russia on the regulatory situation. Could you update us on where we are on the potential PET ban and also what your expectation is for beer duty next year in Russia?

JORN JENSEN: When it comes to beer duty, we expect that what is the current law will also be the reality for next year.

When it comes to PET, I don't know if you have seen the brewers union's announcement about it. That you have not yet seen, so you can say that until you see an announcement from the brewers union, then there is basically no news; the ban is still being implemented. But as we have talked about in the past, the industry has made a voluntary proposal to the government and, as we see it now, it's quite likely that that will be implemented. If not, we will of course come back, but no big news at this point in time on PET.

IAN SHACKLETON: Very good. Thank you.

OPERATOR: Our next question comes from Søren Samsøe from SEB. Please go ahead with your question. Your line is now open.

SØREN SAMSØE: Yes. Good morning. Four questions from my side. First of all, regarding the BSP1 programme, it now seems that that's not delivering this year. But I was just wondering whether you stick with the original timeframe of improving the margin by at least 250 bps over five years so that it will now be more backend-loaded, you can say? That was the first one.

The second one: just if you can say when Eastern Assets will stop contributing with a negative impact to EBIT, will that already be in 2016 or will that be later?

The third question: if there are any further initiatives done in relation to the renew programme?

Then, finally, if you can just give us a feeling for your visibility on the Q3 at this stage in late August here? Thank you.

JORN JENSEN: Sure, Søren. On BSP1 or what we call the CSC savings, as said, we do have a lot of initiatives ongoing on CSC in general, as we have also talked about before. The thing to date, so to speak, on savings and for this year is not that we're *not* delivering savings based in CSC, of course very much enabled by the BSP1 tool or SAP platform, but that not all of the planned savings are coming through this year. It doesn't mean that the operating agenda or all the activities that are in CSC will not eventually be executed but will come slower than what we have anticipated.

When it comes to Eastern Assets or when it comes to 2016 in general, as always, we will talk to you in detail about that in February and not start guiding on individual elements before that.

On renew: implementation, as you know, happened in headquarters before the summer and then, as we said, there'll be further communication around this as we are implementing throughout the organisation. But there it's more or less like the brewery closures: We will talk to you about it as we go and when we are ready to announce this also to the market.

When it comes to Q3, then of course we know July and we have also taken that into account in our guidance today. We have also seen the first ten days of August. So that is what we know. We know July and we know the beginning of August and the rest we do not know.

SØREN SAMSØE: Just to follow up on the first question, can you just confirm that you can still do the 250 bps improvement in margin now, just so we know what to model in here?

JORN JENSEN: Sure. Yes, there's no change to our midterm margin guidance on Western Europe.

SØREN SAMSØE: Okay. Thank you.

OPERATOR: Our next question comes from the line of Jonas Guldborg Hansen from Carnegie Bank. Please go ahead with your question. Your line is now open.

JONAS GULDBORG HANSEN: Yes. Good morning. First, a question on Russia and price/mix. You paint a rather gloomy picture for the second half, but will you be able to increase prices in Russia in H2?

Then another one also on Russia. If I read your statement right, then you increased costs in an absolute term in Eastern Europe in the first half, which explains part of the EBIT decline. Could you elaborate a bit on the background for this cost increase?

JORN JENSEN: Yes, sure. When it comes to Russia and pricing, then, as I said, we have been increasing prices three times, each time 3 to 4 per cent, so far this year. As always, we would rather not talk - because it is, as you can imagine, a bit commercially sensitive - about when we will do more pricing in Russia. Assuming again, as we talked about just before, that there will be an excise duty increase on 1 January, you can say that in all previous years that of course has also led to price increases in the second half of the year, but no promises on this at this point in time.

When it comes to costs, it's basically two things. It is underlying inflation in Russia, which of course is increasing our costs in rouble terms; and then, which is even more important, it is the imported inflation coming from the devaluation of the rouble, especially to the US dollar. That of course brings our input costs - or at least those parts of the input costs that are denominated in US dollars - up quite significantly this year. It's not a surprise and we talked about that also three months ago and six months ago, but of course that is bringing up the costs in rouble terms in Russia this year.

JONAS GULDBORG HANSEN: Okay. Thank you.

OPERATOR: Our next question comes from the line of Andrew Holland from Société Générale. Please go ahead with your question. Your line is now open.

ANDREW HOLLAND: Yes. Thank you. Just on Cees's opening comments on what he found, unless I misheard it, you didn't mention the brand Carlsberg in there. You mentioned Tuborg, Somersby and certain innovations, but there was no mention of the Carlsberg brand. That I found an extraordinary oversight, if that's what it was. Is that indicative of a need to increase investment behind that brand so that it becomes rather more front-of-mind?

Just on the China Eastern Assets, can you confirm that that will still be lossmaking for the full year?

CEES 'T HART: Thank you for your question. For sure, Carlsberg cannot be an oversight, of course. I was quoting the brands that at this moment in time are really growing very well and that's why. These brands I quoted, they have seen these in the figures and, for that, I didn't mention Carlsberg because it was down by 2 per cent. For sure, Carlsberg is a beautiful brand, is globally very well-known and has a very strong history, and obviously, we will look towards the possibilities to strengthen the brand equity in the countries where we operate. So it was not an oversight; basically, I was mentioning my first views on the strong performance of some of these brands and unfortunately Carlsberg is not yet part of that.

JORN JENSEN: Andrew, the answer to your second question is basically, yes, it will be lossmaking on a full-year basis.

ANDREW HOLLAND: Okay. Can I just press Cees a little bit? Do you think that the brand does need more investment? Does this have implications for the longer-term margin structure of the business if you've got to put more support behind the brand?

CEES 'T HART: I'm a marketeer from origin, so, as you know, marketeers always want to have more support for brands. But I think we should come back on that later. I need to further develop my view on allocating the resources we have. But for sure, support levels of our brands are part of that consideration.

ANDREW HOLLAND: Okay. Thank you.

OPERATOR: Our next question comes from the line of Michael Rasmussen from ABG. Please go ahead with your question. Your line is now open.

MICHAEL RASMUSSEN: Thank you very much. Three questions, please. If you could go through in a little bit more detail exactly what has changed in your supply chain integration since we talked at the end of May because at that stage I got the impression that things were going quite well also in 2015?

My second question goes to you, Cees. Welcome on board to you. Obviously, as said before, it's too early to talk about the strategy at Carlsberg. But if you could add a little bit of flavour on your focus areas and what you did change while you were all those years at FrieslandCampina, please?

Then my final question on your comment in terms of the weather and July: was July and the first part of August any better or any worse versus Q2 in Western Europe? Thank you.

JORN JENSEN: Sure, Michael. If I just take the first and the third questions, on savings, yes, it was definitely so in the beginning of the year. I think you also saw in the Q1 numbers for Western Europe that we are both growing volume for those technical reasons as well as, as we have talked about before, like the stocking for BSP1 and Easter, but also that we were getting savings through.

But of course it is just so that when you have lower volumes - and that then gets back to the weather and so on and so forth - when you have lower volumes, then you also have, everything else being equal, negative operational leverage. That is of course also impacting savings or putting even more pressure on delivering and even more in other areas. What is clear is that this is not specific to one area, i.e. it's not just procurement, production or logistics. It is more about the very busy operational agenda with lots of initiatives for all areas within CSC that had to be delivered on this year. Most of those are being delivered, but some are not being delivered.

So, as said before, we are getting more and more savings out of CSC but we are not this year getting all of the savings out that we had expected going into the year and what the whole plan for this year was based on.

MICHAEL RASMUSSEN: Okay. So I just wanted to get around that it's nothing to do with some of the recent markets that you put on the platform like Denmark, France, etc?

JORN JENSEN: Exactly. No, it is not. It is not. When it comes to the third question, what we have seen in July and what we have seen in the first ten days of August will of course be part of how we talk about Q3 in three months. But I guess you have also probably been around in Denmark in July and have noticed, as the rest of us, that the weather was just bad also in July and it goes for all the Nordic markets. But all of that, as I said before, all those kinds of observations and all that knowledge is incorporated in our guidance for the full year.

CEES 'T HART: With regard to your question on what I did in the past, thank you for the question and I would be delighted to talk for very long on that one, but probably that's not of that much interest at this point of time. Dairy, obviously, is a very different category and I'm afraid at the moment that I would tell you what I did or what we did in dairy and that you might see that as guidance for what we're going to do in beer. Basically, as you obviously know, these are very different categories with very different dynamics.

However, if I take, let's say, the process we will move into in the coming weeks and months, it's all about, in my view, a holistic strategy. We talk about three things. That's the portfolio in terms of brands, segments and geographies; on the basis of these choices, assessing the capabilities of the company as wide as the work capability stated; and then building the right performance culture. That's what I did in the previous company and that's I think what I can bring to this company.

MICHAEL RASMUSSEN: Great. Thank you very much.

OPERATOR: Our next question comes from the line of Sanjeet Aujla. Please go ahead with your question. Your line is now open.

SANJEET AUJLA: Yes, hi. Just a follow-up on Russia please, Jorn. At the Q1 results you expressed some degree of confidence that you're close to the end of destocking, so what's changed in Q2? Why have we had more destocking and what confidence do you have looking into the second half of the year that there won't be any further destocking? Thanks.

JORN JENSEN: This destocking thing is not about Q2. The destocking started basically at the end of June - 1 July basically - last year and then there has been, as we talked about three months ago, a little more destocking to take place in Q1 as we came out of last year with slightly higher inventories than what was actually planned. So, this year, it's not about destocking in Q2. It's on the year-to-date numbers about the little more destocking we had to do in Q1. Then of course, on our comparables, it's very, very negative in the sense that we are for year-to-date and for Q2 comparing to last year's Q1 and Q2 where there was a stocking up to the end of June. So that is why. I tried to explain that with that consumer off-take and our primary sales, our invoiced volumes were basically in line in Q2, so there's within the quarter very, very small inventory movements. It's all about the small further destocking on Q1 and all of the destocking in the second half of last year.

SANJEET AUJLA: Got it. So in the second half we should expect a normalisation?

JORN JENSEN: We are very, very observant on ensuring that our inventories at distributors in Russia are not at all higher than what they should be in order to service our customers in the optimal way. Of course, we will always have to have inventories with distributors; it is a very big country. So, just to make this work efficiently from a purely operational point of view, we need to have inventories but we don't want to have more inventories than absolutely needed. Also, it's to ensure that the products that our customers are getting are fresh and so on and so forth.

OPERATOR: Our next question comes from the line of Simon Hales from Barclays. Please go ahead with your question. Your line is now open.

SIMON HALES: Thank you. Morning, gentlemen. A couple of questions, please. Can I just clarify, Jorn, on your comments just now, again, on H2 expectations for your shipments versus depletions? Are you actually saying that in the second half we should expect your reported volumes to actually match the consumer off-take?

Then, secondly, just coming back to the Western European margin backdrop, can you just talk a little bit about how much of an impact the higher A&P had on Q2 and how we should think about A&P as we go into the second half and, also, your outlook generally for price/mix for the full year now given that weaker backdrop you saw in Q2?

JORN JENSEN: Simon, to the first question, yes, in principle, it should be. Of course, the thing is with primary sales or inventories that it is something that you work on on a forward-looking basis versus consumer off-take, which is happening now. So, of course, you will always see small variations up or down on primary sales versus secondary sales, which is also adjusting for a different season. Is the coming month higher or lower than the previous month and so on and so forth? But generally, yes, we should have primary sales more or less in line with secondary sales. Definitely, we do not want to increase inventories at distributors. We don't want to have higher inventories than what is needed.

When it comes to margins in Western Europe and brands in the market or A&P in general, we're not talking in detailed terms about that but it was up in the first half. For the full year, as said before, we expect it, as a percentage of net revenue, to be slightly higher than last year.

Then the third question was on price/mix in Western Europe. As said, also when it comes to Q2, of course Q2 was also negatively impacted by price/mix due to a more negative channel mix than what we structurally expect to see in Western Europe and then you're back to weather and all that. So, everything else being equal, we do expect that our price/mix in general in Western Europe in the second half will be somewhat better than what we have seen in the first half.

SIMON HALES: Okay, so you're still sort of comfortable? You were talking before about the full year price/mix in Western Europe being down 0 to 1 per cent. Is that still where you think it'll be?

JORN JENSEN: We are not guiding that specifically on all those elements but we have definitely plans in place. It's not so that we are not at this point in time also working on improving price/mix in general in Western Europe. So, as said, we do expect it to be better in the second half than what have realised in the first half.

SIMON HALES: Okay. Perfect. Thanks, Jorn.

OPERATOR: Our next question comes from the line of Andrea Pistacchi from Citi. Please go ahead with your question. Your line is now open.

ANDREA PISTACCHI: Thank you. I have three questions, please. The first one is on Russia. You've commented that of course the macro continues to deteriorate there. Do you expect this to result in a worsened market decline in H2?

The second question: to achieve your new guidance of a slight decline in organic EBIT growth, let's call it 1 or 2 per cent, if I calculate correctly, this requires about 10 per cent growth in the second half. Now, with Russia remaining very difficult and Western Europe not off to a great start, what gives you the confidence that you can achieve that?

Then my last question, please, partly related to this is on the cost savings in Europe. Now, the reasons that caused the delay in delivery of these cost savings were partly, I think you said, that the volume weakness made it more difficult to deliver cost savings. Should we expect Q3 and Q4 to be affected by delay in cost savings?

JORN JENSEN: On the first one on the Russian market, as said before, the year-to-date market was down 9 per cent, pretty much in line with what we have talked about before but also slightly worse, but now we are into decimals in the second quarter. I guess we have all noticed that the oil price has come down quite a lot very recently. As we have that, that will, with everything else being equal, further impact the Russian economy in a negative way for the remainder of this year and, of course, we also then expect that to negatively impact the Russian consumer. So we're not changing our view more structurally on Russia at this point in time but we are starting to get a little more negative on what to expect from the Russian consumer, basically, and from the Russian market not necessarily in volume but just in general in value terms for the remainder of this year. All of that has been built into our guidance announced earlier today.

When it comes to H2 versus H1, there are different elements and explanations per region. One of the things is what we have already talked about, which is of course that in Eastern Europe last year we had this significant destocking. So, in that sense, everything else being equal, there'll be easy comps on the volume side. Last year, if you go back and read the Q3 release, you will notice that in Western Europe we did not have a very good performance, which, by the way, was due to bad weather last year in Western Europe. That was basically volumes down. So different explanations per region. But I can promise you that we've been through this in all the needed detail and the outlook we have provided today with a slight decline in operating profit is where we expect the year to end.

ANDREA PISTACCHI: Thanks. Lastly, on the recent impact in the cost savings, whether these will linger into H2?

JORN JENSEN: Well, yes, in a sense. So, to repeat myself, we are getting cost savings out of CSC; we will get that in Q3 and Q4 as well. So, we will definitely deliver cost savings in general and so, yes, that will also be an element of Q3 and Q4. We will deliver less than what we had planned going into the year for all the reasons I have talked about.

ANDREA PISTACCHI: Perfect. Thank you.

OPERATOR: Our next question comes from the line of Hans Gregersen from Nordea. Please go ahead with your question. Your line is now open.

HANS GREGERSEN: Good morning. Regarding the cost savings initiatives across Western Europe, could you be a little bit more detailed or give us some examples on what has actually gone wrong in terms of extracting those savings so we can get real insights into this? Secondly, you mentioned that the guidance for this remains unchanged across the strategy period. Does this imply that you will catch up on these delays in 2015 already, in 2016 or when will that be done, so can you explain to us what has actually fallen behind schedule and the reasons and why? That's the first question. The second is India. Is that now in profitable terms on a full year basis? Thirdly, in terms of A&P spend, if we look at the absolute spend for H2, is that up or down compared to your initial budget at the beginning of the year? Thank you.

JORN JENSEN: Hans, to your first question on savings, then, yes, we're not changing our midterm margin ambitions or targets for Western Europe; we're not changing our ambitions on savings in general or the supply chain savings in Western Europe, either. So this is all about that very busy agenda and a lot of things that we must deliver on in Western Europe and that is for many, many different reasons. It's not in one area specifically; it's not in one market specifically. Basically, we are behind plan, I guess you can say, on implementing all those initiatives. So, when that will come from a model point of view and talking about 2016 and all that, as always, that we will talk about in more detail in February.

HANS GREGERSEN: Jorn, can you give just one or two examples on what has gone wrong or can you say when you discovered this was starting to fall behind schedule?

JORN JENSEN: No, I don't want to be specific because it will be small, small things that I don't think can be used for anything. The acknowledgement of being behind schedule has become apparent during the second quarter, when also we have had lower volumes than expected, which, as I also said before, also meant that we on the savings side have had to battle with negative operational leverage versus what was expected. So, as you know, we will talk about these kinds of things in more detail for 2016 and onwards when we announce our guidance for 2016 in February.

HANS GREGERSEN: Can you just elaborate, finally? If you look on the delayed impact on this, is that at all related to the lower volumes due to weather conditions?

JORN JENSEN: Yes, that is incorporated in this.

HANS GREGERSEN: No, I said: is that part of the delays caused by the lower volumes created by the weather impact?

JORN JENSEN: No. The delivery this year is of course also impacted by lower volumes, which also are impacted due to weather. So that means of course that, everything else being equal, it puts even more pressure on what needs to be delivered to the bottom line in general in Western Europe. But the variance to the plan is on the many, many activities within the different areas of CSC - which is procurement, production and logistics - that were supposed to come through and deliver EBIT impact this year. Are we okay on that one, Hans?

HANS GREGERSEN: Yes.

JORN JENSEN: On India, as said before, we are getting very close to being breakeven in India, which is ahead of plan, so let's see when the year ends. But that is what we are targeting.

Then, yes, when it comes to A&P, there is no change to the plan, so to speak, on our A&P spending for the year.

HANS GREGERSEN: Thank you.

OPERATOR: Our next question comes from the line of Tobias Bjorklund from Danske Bank. Please go ahead with your question. Your line is now open.

TOBIAS BJORKLUND: Good morning, everyone. So two questions. So, in Russia, how far are we in the shift from traditional to modern trade, if you could give a feel on that and how the split is made up?

Secondly, for China, there have been some reports out indicating some challenging Chinese markets or lower volumes at least. You are still growing and, over the longer term here, are you expecting that your regions will be able to outgrow average Chinese volume growth? Is that in your assumptions and how do you think about that?

JORN JENSEN: Sure, Tobias. To the first question, modern trade is now 40 per cent and traditional trade 60 per cent. As you will recall, it was much, much less just a few years ago, so there is no doubt that also the crisis in Russia is helping modern trade to grow, as you would expect, so now 40 per cent of the market.

On China, yes, we are outgrowing significantly year-to-date, 1 per cent up in the market, down mid-single-digits. Of course, if you take this longer term, we cannot forever outgrow the market as much as what we have seen here. In general, we are definitely also exposed to the much lower growth in China and to the market decline in China; no doubt about that. Structurally, I guess the macroeconomists can talk more about that but, everything else being equal, we do expect to see more economic growth - wealth growth, if you like - in western China than in eastern China, but that is basically just helped by the investments that the Chinese government is doing into western China. But of course, all of that said, we are also exposed to the more negative volume development in China and as reported by all our competitors.

TOBIAS BJORKLUND: Okay, thank you.

OPERATOR: Our next question comes from Olivier Nicolai. Please go ahead with your question. Your line is now open.

OLIVIER NICOLAI: Good morning. Just a follow-up on this modern trade and traditional trade. It's at 40 per cent and 60 per cent. Is that for the market or is it for Carlsberg specifically? Could you give us an idea of the margin differential between the two channels? Is it 200 to 300 basis points?

JORN JENSEN: The 40/60 is the market, so 40 per cent modern trade in the market and 60 per cent traditional trade in the market. As you will know, we are not disclosing our margins in our different channels. We also have different margins within the channel and so on and so forth. But of course we are also impacted by the change in the retail landscape in Russia. It also gives us opportunities with the strength of our brands in the market and all of that we are working on.

OLIVIER NICOLAI: Perfect. Do you think you are overweight in the traditional compared to the market?

JORN JENSEN: We are still slightly underweight but it's increasing in modern trade and slightly overweight in traditional trade. We used to be very much underweight in modern and significantly overweight in traditional but it's getting closer and closer to the right balance.

OLIVIER NICOLAI: Perfect. Thank you very much.

OPERATOR: Our next question comes from the line of Richard Withagen from Kepler Cheuvreux. Please go ahead with your question. Your line is now open.

RICHARD WITHAGEN: Yes, good morning. I have two questions as well. First of all, you are citing higher marketing spending in both Eastern Europe and Western Europe and, nonetheless, your volumes have been disappointing in those markets. So can you talk a bit about your return on marketing spending in general?

The second question that I have is: obviously, given the volatility in some of your markets, what are you doing to adjust to changing market conditions more quickly?

JORN JENSEN: On the A&P question, of course, as you're saying, it is obvious that in spite of us having increased A&P this year, you don't see that in the revenue this year. But I think you need to basically remember that spending money on increasing brand awareness, on building brand equity and so on and so forth is not just about revenue in the next month; these kinds of things do take time. Then, as we also talked about, our market share in many, many markets in Western Europe - and the same actually goes for Eastern Europe - have shown very good results in the first half.

I'm not sure I understood what you meant by what we are doing on the volatility market side. Could you please repeat the question?

RICHARD WITHAGEN: Yes. Basically, obviously, the markets are volatile. What are you doing to adjust? I mean, if markets change, what do you do in terms of takeout costs or accelerating initiatives to grow volumes? So, basically, how quickly can your organisation adjust to changing market conditions?

JORN JENSEN: It's very difficult to give a generic answer to that question because of course it depends on why the market is changing rapidly. In general, there are not that many of our markets that are structurally changing within a day or two or within a month, but of course the easy, primitive example here is weather. If you have a very bad summer or very bad weather in one month, of course you're not adjusting anything because you don't expect that to last forever. And also the other way round. If it's extremely warm, then you don't suddenly add a lot of FTEs on your P&L. Of course, in general, we are taking out costs throughout. That's more a structural thing and that we will continue to do.

RICHARD WITHAGEN: Okay. Thank you.

OPERATOR: Our next question comes from the line of Chris Pitcher from Redburn. Please go ahead with your question. Your line is now open.

CHRIS PITCHER: Thank you very much. Two questions from me, please. Firstly, Cees, on your review that you are undertaking now, can I just understand a bit more detail how broad a mandate you have in reviewing the Carlsberg business? Are there any sacred cows in terms of operating assets that you own?

Secondly, you've reiterated the medium-term margin target for Western Europe. Is that sacrosanct within your review or could we come early next year and find you've reviewed your investment requirements in Western Europe?

Then the second question is on your capex guidance of DKK 4 billion. What's the lowest level you think this business can run on in terms of capex? Thanks very much.

CEES 'T HART: Thanks. Jorn will take the two more, if you like, operational questions in a minute. In terms of the mandate I have, it's the full support of the board to review the totality of the business and that means no sacred cows.

JORN JENSEN: To the other two questions, on margin guidance, of course, as Cees was saying, now we're doing this complete strategic review and that will end in us talking about a strategy. How we will, as a consequence of that strategy, in general guide the market, what KPIs we will then focus on and so on so forth, it is simply too early to say. So what I'm saying on the 50 bps is that there are no changes structurally to all our ambitions on driving costs out in Western Europe. Then, when it comes to how will we talk to you guys about our ambitions, that we will come back on when we are communicating the new strategy.

On capex, it's difficult to answer the question because you can always in the very short term lower your capex significantly below depreciation but you cannot do it forever. Then, on the other hand, we also do have what we consider to be good capex in our capex. So, when it is for demand-driven or volume increases, say, in Asia, in India, in Myanmar and so on and so forth, then of course we are happy to spend money on capex. What is crucial is that in those markets that are not growing and that are mature, we are ensuring that we are not spending more than what is absolutely needed.

CHRIS PITCHER: Okay. Thank you.

JORN JENSEN: Good. I think that was the last question for today, so thanks a lot for joining. We will see some of you over the next ten days or so and then we'll be back in three months' time. Thank you.

CEES 'T HART: Thank you everyone for now. Have a good day.

OPERATOR: That concludes the conference call. Thank you all for attending. You may now disconnect your lines. Thank you.