Carlsberg Conference Call
Interim Results 9 Months Ended 30 September 2010
Carlsberg A/S
CEO Jørgen Buhl Rasmussen
CFO Jørn P Jensen
November 9, 2010
9:00 am Greenwich Meant Time

Jørgen B. Rasmussen: Good morning everybody. Welcome to the conference call for our nine months 2010 results.

My name is Jørgen Buhl Rasmussen and I have with me our CFO Jørn P. Jensen, Sr Vice President Eastern Europe, Anton Artemiev and Vice President of Investor Relations Peter Kondrup.

The performance for the first nine months was strong. The headlines for the nine months are:

Signs of market recovery in Eastern Europe; we are improving overall market share trend; and we have achieved significant profit improvement through efficiency improvements and lower input costs;

Going in to the year we were clear in our ambitions to strengthen our market positions for this year and in the coming years.

Therefore we have increased our spend behind brands and activities and we have introduced and successfully executed many new products, campaigns and events - all driving the improved market shares in a significant part of our business.

During the year, we have continued our focused efficiency agenda as we still see substantial opportunities to improve the profitability of the Group and reducing the profitability gap to other best-in-class FMCG companies.

After the very strong margin improvement for the nine months we believe we are clearly on-track to meet our medium-term margin targets. However, we will have to work hard to mitigate the impact from rising raw material and packaging prices which will require sales price increases.

I will now give you a summary of our performance for the first nine months and then briefly go through the regions. As always, Jørn will then walk you through the numbers and our 2010 outlook.

After that we will be happy to take your questions. Please turn to slide 3.

We have seen generally improving market trends across our regions. The Northern & Western European beer markets declined by an estimated 2% for the nine months. While this is an improving trend compared to 2009, consumer dynamics remain challenging in a number of markets in the region. The Eastern European markets are benefiting from better macroeconomics and improved consumer sentiment and in Q3 also from warm weather. The Asian markets continued the strong growth trend with mid- to high single-digit growth rates.

For 2010, we have intensified the focus on driving market shares across all three regions. To drive and support volume and value market share growth, we have increased investments behind our brands and activities. We have also increased spend behind innovations and accelerated the number of product introductions. These efforts, together with value management, have been, and will continue to be, an important driver. Brand marketing investments increased by double-digit percentage.

Due to all these efforts we have been able to gain market share in a large part of the business during 2010. A particularly satisfying outcome has been a 4% volume growth of the Carlsberg brand, well ahead of the overall volume development driven by successful activation during the summer and World Cup.
For the nine months, our beer volumes declined organically by 1% impacted by the Russian de-stocking in Q1. Adjusting for this, volume growth would have been +1%. However, in Q3, the volume growth for the quarter was +3%, mainly driven by continued strong growth in Asia, flat Northern & Western European volumes, and, very importantly, volume growth in Eastern Europe where Russia, helped by warm weather, returned to growth.
Organic net revenue development was -2% but with 2% growth in Q3. Price/mix was flat with small positive pricing in most markets. However, negative country mix offset the positive pricing impact.

And now to slide 4
The focus on driving efficiencies across all regions and functions continues. For the nine months we have again been able to deliver substantial savings in most parts of the business. Part of the savings has been synergies from the S&N acquisitions. By the end of Q3, we have realised all DKK 1.3bn synergies, approximately 6 months ahead of plan.
Gross margin improved organically by 260bp due to production efficiencies and favourable hedges and input costs.
Excluding sales and marketing spend, which was up double-digit, operating expenses were down and reported operating margin improved strongly by 270bp to 19.6%. The third quarter improvement was even stronger with a 330bp improvement to 23.5%. The Q3 margin benefited from the phasing of sales and marketing activities between Q3 and Q4 versus last year in Eastern Europe. The operating margin improved in all regions.
Organic operating profit growth was 9%. Adjusting for the destocking in Russia in Q1, operating profit growth was an estimated 12%. In Q3, we delivered double-digit organic operating profit growth in all three regions.
Net result growth was very high at 57% due to growth in reported operating profit and lower financial expense.
The strong focus on improving cash flow continued and the Group kept cash flow at a high level.

Now let us turn to the regions and begin with Northern & Western Europe on slide 6.
For the Northern & Western European markets we saw an improving trend in the nine months compared to the weaker 2009 markets. However, the markets remain challenging with an estimated 2% decline.
Our beer volumes in Northern & Western Europe grew organically by 1%. Q3 volume development was flat. The beginning of Q3 was weak in some of the markets such as the UK where there had been strong volume growth during the World Cup campaigns.
Carlsberg improved its market share across the region and consequently improved the recent year's trend of flat Northern & Western European market share. This was done through a combination of more product launches, a higher activation level, higher marketing investments and value management.
Strongest market shares gains were recorded in the UK, Poland, South-East Europe and Norway. The UK continued the trend from recent quarters and grew market share in volume and value. The volume market share year-to-date is now 15.7%, an increase of 140bp. The UK business gained in both on- and off-trade

and the Carlsberg brand family is now the largest in the UK off-trade. Poland benefited from strong performance of the Harnas brand, product launches and widened distribution in general. In Norway an important driver was new product launches.
Marketing investments increased organically by double-digit percentages to support key brands and activities. A significant number of activations took place in connection with the World Cup and in relation to music and summer events.
Organic net revenue development was -1%. There was a small positive pricing in most markets, but a slightly negative mix due to a changed country mix and the on-going channel shift. To support price and mix, our value management efforts continue to be an important lever and an integrated part of the way we do business.
Organic operating profit improved by 16%. Operating profit margin grew by 250bp to 15.3% driven by efficiency initiatives and lower COGS.

Now to slide 7 and Eastern Europe.
For the nine months we have seen clear signs of improving market conditions in the region as the macro economic indicators and consumer sentiment picked up. Markets have also been supported by very favourable weather conditions in Q3.
Organic volume development for the region was -7%. Adjusting for the Russian de-stocking in Q1, volumes would have declined an estimated 3%. In Q3, the region returned to growth – the first quarter where we have been able to deliver organic volume growth in the region since the beginning of the economic crisis. In Q3, volumes in all markets grew, also in Russia where volumes were +1%.
The market in Ukraine grew by approximately 4%, while our beer volumes increased by high-single digit percentages continuing the strong trend of market share improvements exceeding 28% market share.
We will continue to invest significantly behind our brands and marketing activities. Sales and marketing costs increased for the nine months to support the significant number of innovations and new products.
Organic net revenue development was -8% with +4% in Q3. The improved revenue performance in Q2 and Q3 reflects the overall volume trend, no impact from de-stocking and the phased implementation of price increases in Russia. Organic operating profit development was -4%. Adjusted for the Russian de-stocking impact it would have been +4%.
Margins grew substantially by 200bp to 31.1% for the nine months. This margin performance was driven by lower input costs, efficiencies and a gradual improvement in price per hl as the Russian duty increase was phased in during Q1 and Q2.
For the nine months, we have not yet been impacted by the higher raw material and packaging prices. This will however impact negatively from Q4 and onwards.

And now we turn to slide 8 and a few comments on Russia.
The Russian market declined by an estimated 5% for the nine months. Market conditions improved during the summer as consumer dynamics became more positive and as favourable weather impacted positively. In Q3, the market grew by an estimated 2%
We adjust our expectations for the Russian market development in 2010. We still expect the market to decline due to the excise duty increase in January, but we now expect a mid-single digit decline compared to previous expectations of high single-digit decline. The revised expectations are mainly due to the warm weather during the summer.

Our market share for the nine months was 38.9%, or an 80bp decline. For Q3, the year-over-year decline was 70bp. This can be explained by a couple of factors. Firstly, during the summer there has been a higher than expected level of activations among our competitors in the market. Secondly, we have phased in the needed price increases in several steps since November 2009. With the exception of one competitor, we have been leading on price increases. By the end of Q3, gaps still exist and are higher than expected versus most of our competitors. In response to this, we accelerated our activation level during Q3 and the higher market share of 39.6% in September is a reflection of this. Due to timing of some activities in the market our sales and marketing costs will increase somewhat in Q4 compared to Q3.

Our Russian in-market-sales, or consumer off-take, was -6% for the nine months but +2% for Q3. Our shipments were lower at -11% due to the de-stocking at distributors in Q1. Adjusting for the Russian destocking, shipments for the nine months were -7%. Q3 shipments were up 1%.

Price/mix was negative by 4% for the nine months as the tax increase was passed on in smaller steps since November last year. For Q3, the price/mix effect was better at -1% with small positive pricing and a negative mix. To off-set the excise duty increase we have increased prices to our customers by approximately 25% with significant variation between brands and regions. At the end of Q3, we were still slightly ahead of most of our competitors.

Slide 9 please and a view at the trend line of our Russian market share development. This confirms the strong and growing trend-line for our market share performance in Russia and we are confident that we can continue this trend.

Please note that from January 2008 we have started to use Nielsen data for our retail audits.

Slide 10 and Asia.

Our Asian business continued its strong performance, reporting 16% organic beer volume growth. This was across all markets in the region, but with particularly strong performance in Indochina, China and India.

The growth was driven by overall market growth in the region together with market share gains across the majority of our markets. The high level of innovations, product launches and activities across all our markets supported the growth.

The Chinese business delivered 11% organic volume growth driven by both the international premium category and local Western Chinese brands. Several of the local Chinese brands were re-launched with the objective to premiumise in small steps and strengthen consumer appeal. This led to a 4% positive price/mix in China.

The growth in Indochina was particularly strong due to market growth and market share gains. This is reflecting a number of product launches that have been done to strengthen the local product portfolios.

The premiumisation efforts with product launches, line extensions and re-launches combined with price increases drove a very positive price/mix for the region despite a negative country mix.

Organic operating profit growth was very strong at 40% due to volume growth, price/mix improvements, lower COGS and efficiency improvements across all markets.

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

Jørn P. Jensen: Thank you Jørgen. Please turn to slide 12.

The nine months performance was very strong with organic profit growth, margin improvements, net result growth and a strong cash flow. For Q3 the Group was able to report organic revenue growth mainly due to continued growth in Asia and the return of growth in Eastern Europe helped by the warm weather and improving market conditions.

Net revenue increased by 2% with an even stronger development in Q3 of 8%. Organic growth was -2% but +2% in Q3. Asia has been a significant contributor to the net revenue growth. Our results are still positively impacted by FX and, most importantly, is the Russian Rouble as the average rate for the nine months was around 10% higher than last year. The Rouble weakened somewhat in late Q3 and into Q4 and this will be negative for the remaining part of the year.

Operating profit growth was 18% with strong organic performance in Asia and Northern & Western Europe. In Q3, the reported operating profit growth was 26% of which organic growth contributed with 16%. All regions had positive organic growth in the quarter. As also mentioned in the press release, Eastern Europe was in Q3 helped by phasing of sales and marketing expenses between Q3 and Q4.

Operating margin was up 270bp to 19.6%, positively impacted by efficiency improvements and input costs.

Net profit increased significantly by 57% to DKK 5.1bn. We are on-track to deliver around 40% growth adjusted net profit for the full year.

Free cash flow remained at a high level of almost DKK 6bn despite spending more than DKK 1bn for acquisitions.

During the second half of 2010 we have seen a continued rise in input costs. In our outlook for 2010 we have included the impact from this.

Slide 13 and income statement.

As you can see in the P&L table, the positive impact of FX on net revenue more than off-set the negative organic development and the negative impact of net disposals leading to reported net revenue growth of 889m.

Despite the organic revenue decline, organic gross profit increased by 666m. The positive development is due to lower input costs and efficiency improvements – and for Asia the additional benefit from volume growth and higher sales prices per hl.

Organic total Opex including brands marketing increased 149m. We have increased our total sales and marketing expenses by double-digit percentages and reduced logistics and admin expenses.

Other income net was up 155m organically. This reflects the sale of a brand from the French business.

All in all reported operating profit was 9.1bn with a positive organic development of 672m. Of the positive FX impact of 687m around 75% relate to the recovery of Eastern European currencies. The organic development in the brewing activities of 639m – or +8% - still includes the negative de-stocking effect in Russia of estimated 300m in Q1. Excluding this effect, the underlying organic development was estimated +12%. On this note, I just want to remind you of the positive 300m impact from the stocking in Q4 last year which will not be repeated this year.

And now to slide 14.

Special items amounted to -108m. This number is on the one hand positively impacted by the non-cash, non-taxable income in Q1 of 390m related to a new IFRS accounting treatment of step acquisitions following the Xinjiang acquisition.

On the other hand, special items are impacted negatively in Q3 by a 300m non-cash, tax-deductable impairment on some Eastern European brands, including the Slavutich brand in Ukraine where we took a strategic decision to focus on the Lvivske brand instead of the Slavutich brand.
Financial costs, net were down 675m compared to last year. The reduction is partly explained by the lower net average debt this year and partly by the improvement in other financial items of 445m due to FX movements.
Tax rate was 27% excluding the non-taxable income of 390m in special items.
All in all, net profit was 5.1bn. Adjusting for the IFRS accounting impact of Xinjiang of 390m, the net profit improvement was DKK 1.4bn or 45%.

And now cash flow on slide 15.
The sum of the first three lines (EBITDA including other non-cash items) adds up to an improvement of 1.9bn.
Change in working capital was -284m, in line with plans. Our strong focus on working capital continues and as outlined before we have changed focus from period-end to average working capital in order to achieve a greater positive impact on *average* net interest bearing debt, i.e. we want an effect on both net profit and net debt.
End of Q3 trade working capital to net revenue on a 12 months basis was around 1% compared to 4% a year ago.
All in all cash flow from operations was DKK 8.8bn, an improvement of DKK 355m.

Slide 17
Our focus on CAPEX continues to be high on the agenda and capex in the first nine months was more or less on the same level as last year.
DKK 1bn was invested in acquisitions. The majority of this amount relates to a prepayment for the additional 12.25% stake in Chongqing that was announced in Q2.
Finally there is a positive net cash flow from real estate activities related to the disposal of one building in the Tuborg site in Denmark.
All in all free cash flow was 5.8bn largely on par with last year despite the payments related to the Asian acquisitions.

Finally, slide 18 and our outlook.
The performance for the first nine months was strong. For the full-year we have made a slight change to our assumptions for the Russian market decline.
The positive impact from this will however largely be off-set by rising input costs in Eastern Europe and adverse currency impact as the Rouble has weakened since mid-September. The Rouble exchange rate is assumed at 42-43 for Q4.
A comment on Q4 and Russia. Although we expect market share improvement in Q4 following the product launches and a very high level of activations, profits will decline year-over-year for several reasons:
Firstly, the destocking impact of -300m.
Secondly, rising input costs.
Thirdly, without revealing our pricing plans for Q4, you need to bear in mind that we started the price increases needed for this year to off-set the duty increase already in November 2009 where we increased prices with 4-5%. This means - looking at comparables – that we had higher net sales prices in Q4 last year than what we have as of today.
And finally, phasing of sales and marketing activities into Q4.

Based on this we now expect an operating profit of more than DKK 10bn compared to previous expectations of an operating profit around DKK 10bn.
Compared to our expectations after Q2 special items are now expected to be impacted negatively by the DKK 300m impairment on Eastern European brands in Q3. Net profit is still expected to grow strongly by around 40%, excluding the 390m contribution from Xinjiang.
I will now turn back to Jørgen for a final comment.

Jørgen B. Rasmussen: Thanks Jørn. This was the last slide for today.
Just to summarise on the back of the first nine months:
Firstly, we are very pleased with the very strong performance for the first nine months. Looking forward, Northern & Western Europe remains challenging. In Eastern Europe, we see encouraging signs of improving market conditions and in Asia, growth is expected to continue.
Secondly, we continue to spend more resources behind our brands and innovations. We did it for the first nine months and will continue to do so, with acceleration in some markets in Q4. The fact that we have gained share in a large part of the business so far this year make us even more certain that the portfolios we are building and activities that we are planning will drive further share gains. We firmly believe in the strength of having strong international brands combined with strong local power brands.
Thirdly, we continue our focus on driving efficiencies making sure we get the right balance between top-line growth and efficiencies.
Finally, as we explained at our recent capital markets day we continue to drive the progress of the company further towards a modern fast moving consumer goods company.
And with this we are happy to take 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 are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star then one on your touchtone phone.*

Our first question comes from Søren Samsøe from Danske Markets.

Søren Samsøe: Yes, good morning, gentlemen. Søren from Danske. **Firstly, a question regarding the phasing of your marketing cost. I can see that your sales and distribution cost is up 600 million year-over-year in Q3. Is it a similar increase year-over-year we will see in Q4 or how should we view this in our models? And also another question regarding Russia. The market share drop you're seeing, if you could maybe elaborate a little bit more on what the competitors have done. Have they made promotion? Have they actually lowered price in Q3 and you have increased prices? And then what are the retaliation you have done? Have you done major promotions and what will you do in Q4? Will you continue to strike down the competition or how will you react now?**

Jørn P. Jensen: Søren, if you take the first one, then of course in absolute terms, we are always spending more in Q3 in total on sales and marketing expenses. But what you will see in the point on this phasing is that you will see more sales and marketing expenses that you would normally see in a Q4, especially in Russia, and that is the speciality point we are trying to get across. So you will see increased activities and more spending than what you would normally see in a Q4 in Eastern Europe/Russia.

Søren Samsøe: **But can you confirm, it'll be more or less the same level up in Q4 as we saw in Q3?**

Jørn P. Jensen: No, I actually did not comment on that. So what I'm saying is that we are spending more than what we would normally do, so you would see more than a normal growth in on those cost lines in Eastern Europe in Q4.

Jørgen B. Rasmussen: And also bear in mind, without being specific on numbers here, that last year we did not have a lot of activity in Q4, and we also made comments on that earlier this year in Eastern Europe.

Jørn P. Jensen: And margins.

Jørgen B. Rasmussen: Margins, Anton.

Anton Artemiev: Yep. Good morning, ladies and gentlemen. I would like first to address the very fact that in Q3, our market share compared to Q2 was practically flat. It was down just two decimals and this is in the range of error, so to speak. But, yes, we saw the increased level of activity by competition and that can be anything from brand marketing activities, the different kinds of in-store activations. What we saw is still remaining a gap in the pricing increases, though not very significant by the end of the Q3, but also take into account the time lag. Competition always followed us in pricing with a certain time lag. So in accumulated terms, it's been a significant visible price difference in what we do and competition did in general with the exception of one. So combination of this high level of activities by competition and some pricing lag led us not to deliver on the share growth. But once again, share was marginally flat. As a result, towards the end of the third quarter, we have increased level of fall activities, which led us to have market share highest within the last year, which is 39.6%, and we keep a high level of activities onwards.

Søren Samsøe: **But do you think that competitors, because they've done so heavy promotions, that they have actually seen - - well they haven't really any money in Q3 because they have lower prices and increase promotions, why you have actually continued to have very good margins in Q3?**

Anton Artemiev: Well how much money did they make, it is a question to them, but you saw our strong results for Q3. Yes.

Søren Samsøe: Okay, thank you.

Jørgen B. Rasmussen: Of course, Søren I think overall what we have seen here in Russia, the bigger impact is the fact we all had to take big price increases and then we have the gap between the timing, us versus competition. I don't think the scene as such is changing in Russia. It has been competitive for years and continued to be competitive. But, yes, a little more activity than expected in Q3, but the big factor is probably pricing.

Operator:	*The next question comes from Nico Lambrechts from BOML.*
Nico Lambrechts:	Hi there. Good morning. **Just got a question on the finance charges. Is it possible that you can guide us for why the finance charges are so much ahead of what the market expected in the third quarter and maybe what the coupon would be next year and a little bit of the dynamics around your refinancing? I understand we should have an all-in coupon of 6%. Is that a conservative number or not?**
Jørn P. Jensen:	Yeah, Nico, you're definitely still well off assuming slightly below six all-in. What happened in Q3 was of course that you can say up and until mid September, we still saw appreciation of the Russian rouble to the euro. And then suddenly in the latter part of September, it started to devaluate, and that is what is impacting and driving the change from Q2 to Q3 on these other financial items. So where we had appreciation of the rouble, a small gain after Q2, we had after Q3 a small loss, i.e., a big swing in Q3, which is due to the fact that it was coming from appreciation in Q2 to depreciation or devaluation into Q3. So if you assume that end of September rouble exchange rates to euro will more or less remain throughout the year, then the impact on that line, on other financial items in Q4 should be very, very modest. On the other hand, if you expect a big devaluation, then it will be a minus; appreciation, it will be a plus. So it is because we in September did see this sudden devaluation of the rouble to the euro, nothing else.
Nico Lambrechts:	Right. **And into next year, what finance coupon should we use excluding the other financial items and then the other financial items will be driven again by the FX? Is that correct?**
Jørn P. Jensen:	Same logic on other financial items as this year. When it comes to coupons, then that will be positively impacted.
Nico Lambrechts:	**But what would the - - what coupon should we assume excluding the other financial items? Call it a "clean coupon" because I think you've been guiding on a all-in coupon of 6%.**
Jørn P. Jensen:	I understand the consensus in the market is around 5.5.
Nico Lambrechts:	**That's for the clean?**
Jørn P. Jensen:	Yep.
Nico Lambrechts:	**And you are comfortable with that?**
Jørn P. Jensen:	Sure.
Nico Lambrechts:	Okay, excellent. **And then maybe just a follow-up question on Russia. What are the dynamics of beer taking share from vodka and has there been new regulatory development and is there any further development on the potential of a further minimum vodka price increase, maybe for Anton?**
Anton Artemiev:	Yes, thank you. There is no exact data on vodka market. The last portion of it is still kind of uncontrolled vodka market. But what we know for now is that the official market has gone down by around 6%. We assume or we estimate that the

inefficient market has also gone down somewhat. As a result, we have somewhat of a decline in the vodka market and we also have, as you know, for nine months, we have 5% decline in the beer market. So in terms of proportion, you will expect proportions to remain, which is vodka accounting for 70% of the total alcohol intake and beer and wines 30%, which again is one of the factors leading us to believe that there is a strong potential for beer market growth.

Regarding the minimum vodka price, it is at the moment 89 roubles per half litre bottle and there have been multiple discussions how to increase it further and there were different numbers ranging from say 110 to sometimes 200 more roubles. What will be the exact result of the discussion and the decision by the government, we don't want to speculate, but I would assume that the changes in minimum of the vodka prices are likely because all the discussions are about increasing that minimum price.

As to the beer regulation...

Nico Lambrechts: Anton, if I may interrupt. Sorry, Anton. **These discussions, are they happening at parliamentary level?**

Anton Artemiev: No. For the moment, these discussions on minimum vodka price are mainly on the government level, the different ministries and especially Ministry of Finance lead in this discussion.

Regarding the beer regulation, what we saw recently is on the 3rd of November, there was not the government but one of the member of the parliament proposal which was voted positively in the first reading and then it will be discussed in the parliament in the coming weeks. Still I would say the uncertainty, which we discussed last time, remains. So it's largely the very same discussions, which are ongoing. What will happen, we don't know. Of course our best estimate of what can be adopted in terms of beer regulation, we include in our outlook, but we don't want to speculate on this specifically. What I would say maybe in general what we think is our best knowledge of what may happen is not changing our assumptions that the market will return to the growth next year.

Nico Lambrechts: Okay. **What are the specific proposal that was made on the 3rd of November?**

Anton Artemiev: There were two things. I think that the most essential one is the famous kiosk ban, and this proposal is talking about that the beer is stronger than 5%, should not be able to sold n the kiosks. That's the, I should say the most essential. But there's nothing new. No news in that sense. No news.

Jørgen B. Rasmussen: It's still the same. There are a lot of ideas some times coming up and being discussed. No change compared to a few months ago.

Nico Lambrechts: Okay. **And then just the introduction that you did, Anton, were you surprised that both vodka and beer were down at a similar level and that number, the 70% you mentioned, that includes legal and estimate of illegal vodka. Why do you think beer didn't take a share of vodka despite the increase in the minimum price? Is it basically the increase in prices for beer?**

Anton Artemiev: It's mainly because of excise tripling and the prices. We have raised prices 25% in one go, so it is very high price.

Nico Lambrechts: **So do you think that it's a reasonable assumption to make that beer should be in a better position to take share from vodka into 2011 if we have a minimum price increase for vodka and there's not a further big step up in excise for beer?**

Anton Artemiev: We have always been saying that the longer-term trend is that beer will take a share of vodka in a share.

Nico Lambrechts: Okay, thank you.

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

Ian Shackleton: Yeah, good morning, gentlemen. **Two questions for me. You've left your net profit guidance unchanged; but in addition, we've got 300 million brand write off. Am I right to assume that's included in that net profit guidance and if it wasn't for that, we'd see an increase probably in that guidance for 40% to probably over 45% growth this year? And the second question was around input costs that you flagged for Q4 of next year. I mean what sort of price increases does that warrant? One of your competitors in Russia yesterday talked about a need for a 10% price increase in Russia for next year to cover the duty plus the increased input costs. Is that the level that you're also thinking about?**

Jørn P. Jensen: Ian, just to confirm, yes, everything is included in the 40% apart from the 390 income coming from Xinjiang, so that is including the impairment charge of 300 million.

Ian Shackleton: Thank you.

Jørgen B. Rasmussen: And your question on pricing, we clearly do not want to be specific on our pricing plans or thinking at this point in time. All we can say is that the input costs, and here we talk raw material and some packaging prices, they are going up and certainly impacting our different regions and will require price increases - will be different by market and probably also by segments, but we will have to do pricing across most of our markets without being specific on any per cent.

Ian Shackleton: **Going back to what you said earlier, Jørn, you talked about obviously less during Q4; you're already starting to price up as the duty increase. The implication for the comments around Q4 this time is we shouldn't expect any pricing, any additional pricing then. We shouldn't expect that coming through until we go into say Q1 next year. Is that the right read I'm taking away on that?**

Jørn P. Jensen: What we're saying is that, first of all, we do not want to reveal our pricing plans; secondly, that if you take the price we have as of today, then that is lower than was the net price to us as an average in Russia for Q4 last year.

Ian Shackleton: **And just finally to confirm, the duty increase you're expecting in January, no change from what was flagged a year ago?**

Anton Artemiev: No, it's still the plan from 9 to 10 roubles increase.

Ian Shackleton: Excellent. Thank you very much.

Operator: The next question comes from Trevor Stirling from Sanford C. Bernstein.

Trevor Stirling: Good morning, gentlemen. My questions have already been asked, so nothing from me this morning.

Operator: The next question comes from Matthew Webb from JPMorgan.

Matthew Webb: Hi. **I just wonder if I could ask for a bit more detail on the input cost issue. I mean which materials in particular are causing the concern absolutely in Russia Q4? I mean is that the malt and barley price related to the poor harvest or is it sort of more transportation cost issues? And then on the same subject, looking out to 2011, I wonder to what extent you are hedged on your input costs at this stage? And based on that, what sort of percentage increase you'd expect on your input costs next year? And then just finally on Russia in Q3, you talked a lot about your product activation, et cetera, I'm just wondering to what extent your increase sort of margin selling costs has been sort of promotional spend or whether it's all been marketing, new product launches, new packaging, et cetera, et cetera, or whether you've actually sort of addressed some of these price cuts with the competition with high promotional spend as well**? Thanks.

Jørn P. Jensen: Matthew, the first question on Q4 Russia, input costs, yes, it is as you suggested. It is malt being the issue so to speak. When it comes to 2011, we are now hedged as we always are at this point in time, which means that we are very well hedged for Northern/Western Europe and for Asia; and we are less hedged than when it comes to Eastern Europe.

Matthew Webb: **And would you be able to hazard to guess at this stage based on what you know very roughly what sort of percentage uptick you'd expect in your input costs for next year on average across the group or for any particular region?**

Jørn P. Jensen: Yeah, we definitely have that visibility, and that we will discuss more with you in February when we come back with our guidance on '11.

Matthew Webb: Fair enough.

Anton Artemiev: Yes. And on the question: What has been increased in our sales and marketing spend, I have to say it is a combination. It is a combination of above-the-line and below-the-line activities related to new launches. But we also don't exclude price promotion, so it is very much of a combination.

Matthew Webb: Great. Thank you very much.

Operator: The next question comes from Melissa Earlam from UBS.

Melissa Earlam: Good morning. **I've got a couple of questions, please. You pointed that you've raised your sales and marketing by double-digit. I was wondering if you could comment whether the increase has been that significant in**

North/West Europe as well as in Eastern Europe? And secondly, just a question on the pricing outlook for Russia next year in response to these rising input costs, maybe this is best for Anton. You've raised prices by 25% over the last 12 months to pass-through the excise increase. Do you think the Russian consumer is strong enough to handle another significant price increase to reflect the duty and the input cost inflation pass-through? Thanks.

Jørgen B. Rasmussen: If I take the first question about the double-digit increase in sales/marketing or marketing costs in total, yes, it's across all regions, so it's up double-digit in all three regions, including Northern/Western Europe. So we are really spending behind new products, behind big campaigns, activities to drive share, both volume and value share.

Melissa Earlam: Thank you.

Anton Artemiev: And about the strength of the Russian consumer sentiment, I have to say of course it is a function of relative pricing and of course here comes all the discussions about minimum price for vodka and many other things, but of course, we need to bear in mind that economic fundamentals are now growing strongly in Russia. And that means we are looking towards growing purchasing power, but also the share of what consumer spend, which is spent on beer, we assume to come to a pre crisis level. So I think the consumer sentiment is strong, but how we play pricing is a different matter.

Melissa Earlam: Thank you.

Operator: The next question comes from Andrew Holland from Evolution.

Andrew Holland: Yes, hi. I think most of my questions, which were related to input costs, have actually been asked if not answered. **But I'm just struck by the difference in tone between now and back in September on the Capital Markets Day when quite a lot of questions were asked about input costs and you seemed very relaxed about it. I recall you referring to the barley price increases, a spike, and you talked about how you were well hedged and you had a number of supply contracts and so on that sort of mitigated the impact. I'm just wondering what's changed since then. Obviously the barley price has gone high and stayed high. Is it simply that and that you had expected it to come down by now or is there anything else going on with the barley price and indeed any other input costs?**

Jørn P. Jensen: It is exactly as you suggested, so it is the simple fact that, yes, we did have what we consider to be very good visibility at the Capital Markets Day. We did not expect the increase on the remaining parts of the volumes that were not secured at that point in time. So it is only a reflection of, which is also a serious thing, reflection of that the barley/malt prices did come up quite a lot on those, you can say, marginal volumes that were not secured in August.

Andrew Holland: **And what about any other input costs, anything else that we should be thinking about other than barley?**

Jørn P. Jensen: Not if you are thinking about kind of the difference in tone versus what we said after Q2.

Andrew Holland: Okay, thank you.

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

Hans Gregersen: Good morning. **And just coming back to pricing in Russia, would it be fair to assume that the increased duties going into 2011 would require 1 to 2% price increase to get compensated for that, just a ballpark indication? Secondly, going back to your market share develop in Russia during quarter three, what went wrong here? I mean obviously the market share development has not gone as you had expected. What sort of learnings should we draw from the performance this quarter?** Thank you.

Anton Artemiev: Well regarding the price needed, just to offset, and that once again pricing decisions might be different, but just to offset the impact of excise increasing, it would require price increase not more than 3% say.

In the Q3 on the market share, I don't think something went wrong. I mean I'm quite convinced we are on our long-term path to gain market share, but of course competitors sometimes do increases, sometimes maybe not to increase the level of activities and play temporarily on the market share ground. But once again, we are convinced we are on the long-term path of growing market share in Russia.

Hans Gregersen: **But does that imply you were not really getting surprised on your market share development in quarter three?**

Anton Artemiev: I mean we have seen in the history ups and downs temporarily in different quarters, and you can see that in the presentation. But the trend is there and that we're determined to get.

Jørgen B. Rasmussen: I think it's fair to say also 2010 has been a very different year with a tax increase of 200%. We have never seen that before and then to plan pricing and know exactly what to expect is not easy in a year like 2010. And yes, as you say in our release too, there's been some things happening in the market not completely expected and it's hard to expect everything and plan everything in a year where you have that kind of increase. Would we have hoped for higher market share in Q3? Yes. At the same time as Anton says, we are confident what we've said again and again, we can continue building market share - volume and value market share - in Russia as a trend.

Hans Gregersen: Thank you.

Operator: The next question comes from John Basin from SEB Enskilda. John Basin from SEB Enskilda is online with a question.

Michael Rasmussen: Hello.

Jørgen B. Rasmussen: Yes.

Michael Rasmussen: Oh hi, it's actually Michael Rasmussen. I don't know what happened to the name there. Michael Rasmussen from Enskilda. **I had most of my questions answered, but I just have a few follow-up if I may. First of all on Russia and the mix situation, it seems like the negative 2% in the quarter was a little bit**

better than the kind of track we've seen in the last couple of quarters. What should we expect going into next year? Now we had a lot of discussions on what retail prices will do and how consumers feel in Russia. Do you think mix could turn towards a slight positive territory in 2011 in Russia? My second question basically was sort of answered for this year in terms of marketing costs; but if we look at 2011, has most of this been impacted in the second half of 2010, i.e., should the share of sales stay approximately flat from '10 into '11? And just finally if you could confirm that your market share in Russia was 40.1% in Q3?

Anton Artemiev: Regarding the mix, what we saw during the year is that the negative impact of mix was becoming less and less pronounced. So in that sense, the trend was positive and we assumed these trends to continue into next year.

Michael Rasmussen: **So is that moving into positive or just becoming less negative?**

Anton Artemiev: Becoming less negative, but that assumes at a certain point it should switch into positive area, but not being specific when.

Michael Rasmussen: Okay.

Jørgen B. Rasmussen: Hi. I think, Michael, we maybe missed your second question, but I can certainly refer to your third question about the market share. You asked about the market share in Q2 2010?

Michael Rasmussen: Yes.

Jørn P. Jensen: In Q3.

Jørgen B. Rasmussen: Q2. 39.2% in Q2 2010.

Michael Rasmussen: **And the same level for Q3 is it?**

Jørgen B. Rasmussen: Basically the same level, 39.0, so basically the same level. You have it in the attachment also in the presentation on slide 28.

Michael Rasmussen: **Have any of these numbers changed since you moved from Business Analytica to Nielsen Data?**

Jørgen B. Rasmussen: Yes.

Anton Artemiev: Certainly. They have changed. There has been a difference of say around 1% in valuation of our market share by Business Analytica and Nielsen, because they have different panels or the different areas of surveys.

Jørgen B. Rasmussen: But when we now make comparisons versus a year ago, it's same universe, so it's Nielsen-to-Nielsen, but they have changed compared to what you look at in the past, but nothing we can do about it.

Michael Rasmussen: **The other question I had was just in terms of marketing costs in 2011 as a percentage of sales, will that differ a lot from '10 or how should we see this?**

Jørgen B. Rasmussen: You're talking Group or you're talking Eastern Europe?

Michael Rasmussen: Group, yes.

Jørgen B. Rasmussen: Group, I mean we never comment on exactly our marketing spend as a percent of sales and other sales, so we don't want to be specific apart from saying, we have an ambition to keep driving market share. That requires spending behind our brands and activities, and you'll continue seeing that next year till we get this balance of efficiency and growth right.

Michael Rasmussen: **Okay, if we have time just for a quick follow-up. You mentioned that you now have achieved the 1.3bn in synergies from the S&N acquisition. What is the next step? I mean what should we look at now on a quarterly-to-quarterly basis? Now everybody seems to be looking at these negative issues in terms of input costs. But is there anything further that we can use for kind of the next targets to go to 20% Group margin.**

Jørn P. Jensen: But as we also discussed, for two of the regions at the Capital Markets Day, there are loads of things going on and we see a lot of potential for improvement throughout the business, so I don't think that the fact that we have now ahead of time actually fulfilled our promise to deliver 1.3bn is changing anything at all in the whole story. So, we are continuing to work on all the many things that we're doing locally or regionally or at Group level and some of those we discussed at the Capital Markets Day, so there are still a pretty full agenda here for quite a while.

Michael Rasmussen: Okay, thank you much. Have a good day.

Operator: The next question comes from Matthew Jordan from Matrix.

Matthew Jordan: Yes, good morning, gentlemen. **A couple more follow-up points on the input cost issue. I think you've made it pretty clear that the malt and barley cost issue hits Russia in Q4. Just wanted to check that you expected to plateau at that level for subsequent quarters or indeed drop away or is it possibly going to get worse because obviously you might still have some hedging in place in Russia in Q4, which wouldn't be there in subsequent quarters. So that's the first question. Is it going to get better or worse in subsequent quarters given the current spot rate?**

Jørn P. Jensen: It's going to be pretty much in line with Q4 going into '11.

Matthew Jordan: Okay, thank you. **And then switching to Northern/Western Europe, all along aluminium costs are also up quit substantially this year between 30 and 40%. Does the impact of that on your business get progressively worse over the next four quarters or is there going to be one particular quarter when it hits in a big way because of the phasing of hedging?**

Jørgen B. Rasmussen: In general, we can say also in Northern/Western Europe, we're going to be impacted by increasing costs next year, both in the packaging area, also in raw material area, and that's also why we say that we'll require some price increases also in Northern and Western Europe going forward, so it's both packing and raw material.

Matthew Jordan: **And is that just sort of progressive steady impact or is it going to be...**

Jørn P. Jensen: No, no, due to how our hedges are working, then you will in principal see that as of first of January and then throughout the year.

Matthew Jordan: Okay. **And then the final question is: How realistic is it that you've going to be able to pass that on to consumers because there are quite a few fragile economies in Northern/Western Europe and I'm a little concerned that you won't successfully pass it on.**

Jørgen B. Rasmussen: I think when we talk pricing; it's not always only about increasing list prices. It's also what we define as value management, how to get pricing too. But I think and believe and I mean clearly we're already in discussion with a lot of customers. A lot of big FMCG companies and food producers are seeing the impact of increasing raw material costs, so I think there's some understanding for why a number of categories do need price increases and hopefully that will help to get pricing through also in Northern and Western Europe, so we're confident we'll be able to get some pricing through, also in Northern and Western Europe and it's required. We need it. We will do it.

Matthew Jordan: Okay, thanks very much.

Operator: *The next question comes from Adam Spielman from Citi.*

Adam Spielman: Hi. Thank you very much. Good morning. **You've said that the price gap in Russia, I'm talking now between yourselves and your competitors, was very much reduced at the end of the third quarter, and I was wondering if there's any way of quantifying that to see... I mean is there are any numbers you can give to show us how that gap has progressed in the course of 2010 and where we are now?**

Jørgen B. Rasmussen: Maybe I can start and then Anton can give you the details. Again, I don't want to give you numbers specifically, but let's say again: Except the one competitor who went up in January against all the others you can look at what is the price gap end of Q3 and there's still a price gap and then you can take the weighted price gap during the first nine months, that's higher because we always went up first - and you'd expect that for the market leader to go up first. But we always went up one month, maybe two months before competitors. So of course the average gap during the first nine months is even higher but still a gap exists, coming out of quarter three.

Adam Spielman: **And there's no way you can quantify that at all?**

Jørgen B. Rasmussen: No, we don't want to put percentages on, but we're talking about a couple of percentages versus most of our competitors, not everyone, but versus most of our competitors at the end of quarter three and higher as the average.

Adam Spielman: **Was it much higher?**

Jørn P. Jensen: Slightly higher.

Anton Artemiev: It resulted in a significant price difference.

Jørgen B. Rasmussen: For the quarter.

Adam Spielman: **Because I mean if you wanted to get depressed, you would say, "Well in Q1 and Q2, you were holding back your innovations." You threw them that at the market in Q3 and it didn't really work and you're saying the price gap has been reduced only slightly at the end of Q3.**

Jørgen B. Rasmussen: We don't see any reason to be depressed. We're very happy about our business in Russia and, yes, would we have liked to see slightly higher market share in Q3? Yes, we would. At the same time, this is part of doing business and having competition and we do believe with our plans in place and our product portfolio in place, we can continue our growing market share trends. So pricing, we expect to go up before competition because we are a market leader. Was the time lag sometimes slightly longer than what we had hoped for? Yes. And then in terms of product introductions, it was not only in Q3, we also launched a lot of products in Q2. We also sometimes discuss that when we take an audit like Nielsen, there's a time lag before they pick up new products. Let's see what's coming through in the next quarter. But we're still pretty happy about our performance and certainly confident about the future, so we're not getting depressed, and I hope you're not. You shouldn't be.

Anton Artemiev: Absolutely not and we are having a very strong innovation pipeline going forward as well.

Adam Spielman: Okay, thank you very much.

Operator: The next question comes from Jon Fell from Deutsche Bank.

Jonathan Fell: Good morning. It's Jon Fell. **Yes, a couple of things. Firstly, just on a comment to the price gaps I'm afraid again in Russia. Are there any particular segments or channels or regions where your price disadvantage versus competitors stands out or is it fairly broad-based? And secondly, one of your competitors last week mentioned they were suffering the effects of increased transport tariffs in Russia and Ukraine. Is that something that is going to impact or is impacting your business as well?**

Anton Artemiev: Regarding the price differentials, I don't want to comment specifically on different competitors, but what different competitors see, it exits in different segments. So once again, for different tasks, you can say different competing brands, we have seen significant differences in price increases.

As to the transportation costs, yes, we're to say that during the crisis, we had a benefit of very low transportation costs and usually low because of the lack of demand. Demand is now growing and price is going up, but not dramatically so that we should speak in any tone closer to raw material. So I mean they are growing but business as usual.

Jonathan Fell: Okay, thanks a lot.

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

Gerard Rijk: Yes, good morning. **Concerning the issue on input costs again, the main focus is on Russia, but you're also talking about Western Europe,**

	Northern/Western Europe. Is that the same change that you see in those input costs in Northern/Western Europe as in Eastern Europe or is that in Eastern Europe much stronger? And concerning the phasing, is Northern/Western Europe also ready in the fourth quarter or is that what you are guiding there much more for 2011?
Jørn P. Jensen:	There's no doubt at all that the growth in input costs next year is much higher in relative terms in Eastern Europe than in the other two regions. And to the second question, no, Northern/Western Europe and Asia, as always, are well hedged for the coming year, so there you will not see those variances in Q4.
Gerard Rijk:	**Concerning the U.K. and Poland, you have been already relatively same as also in Italy for relatively aggressive pricing, in particular at the low end. Do you think that there will be any impact on this strategy from here?**
Jørgen B. Rasmussen:	I don't know where that comes from and I think one would just have to look at Nielsen data. If you look at our volume share development and value share development in every market, they tend to follow each other. So whether you look at U.K. or you go into Switzerland or you go into Denmark, our volume share and value share tend to follow, which mean we're not taking down price more than the market, so it's misleading if that's the perception. Let's say Poland, if you take Poland specifically where it's about getting into a retailer, that's something different. But in general, we do not price more aggressively than the market, not at all, and I certainly trying to drive premiumisation, so that's wrong perception.
Gerard Rijk:	Okay. Thank you.
Operator:	*The next question comes from Paul Hofman from Credit Agricole Cheuvreux.*
Paul Hofman:	Yes, hi. Good morning. Paul Hofman. **Just one question perhaps to summarise. Correct me if I'm wrong, but I believe that you said that you still expect to return to growth in Russia despite all. So you still stick to that 3 to 5% for next year and probably also towards the higher end of that. Can you still confirm that despite the duty increase which we should modest and also still that the increase in input costs? Perhaps, sorry, second follow-up to that. If I look at the CPI estimates for Russia for next year, that's around 7/8%. Do you believe that on general high single-digit price increases will be needed or low double-digits or do you believe that you will end below Russian CPI expectations.** Thank you.
Anton Artemiev:	On the growth, when we said 3 to 5%, it's medium-term average per year growth, which we expect. Whether it is somewhat below this 3 to 5 or within this range or slightly higher, a certain specific year, it's very hard to predict. But, yes, we believe next year to the best of our knowledge today, the market we expect to return to growth. As to the pricing, as we said a few times today, we don't want to be specific. But you're right, inflation is around 7 to 8%, which is our estimate as well.
Phil Hofman:	Okay. Thank you.

Jørgen B. Rasmussen: I think we take one more question and then we have to close the call.

Operator: *The next question comes from Matthew Webb from JPMorgan.*

Matthew Webb: Yeah, hi. **Just a follow-up on the input cost. I think you said earlier that the reason for the - - maybe the Q4 input cost pressure in Russia being a bit more than you might have expected is that the cost of what you were uncovered for is higher than the anticipated. Am I right in thinking that part of what's going on here is that actually the volumes were higher in Q3, which has somewhat depleted your stocks and that therefore you've been left slightly less hedged than you would've expected to be and that that's maybe putting a bit of pressure on the Q4 input costs? Is that a fair assessment?**

Jørn P. Jensen: It is. You can say that you would always argue that it could be a little of that. It is primarily about that we are as you know less hedged in general in Eastern Europe, and Russia in particular, and there we have seen increases, especially in malt, so it's more about the higher spot prices on malt. We are facing higher malt prices for the next at least nine months.

Matthew Webb: Okay thanks.