Carlsberg Q3 Conference Call
Carlsberg A/S
CEO Jørgen B. Rasmussen
CFO Jørn P Jensen
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Operator: *Welcome to the Carlsberg Q3 Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session. Please note that this conference is being recorded.*

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

Jørgen B. Rasmussen: Thank you and good morning to everybody. Welcome to our nine months 2011 Results Conference Call. My name is Jørgen Buhl Rasmussen, and I have with me our CFO Jørn P. Jensen and also Vice President of Investor Relations Peter Kondrup.

Overall, the headlines for the mine months are: Third quarter results were in line with expectations and we keep our 2011 outlook unchanged. Also, the Northern & Western European and Asian regions showed good performance despite Northern & Western Europe being impacted by poor weather in July, and market shares grew in both regions. Thirdly, the volume decline and margin contraction in Eastern Europe in line with expectations at the Q2 announcement. And fourth, we lost market share in Russia due to our price leadership our ambition to balance volume and value share and thereby drive profitable category development. Many actions have and will be taken to address the unsatisfactory share trends, and then we continue our efficiency agenda and have been in the first nine months begun executing several last projects and have accelerated structural changes.

After a summary of our performance for the first nine months, I will go through the regions and after that Jørn will walk you through the numbers and our outlook and thereafter, as always, we're happy to take your questions.

Please go to page three. In a year when the group has faced headwinds from input costs, poor weather conditions, and the declining Russian market, it is important to underline that Q3 results were in line with the expectations we gave at the half year results. The Northern & Western European markets declined slightly for the first nine months, with Q3 being impacted negatively by a very poor July. The Russian market declined due to substantial price increases on beer since November 2009, but also inflationary pressure on basic food items and tough comparisons with a strong Q3 last year. In our Asian markets, the growth trend continued at a very satisfactory pace.
Despite the tough background, we are not compromising our efforts to grow both value and volume share across all our markets. Important drivers and tools to support this agenda are value management, channel marketing, increased support behind key brands, and also innovation such as Copenhagen and 1664 Millésime. One of our most important commercial activities was the launch of the new positioning of the Carlsberg brand in April. Although it's a long-term project, the initial signs are encouraging.

The positive market share development continued in the Northern & Western European and Asian regions. Eastern Europe was mixed with share gain in Ukraine while we lost market share in Russia.

And slide four please. Q3 was, as expected, weaker than last year, and we keep our 2011 outlook unchanged at an operating profit of around 10 billion compared to last year's 10.25 billion. As usual, Jørn will come back to this later.
Group organic beer volume growth was 1%. In Q3, volumes declined by 3% due to lower Eastern European volumes.
Group organic revenue growth was 5%, with a 4% positive price/mix reflecting price increases to offset higher input costs as well as our value management and premiumisation efforts.
Organic operating profit declined by 12% year-to-date and 20% for Q3. The key reasons for the lower profits were the volume decline in Eastern Europe; higher input costs across all regions; higher sales and marketing investments, in particular in Eastern Europe and Asia; and higher logistic costs in Eastern Europe. The trend for Q3 volumes was worse than for the first six months, but as expected and related to weather.
Lastly before moving into the regions, we recently announced the appointment of our current CEO of Carlsberg U.K., Isaac Sheps, as SVP of our Eastern European region as well as CEO of our Russian subsidiary Baltika. Isaac will replace Anton Artemiev.

Slide six please. The overall Northern & Western European markets declined slightly by an estimated 1% for the nine month. The cold and wet July impacted market development negatively in Q3.
The positive market share trend continues in the region, driven by our strong commercial focus, incorporating value management efforts, executing of best practice sales tools, and product launches. This was supported by a slight increase in sales and marketing investments as we continue to focus our efforts behind the largest and most important brands and activities. The overall share trend improved further in Q3.
Organic beer volume growth for the region was flat for both the nine months as well as Q3. Our non-beer volumes declined by 2%, impacted by de-listings and weather in key non-beer markets. Poland was the main growth contributor as we continue to gain share with strong performance of the Harnas, Kasztelan, and Carlsberg brands combined with an improved position in growing channels. In the U.K., despite market share gains, our volumes declined year-to-date due tough comparisons with the successful World Cup activation in Q2 last year; however, volumes grew quite strongly in Q3. In France, we gained market share with the premium brands 1664, Grimbergen, and Carlsberg, while the mainstream brand Kronenbourg lost share.
Organic net revenue for the region was flat, and we see positive pricing in most markets in the region. This was, however, offset by a negative country mix and a negative channel mix with off-trade continuing to gain share from the on-trade.
Organic operating profit declined by 1%, while our operating profit margin was stable at 15.1% but declined in Q3 impacted by a negative country mix.

And now to slide seven and Eastern Europe. As expected, markets in Eastern Europe were impacted by significant price increases, inflationary pressure, and weather.

Our beer volumes declined organically by 1% for the nine months. Adjusting for destocking in Russia in 2010, the decline was an estimated 5%. The Russian market declined as expected. The Ukrainian market was up 1%, and our volume and value market share grew slightly due to continued strong execution in the marketplace.
Organic net revenue grew 9% for the nine months and declined by 1% in Q3 due to weaker volumes.
Price/mix was +10% for the nine months as well as for Q3, supported by increased investments in sales and marketing and in particular within channel marketing. On top of the positive impact from the phase-in of last year's excise tax increase in Russia, we have taken price increases across our markets to offset the much higher input costs this year. In addition, we saw a positive mix in Russia and Ukraine due to primary positive brand mix and some packaging mix.
Organic operating profit declined due to the volume decline, higher input costs, and higher operational expenses, such as sales and marketing investments and logistics costs. Due to the higher revenue per hectolitre, we managed to mitigate the input cost pressure and delivered a growing gross profit per hectolitre. In Q3, profit declined more than for nine months impacted by the reduced Russian volumes versus last year.

And now turn to slide eight and Russia. The Russian market declined by 3% for the nine months and 7% for Q3. The substantial consumer price increases in the beer category taken from November 2009 of around 30% and the inflationary pressure on basic food items have negatively impacted the consumer spend in general, including the beer market. In addition, Q3 faced tough comparisons from a very warm Q3 last year. In Q3 this year, the market developed as we expected at the time of our Q2 announcement and the underlying decline in Q3, adjusted for the weather impact, was in line with Q2, and we keep our 2011 market expectation unchanged and assume a low single digit Russian beer market decline. Our in-market-sales or consumer off-take declined by 7% for the nine months and by 13% for Q3. Our year-to-date shipments grew slightly, which was due to Q1 last year being distorted by destocking. Adjusted for this, shipments would have declined by 6% for the nine month. Our Q3 shipments declined by 11%, so in line with our in-market-sale.
As these numbers show, we lost market share in Russia this year, which is not satisfactory. Our year-to-date volume market share declined by 150 basis points to 37.8% while our value share lost was smaller at 110 basis points. Firstly, this is due to the fact we will not compromise our ambitions to drive both volume and value share and we took a conscious decision not to take fully part in the high level of promotional activities carried out by some competitors in modern trade. This intensified in Q3 and, consequently, our volume share declined at 250 basis point in Q3 while value only declined by 140 basis points. We have also now, from the second half of August, selectively increased activation and promotion of some of our lower mainstream brands. Secondly, our price leadership since November 2009 compared to most players in the market has also been a disadvantage.
Price/mix improved by 10% for the nine months and 10% for Q3. The positive pricing impact was 7% for the nine months as the beginning of the year was impacted positively by last year's phasing in of the tax increase and price increases this year in March, May, and June. We also have another price increase planned for November, ahead of the two rouble tax increase in January 2012. The positive mix was mainly driven by our focus on mainstream premium and super premium, a positive brand mix, and a positive mix from packaging

changes, i.e., less PET. Despite the current challenges, we continue to invest in the health of the Russian business to prepare for a strong recovery. High investment in sales and marketing have been driven by premiumisation efforts, channel marketing programs, and a higher promotional activity level, particularly in modern trade. The commercial agenda has included several product launches and revitalisation efforts for brands such as Arsenaloye. In addition, key account management capabilities are continuously being upgraded and further developed. Alongside the appointment of our new CEO for Baltika, we have made a number of senior commercial appointments so that we're well positioned to take full advantage of the changes taking in place within the Russian brewing industry.

On now to slide nine and Asia. The majority of our Asian markets continue to grow, and we continue to gain market share in most markets driven by innovations and a high level of marketing activities.
Organic volume growth was 10% with particular strong growth in India, China, and Indochina. Our Indian business is performing very strongly, supported by increased availability and good performance of Tuborg Strong, Palone, and the introduction of Carlsberg Elephant. Our Indian market share is now around 6% with a higher value share and we have now established two top ten brands.
Asian organic net revenue grew strongly by 17%, driven by volume growth and the ongoing premiumisation efforts with product launches, line extensions, and re-launches, combined with price increases. The result from the Carlsberg repositioning have been very encouraging across the region.
Organic operating profit grew by 10% for the nine months and 18% in Q3.
Our M&A agenda in Asia is unchanged and we increased our shareholding in our Indian business and now hold 90% of that business. Recently, we have made another joint venture in China with our partner in Chongqing and expanded our presence so that we now have direct or indirect involvement in 42 breweries in the country. Finally, two weeks ago we announced the agreement to increase our shareholding in Hue in Vietnam from 50-to-100%.

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

Jørn P. Jensen: Thank you, Jørgen, and please turn to slide 11. Our nine month performance was impacted by higher input costs, weather, and the Russian market decline. Q3 results was in line with our expectations from August when we reported Q2.
Our businesses in Northern & Western Europe and Asia are on track with the only exception being July performance impacted by the very bad weather in Northern & Western Europe.
Performance in Eastern Europe was below last year. Q3 was as expected when we reported in August, impacted by very tough comparables to last year. Due to rising input costs, organic cost of goods sold per hectolitre increased by approximately 9% in line with plan.
As we compensated for the higher input costs through pricing, we managed to increase organic gross profit per hectolitre slightly but gross profit margin declined.
We remain committed to our Group priorities focusing on earnings and cash flow. We continue to balance volume and value share and increased sales and marketing spend as a percentage of net revenue slightly this year to support our key brands and activities. The efficiency agenda is ongoing and we have started the rollout of some large Group projects, for instance the SKU harmonisation in

the Nordics. In addition, we have just initiated a project with the aim of establishing a fully integrated supply chain in Northern & Western Europe. The business standardisation programme will be an integrated part of this.

And now to slide 12 for the income statement. As you can see in the table, organic net sales increased by 2.2 billion, or 5%. Jørgen has just been through the organic revenue development, so I'll move on to gross profit. COGS have this year been impacted significantly by higher input costs, barley in Eastern Europe in particular, and COGS per hectolitre increased organically by 9%. As you know, the Russian harvest was severely hit last year, making it necessary to import a significant proportion of our malt needs. We have offset the absolute increase in input costs with positive price/mix and continued efficiency efforts. Organic gross profit was slightly positive while reported gross profit margin declined 190 basis points. Organic total opex, including brands marketing, increased by 1.2 billion. As we planned going into the year, we have increased our sales and marketing spend as a percentage of net revenue slightly, especially in Eastern Europe and Asia. Opex was also impacted by higher logistics costs, again especially in Eastern Europe. Other income, net, was down 29 million organically. The main reason for this decline was a gain on sale of fixed assets last year. So all in all, operating profit was 8 billion. The organic decline was 1.1 billion for the nine months, which is mainly explained by the earning shortfall in Eastern Europe caused by lower Russian volumes, higher input and logistic costs, and higher sales and marketing investments.
As I know there will be questions to the margin development in Eastern Europe, I will briefly go through the margin dynamics per hectolitre for that region in Q3. Actually, it is quite similar to the logic in Q2, apart from lower volumes due to tough comparables. Our cost of sales in Eastern Europe increased by 23% per hectolitre. As we passed that on to sales prices, our gross profit per hectolitre increased by 1% while gross profit margin declined by around 500 basis points.
On top of that, organic operating expenses, or SG&A, per hectolitre increased by 32% due to higher sales and marketing expenses and higher logistics costs impacting EBIT margin by around another 500 basis points, i.e., in total, organic EBIT margin in Eastern Europe declined by around 1,000 basis points. FX improved this by approximately 100 basis points, i.e., total EBIT margin was down by around 900 basis points. And as mentioned many times before, the volatility of margin in percentage is high when input price volatility is high. This year, we are impacted negatively in Eastern Europe, while the opposite happened in 2009. In Northern & Western Europe, operating margin was flat for the nine months but declined 130 basis points in Q3. The decline in Q3 was driven by lower profitability in a few markets such as France and Denmark where sales price and profit per hectolitre are relatively high. These markets were negatively impacted by the very weak July and then in addition to that, Poland with lower sales price and profit per hectolitre grew strongly, reducing the average for the region.

And now to slide 13. Special items amounted to -191 million and relate to our many restructuring initiatives, especially in Northern & Western Europe. Last year's number was, as you may recall, impacted by the non-cash, non-taxable income of 390 million relating to the accounting treatment of step acquisitions. Financial costs net declined 14 million compared to last year. Interest charges were down 129 million as a result of lower average net interest bearing debt and lower interest rates. Other financial items were minus 216, or plus 122 million, in Q3 due to currency movements in Eastern European currencies against primarily the U.S. dollar and the Euro. Tax rate was 25%. So all in all, net profit was 4.2 billion.

And now to slide 14 please. The sum of the first three lines, EBITDA including other non-cash items, adds up to 11 billion, a decline of 1.6 billion. The year-to-date change in working capital was -2.4 billion, -1.6 billion of this relates to trade working capital and -733 million relates to other working capital. The change in trade working capital included an increase in accounts receivables of 2.2 billion, mainly due to seasonality of the business but also an unsatisfactory higher level in a few markets. The sales development within Q3 was quite different from last year. The month of July was much lower than last year; August was on par, while September was much stronger. Consequently, working capital was quite positive for the first two month, but negative for September, which basically is the month that we are reporting on. In addition, we had a decrease in payable in VAT and duties, primarily in Russia due to lower sales than last year, and other payables, partly due to reversal of payables related to an expected capital increase in India. Also keep in mind, that the change in account receivables in 2010 was positively impacted by the unusually high level of receivables in Russia at year-end 2009 prior to the 200% increase in excise duties. Inventories increased by 464 million, which was less than last year, and accounts payable increased by 1.1 billion. Average trade working capital is and continues to be a focus area for us and trade working capital to net revenue on a 12-month basis was reduced to 1.9% in Q3 from 2.6% in 2010. The development in other working capital was higher than last year due to a planned decrease in pension obligations mainly in the U.K. All in all, cash flow from operations was 5.5 billion.

Slide 15 please. In line with our plans, capex increased due to network optimisation in Northern & Western Europe, including investments related to SKU harmonisation, sales related investments, as for instance coolers and capacity expansions in Asia. All in all, free cash flow was 2.6 billion. Net interest bearing debt was 32.7 billion, impacted by acquisitions, share buyback, dividends, and currency.

And now finally to slide 17 for our full year outlook. After Q3 that developed in line with plans, we keep our assumptions and outlook unchanged. We still assume slightly declining Northern & Western European markets, a low single digit market decline in Russia, and continued market growth in Asia; hence, we keep our operating profit expectations unchanged at around 10 billion compared to last year's 10.25 billion. Likewise, net result outlook is kept unchanged, i.e., an adjusted net profit growth of 5-to-10%. And just for the record, in our expectations, we are assuming that some stock building will take place in Russia ahead of the two rouble tax increase in January 2012. And also, in spite of the negative impact from headwind this year in Russia, we remain comfortable with our medium-term margin targets per region. Finally, our outlook does not take into account any significant change in consumer sentiment caused by further deterioration in the macroeconomic environment. We will closely monitor changes in our markets so that we can adjust accordingly our investments in sales and marketing. That goes for other costs as well.

So, Jørgen, please.

Jørgen B. Rasmussen: Thanks, Jørn, and just to summarise, 2011 has without a doubt been a challenging year for Carlsberg due to input cost pressure, soft trading in Russia, and also weather impact. Our Q3 results were in line with our expectation from the Q2 announcement in August, and our efforts to drive value in the beer category and balance volume and value share continue with a positive price/mix as a result. We also continue our relentless focus on optimising our business and have started the rollout of important projects and speeded up structural changes to drive that process.

And now, we're happy to take all your questions.

Operator: *Thank you. We will now begin the question-and-answer session. If you have a question, please press star then one on your touchtone phone. If you wish to be removed from the queue, please press the hash key or the pound sign. If you're using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star then one on your touchtone phone.*

Our first question comes from Søren Samsøe from Danske.

Søren Samsøe: Yes, good morning, everyone. It's Søren Samsøe. **Just first of all a question regarding your market share development in Russia. I mean if you could maybe explain a bit further how we should see this. Is this a matter of competitors just sort of using the situation ahead of 2012 where this new regulation on marketing will take place and therefore not increasing prices or is this a more long lasting price war in the market? Are we talking about a price war in Russia now? And then secondly, if you could comment on or maybe quantify the effect of the stock building in Q4 and if this will hit the Q4 equally negative when go into 2012?** Thanks.

Jørgen B. Rasmussen: Thanks, Søren. To the point about market share, as we also explained in the presentation, it is very much in line with what we said also in Q2 but then further intensified in quarter three. So firstly, we did not take enough part in lower mainstream in the first half of the year in terms of the activation in the Russian markets with some of our low mainstream brands compared to competition, and that's why we had a losing trend for the first six month and continued into the quarter three. But from the second half of August, we activated more some of our lower mainstream brands. But as we also said, it's not a complete change at all in strategy. It's doing this selectively where we think it makes sense. Secondly, what we have seen, and that has intensified in quarter three, more promotional activity in modern trade, primarily focused on price but driven by more promotional activity, and you could say then lastly also we have been suffering from taking price up ahead of competition and certainly if you go back to last year when we took it up again and again before competition. Those three are the main factors.

Does that mean the market is not being rational? No, but it's certainly intensifying in terms of price competition. We do believe also a lot of this would be driven by what happened last year where some lost a lot of volume and trying to regain the lost volume from last year, we don't see this being necessarily a long-term trend and much more price competition in modern trade, and we don't see this being at all a kind of preparation for what's changing next year in terms of legislation or advertising.

Søren Samsøe: **But you're raising prices - - price/mix, sorry, 10%, which is actually quite good, but at the same time, you're losing value share, 140 basis point. I think that's - - looks a bit strange, especially as you actually was able to gain market share - - a bit of value share in Q2 as well. What's the difference in Q3?**

Jørgen B. Rasmussen: No, we didn't gain value share in Q2. What we said was that we loose less value share than we loose volume share, which mean we are increasing prices on average more than competition. And you can see in quarter three where our share loss in value share is significantly less than competition, therefore our average price is up a lot more than competition in that quarter, but we're not gaining and we didn't gain in value share in quarter two, but we're performing a lot better on value share than volume share. That's what we're saying.

To your second question about stock building, we do anticipate distributors to buy in in advance of the two rouble increase in tax for next year, the kind of level we're probably talking at least about 1 million hectolitre.

Søren Samsøe: Okay, thanks.

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

Ian Shackleton: Yes, good morning, gentlemen. **Three questions all around Russia. You have a new CEO starting in Russia and I wonder what that will change in terms of the way you do business in Russia. Secondly, you have talked with Q2 around expecting the Russian beer market to go back to modest growth in 2012, and I wonder whether that was still your view. And the third question was really around the announced merger of the Efes and SAB businesses, how you see that affecting the Russian landscape and particularly whether it starts to reduce price competition in that market?**

Jørgen B. Rasmussen: Thank you, Ian. To the first question about the new CEO, let me once again state I think Anton Artemiev and the Baltika team have taken this business into a very strong position in Russia, no doubt about it. But sometime also a change can be good and for the better and we certainly get a person in now heading up Baltika who is a very strong team leader, who is a team builder, but also has shown in the markets he has been in before and the position he's been in before, very strong executor in terms of commercial agenda, so that's why I think we'll see improvements and changes.

Regarding Q2, you talked about Q2... What was the point here? What was it about?

Ian Shackleton: **So it was the guidance of 2012 where I think you had talked about modest growth.**

Jørgen B. Rasmussen: Yes, we have not changed our view, but again we'll guide more specifically on this when we get to February, but we have not changed the view on 2012. During 2012, we expect to start seeing growth. Also supported by the fact if you adjust or eliminate the impact from having a very warm quarter three last year, the underlying trend for the markets is very much similar to what we saw in Q2, the kind of three percentage decline for the market adjusting for weather impacts.

And your last question about Efes and SABMiller, I think the point to make here would be consolidation in a market like Russia can only be positive and if anything probably make the market even more rational.

Ian Shackleton: Thank you.

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

Trevor Stirling: Yes, two questions please, gentlemen. **The first one is just concerning the Russian tax increase in the price as well as the forward purchases, am I right in thinking that there'll be effectively a two rouble per litre windfall, if you like, on the sales of beer in November and December, but you can expect to be build that into your pricing but you don't start paying the tax until January? And perhaps could you comment on how much that two roubles would be worth in November and December. The second question concerning the outlook for 2012 and input costs, I appreciate it's probably too early to give a number on that, but maybe you could comment on the quality of the malt and barley harvest in Russia, and do you think you'll need to import malt and barley next year as well?**

Jørgen B. Rasmussen: To the first question, the Russian tax increase, yes, we are taking an increase in November, not to cover the full tax increase impact for next year but an increase in November in advance of the tax increase. So, yes, it is beneficial to the total P&L if you look at it over a 2011/2012 period without quantifying the number.

Jørn P. Jensen: And on barley or malt 2012 Russia, as I understood the question, yes, actually the volumes have been very good coming out of the harvest. On the other hand, as we also discussed after Q2, the quality is not at all as we would like it to be, which means that you can say that that will definitely impact net/net/net our pricing on malt. How we will source ourselves for Russia next year, we are not kind of ready to disclose yet, but that we will also come back to and discuss in more detail in February.

Trevor Stirling: Thank you very much.

Operator: The next question comes from Nico Lambrechts from Bank of America Merrill Lynch.

Nico Lambrechts: Good morning. Thanks for taking the question. **Just back to the impact of the price increase and the impact on the fourth quarter, if I recall correctly, the impact of the 1.5 million actually does in the first quarter to the phasing impact was about 300 million at EBIT. Is it a fair assumption that the 1 million hectolitre buying ahead plus the pricing you take ahead of the excise would be a benefit of about 300-to-400 million at EBIT in fiscal '12? That's the first question. And then with regards to pricing into fiscal '12, I think you mentioned previously that you will have less aggressive pricing or you won't maintain pricing around the food and beverage inflation. Is that still correct into fiscal '12? And then with the pricing below inflation, do you expect that you could maintain margins in Russia and for the Group in fiscal '12.** Thanks very much.

Jørn P. Jensen: So the first question, Nico, it's slightly less than what you were indicating.

Nico Lambrechts: **Less than 300?**

Jørn P. Jensen: Yes.

Nico Lambrechts: Okay.

Jørgen B. Rasmussen: To the second question about prince...

Nico Lambrechts: **And would we - - should we assume that... If it's 250, should we assume that that's the amount that will reverse in the first quarter of the following year?**

Jørn P. Jensen: You can say that that in principle, yes. On the other hand, if you take full year '12, then I guess if it has a net effect or not on 2012 will eventually depend on what distributors will do in the fourth quarter of '12 before the excise duty increase we'll get for '13.

Nico Lambrechts: Exactly. Okay. Right. **So this might actually be a continuing trend because there's an excise increase every year or planned for the next three years?**

Jørn P. Jensen: Could be. At the end of the day, it's the distributors deciding on these kind of things and not us.

Nico Lambrechts: Right. Okay.

Jørgen B. Rasmussen: On price increase 2012, what I can say about this would be as a principle we plan to put through the impact of the duty increase and, as we said also after Q2, and then we'll put a little on top of that. That's all we can say.

Nico Lambrechts: So you'll pass on the duty increase, which will be equivalent to about 4% at retail, and they'll - - then you'll take a little bit on top of that, which will be less than inflation okay. **And the net/net impact on the margin, should we expect with all the moving parts that it's unlikely that margins in fiscal '12 is - - will be up?**

Jørn P. Jensen: We'll come back. It's too early to be very detailed on '12. We get back to this in February.

Nico Lambrechts: Okay. **And then a final question, just with respect to the regulations and the actually enforcement of new regulations such as drinking in public places, are you seeing any more aggressive enforcement with respect to that? And this - - I believe there's also in the Duma proposals to band plastic and returnable glass. Could you comment if these will ever be taken seriously?**

Jørgen B. Rasmussen: In terms of the drinking in public places, we don't see a significant change at this point in time, but maybe over time that will change.

To the second point about what's in the Duma on returnable glass bottles and also on PET, the returnable glass bottle is probably further than PET. At the same time, we see a lot, not only the brewing industry, but a lot of let's say environmental organisations, there're several coming out saying, "Doesn't make sense not having returnable glass bottles," but so far it looks like it will be implemented. PET, I think it's too early to assess, but again we're definitely in the discussion and the debate.

Nico Lambrechts: **And may I ask with returnable glass, I think is around 10% of volumes in the market. If that is approved, when do you expect that will be implemented. Is that also '013?**

Jørgen B. Rasmussen: No, it's early 2014 first quarter, second quarter 2014.

Nico Lambrechts: First quarter 2014, okay...

Jørgen B. Rasmussen: If implemented.

Nico Lambrechts: ...you think. **And then with respect to PET, who's actually put this proposal forward and could you give us a little bit more colour on that and what the risks are and what - - how you're doing your public relations in order to indicate the impact of that on the market?**

Jørgen B. Rasmussen: Just can I clarify what I said on RGB. I didn't say, "I think," I said "when implemented" so if implemented, so the timing is early 2014 if implemented. I didn't say "I think."

Nico Lambrechts: Okay. Sorry. My apologies.

Jørgen B. Rasmussen: And then on the PET part, I will not speculate into who would be behind this proposal, but certainly I think there's a lot, not only within the brewing industry, but also outside the brewing industry, who does not understand the logic behind this proposal. It's from the environmental point of view. You've seen the FAS, so the anti-monopoly organisation has been out there saying, "It's not fair in terms of competition if you ban for only one part of beverage." There's been a number of universities out and clinical research studies out saying there's no risk having beer in PET at all; and if we look across the world, there's a lot of markets where you're selling beer in PET without any risk, without any safety issue, so I think there's still a lot of discussions to be had here on this topic.

Nico Lambrechts: Okay, thanks. Thanks very much. Thanks.

Jørgen B. Rasmussen: Thank you.

Operator: The next question comes from Michael Rasmussen from ABG Sundal Collier.

Michael Rasmussen: Yeah, hi. Good morning, everybody. Three questions if I may. **First of all, on the marketing costs, could you give us a little bit more insight into what the current share of sales is in Eastern Europe and how we should expect this being phased in 2012. Obviously you can't spend a lot in second half, but I'm just wondering how it will impact Eastern Europe margins in first half and in terms of the Group. Second question on logistic costs, you mentioned logistic costs grew in the third quarter, could you please tell us in which markets and is this something you're seeing being spread out to other markets across the Group? And just lastly, on the higher off-trade share, just confirm whether this will dilute margins or not if this trend continues with more through the off-trade channels.**

Jørgen B. Rasmussen: I'll take the marketing cost part. No, we don't give out percent of net sale what it accounts for. What I can say and in line with what we said after Q2, if you look at 2012 as a trend, assume after the ban of being able to advertise in media, main media, so TV and those kind of channels, if anything will be slightly down if you talk Eastern Europe, Russia here.

Michael Rasmussen: **And that's for the full year, full year 2012?**

Jørgen B. Rasmussen: For the second half 2012 will be slightly down because you're not going to some media.

Michael Rasmussen: **But full year will be higher than currently?**

Jørgen B. Rasmussen: Too early to say. We'll come back to that when we talk more about '12 in February.

Michael Rasmussen: **And anything facing across the Group in terms of marketing costs right now and going into '12?**

Jørgen B. Rasmussen: All we have said, and we'll talk '12 when we get to February, but we are this year, yes, sales marketing costs is slightly up as a percent of net sales, and we said that going into the year, and it's primarily driven by what we do in Eastern Europe and also to a certain extent in Asia.

Michael Rasmussen: Thanks.

Jørn P. Jensen: On logistics, it is primarily a Russian discussion and it's again very much about this new, I guess you can say, demand supply balance on transportation in Russia, i.e., more demand due to a higher activity level in general in the country, less supply because a lot of transportation was taken - - or trucks were taken out of the market during the crisis, so this new balance on transportation, which has led to higher prices, but it's a Russia discussion more or less only.

Michael Rasmussen: Okay, good. Thanks.

Jørgen B. Rasmussen: And to your point about off-trade versus on-trade, if you look at margin in terms of absolute margin per hectolitre, it's very much the same with everything, off-trade/one trade, because we have higher costs servicing in general on-trade can vary by market, but a general statement.

Michael Rasmussen: Great. Thank you very much.

Operator: The next question comes from Matthew Webb from JP Morgan.

Matthew Webb: Yeah, two questions please. **Firstly, clearly the maintenance of the full year guidance assumes a pretty dramatic increase in the EBIT in Q4. I mean you've obviously pointed to the stocking up effect, that's obviously a big part of it, but that's clearly not enough. Could you maybe talk about some of the other factors where there may be a rough indication of their relative importance? And then the second question a bit more sort of broad brush, do you think that the relatively low level of capacity utilisation in Russia is going to be sort of a long-term drag on the pricing environment in that market and if you have any sort of precise details on your current level of**

capacity utilisation either at peak times or year average and where you think the market might be, that will be really helpful? Thanks.

Jørn P. Jensen: Matthew, to the first question around Q4, it is several things. It is in Eastern Europe where it is lower opex as a percentage of revenue in Q4 versus last year as we have been talking about before. It's the stocking, as you talked about. In Asia, it's high EBITDA last year due to growth/acquisitions. In Northern & Western Europe, it's due to different phasing of some costs, including sales and marketing, but it's not the least the effect of the contingency plans that we said after Q2 we would implement in Northern & Western Europe and the effect of those you would primarily see in Q4. There was a lot of that coming into or going into Q3. And then finally we obviously know October, we have seen the results for October going into all this. So in that sense, there's only two months to go.

Matthew Webb: **Sorry, can I just follow-up on that. One thing you didn't mention there was significantly lower barley costs in Russia in Q4, is that a factor as well?**

Jørn P. Jensen: It's a smaller factor than what we thought it would be in the sense that volumes for the first three quarters have been lower, i.e., we have some contracted volumes for the first three quarters going - - rolling into Q4, so the impact will be less than what we initially expected.

Matthew Webb: Got it. Okay. **But that's a sort of relatively short-term... That's a Q4 issue rather than something that rolls into next year obviously.**

Jørn P. Jensen: Definitely.

Matthew Webb: Yeah, okay. Right. Thanks.

Jørgen B. Rasmussen: And to your point about capacity utilisation, again if you look back, we have seen some of our colleagues closing their breweries instead of taking different action, so I don't think capacity utilisation factor will play a key role in terms of pricing strategy and not in a big market like Russia, which I think everyone look at being one of the very attractive beer markets. If you take our own capacity utilisation factor, it's probably on average around 70%; will of course vary by region and by brewery, but on average about 70%. I don't want to comment on competition. I think they should talk for themselves.

Matthew Webb: **And sorry, that 70%, is that sort of at peak times or is that a year average? I know it's a slightly slippery concept but...**

Jørgen B. Rasmussen: That's year average.

Matthew Webb: Year average.

Jørgen B. Rasmussen: But of course it has meant we don't need to do stock building up to the season as we used to do, but it's an average utilisation factor.

Matthew Webb: Okay. That's great. Thanks very much.

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

Andrew Holland: **Yeah, could you just tell me whether you've had any further clarification from the government on the regulation around kiosks, which is looming in 2013? Obviously when you last spoke on the subject, I think that their announcement was fairly recent, in particular down to sort of definitions of permanent and non-permanent outlets and what you think the sort of loss of outlets might be relative to the 22% share of the market that you talked about at the Q2 stage?**

Jørgen B. Rasmussen: I can, Andrew, and again would be very much in line with what we said last time. Because there's a time period to adjust, and that's always extremely positive when we get a time period to adjust to new legislation, it does mean that the window to make changes in and we certainly have seen some pavilions and kiosks turning themselves into permanent outlets. We also believe and we see some discussion happening already, some of those outlets will probably end up being grocery outlets either at the same place or maybe in a location nearby and there's also been, and I think you have all seen that maybe also in some media some discussion about some now going together and maybe opening some on-trade chains. So what we said last time about some will turn themselves into permanent outlets, we will see a migration into grocery outlets and maybe some new grocery outlets opening and maybe a little into modern trade and then on-trade taking off a little more in terms of development. That's still what we see, but because there's nearly a year to go before the law will take effect, we will see this as an evolution and not a kind of big change suddenly from January 2013. And the impact overall, we don't think will be significant.

Andrew Holland: Okay. **And just switching tag a bit, you briefly mentioned in your sort of list of why Q4 will be better trading in October, can you just widen that your sort of total business, what do you think trading was like in October?**

Jørn P. Jensen: In line with what we have assumed Q4 to be in order to meet what our unchanged guidance for the year. I don't want to be more precise than that on October. But after having seen October, we have not seen a need to change anything in our full year guidance.

Andrew Holland: Okay. **But region by region, where - - can you give us any sort of insight Eastern Europe versus Northern & Western?**

Jørn P. Jensen: In line with what we're assuming in our full year guidance.

Andrew Holland: Thank you. That's very helpful.

Jørn P. Jensen: You're welcome.

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

Adam Spielman: Hello. Thank you very much. Many of the questions I had have been answered. **There's one of the things that intrigues me though is the slide, in one of your appendix slides, you actually show that the amount of discount brands in the market, this is page 23, is going down. It went down quite significantly in the third quarter and yet all your comments seem to be that promotional activities are increasing and the market share of the local plays is going up. I was just wondering if you can explain that apparent discrepancy. Turning secondly to Northern & Western Europe, I was**

certainly a little bit surprised by the margin development and what I want to try and get a handle on is why exactly that decrease. Now you mentioned that it was a little bit weak in France and Denmark, but at the same time in France, you seem to be doing very well in premiums. So that seems a little bit... If you can just expand on that and perhaps if you can talk about how margins looked in September relative to the - - I guess your expectations because that was a relatively normal month in terms of weather or good month in North/West Europe. And then the final question is on working capital. Obviously there are a lot of stranger facts in Q3, but should we expect them all to unwind in Q4? If you can I suppose make a comment on your expectations for full year working capital I guess is what I'm asking there. Thank you.

Jørgen B. Rasmussen: Thanks, Adam. The first question about mix, what is happening here, I think the best way to explain what's happening in Russia on mix is what we're seeing and that's why the volume is down. We're seeing consumers, they - - when they come in and buy beer because we're not losing a lot of consumers buying beer, but where we're losing is they buy less volume when they buy or they come in and buy less frequently when they buy. But when they come in and buy, they are often prepared to stick to preferred brands or still buy slightly better quality in general, so mix for the market is positive and even more positive for Baltika than for the total markets.

And when we talk about promotions and aggressive price promotions, it's mainly in lower mainstream but also in mainstream, so you see a number of mainstream brands being promoted quite heavily, so that's kind of explaining what you're seeing here and why mix is still positive.

Jørn P. Jensen: When it comes to the margin in Q3 in Northern & Western Europe, it is basically only - - there's nothing structurally so to speak. It is basically just two things. It's weather in July and then it is country mix. So it's a simple fact that due to the very poor weather, markets and, i.e. our businesses, as well, were down in July in Denmark, in France, in high priced markets whereas the growth later in the quarter was more pronounced in the low priced markets in relative terms, for instance, in Poland. In Q3 as such, it's very much due to the very poor weather and the consequences of that in July. If you look at the following two months, August and especially September, then it looks absolutely normal versus what you would also expect from our margin development in Northern & Western Europe.

On working capital...

Adam Spielman: Yeah, sorry.

Jørn P. Jensen: Sorry.

Adam Spielman: **I was going to say, "So if you look at particular market like let's say France or Denmark, I appreciate they were down, but the margins within those markets were normal as particularly towards the end of the quarter.."**

Jørn P. Jensen: Yes, but of course down in July, right, due to lower volumes.

Adam Spielman: Yeah, okay. Thank you.

Jørn P. Jensen: When it comes to working capital, yes, a lot of movements in Q3 and definitely most of those will be reversed in Q4, accounts receivables being the biggest item so to speak when it comes to Q3 variances. So, yes, most of this will definitely be reversed also due to seasonality in Q4. So we still expect to continue this journey that we're on on working capital management as such where we definitely plan to be able to continuously reduce trade working capital as a percentage of net revenue.

Adam Spielman: Thank you very much.

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

Jesper Breitenstein: Hi. Good morning, gentlemen. Two questions. **The first one is on the Russian market share. You mentioned that you've taken some initiative to upgrade key account management and other things to reverse the negative marginal trend and I think - - or I guess your ambitions to grow the margin (inaudible) only stabilise at this level, but can you say how long it will take before we'll see improvement in the market share again? That was the first question. The second question was on the medium-term target for Russia, which you, Jørn, re-iterated the 26 to 29, is that realistic in the current pricing and volume development or situation in the market or will that require say less price competition and say mid single digit volume growth again before we can get to that?**

Jørgen B. Rasmussen: To the first point about Russia market share, yes, we definitely - - it's coming back to this one you have heard so many times about the trends, and we do believe over time we'll be on a positive trend for market share. And the last couple of years have been extraordinary in terms of beer tax increases and crises and all the rest has not been the easiest couple of years, but still I think we've done a lot of work to keep putting us in a better position. So when we talk about key account capabilities and what we're doing in there and channel marketing, we have completely changed structure and organisations so if you went in there and looked at the people we have in there, the sales organisation is now a much more balanced organisation between what you will describe as being traditional sales organisation and then also modern kind of key accounts, channel marketing organisation. We have a good mixture of experienced people from the Russian market in Baltika as well as from Western markets to do as well as possible in this area. What we believe we're seeing in the short-term here because of some volume losses last year for some in the market, it's a lot of tactical strong activity and we don't see this being necessarily a long-term trend. We believe all the players are really driving or trying to drive value into the category, but I don't want to put specific timing on market share apart from we're not satisfied with the current trend and we will reverse it.

Jørn P. Jensen: When it comes to the medium-term targets for Eastern Europe, yes, we definitely believe in it. That's why we are reiterating it today. So what we say on markets of growth is the same as we said after Q2 that we will get into slow growth during next year, slightly more the following year and so on and that of course will help as such our margins. So definitely we're still committed to deliver and we're comfortable with delivering on the 26-to-29% in Eastern Europe in the medium-term.

Jesper Breitenstein: **But will take any say bigger view in the cost base in Russia to meet that as well?**

Jørn P. Jensen: But we will... But that goes for all regions in general. We will of course, as always, look at our cost base as such in order to develop our business and deliver as much as we can.

Jesper Breitenstein: Okay. Thank you.

Jørgen B. Rasmussen: Can I just add to what I said about market share? And it's about some time being prepared to compromise on volume share. If you think it's not a profitable thing to just go for volume share, it's very much still part of how we think and plan and how we execute in Russia, but I would say in general in the Group. Don't just go for volume if it's not profitable.

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

Hans Gregersen: Good morning. Two questions. **If you look in Russia, there seems to be quite an irrational pricing behaviour in the market right now. We're seeing several competitors running with a close to 0% margin, plus/minus. What you think is really going to change that outlook in the medium-term that we get into more rational pricing behaviour, which I guess will be a major support for plus margin outlook? The first question. The second question: You mentioned on page five about this integrated supply chain in Northern & Western Europe, could you give a little bit further insight to what you're looking at? Would that require brewery closures in the short-term and also if that will require some cost provisions upfront?** Thank you.

Jørgen B. Rasmussen: To your first question, Hans, on the point about irrational behaviour, I think what happened last year where you saw big changes in the marketplace in terms of some lost significant volume has triggered some reaction and maybe you could say understandably and I think that's what we're seeing this year and why we don't believe this is a long-term trend or something that will continue going into the future.

Hans Gregersen: **No but if you look at... But, Jørgen, sorry to interrupt. But if you look at it, I guess if you look at the lower part of the market, they must clearly be losing significant money - - amounts of money giving the overall margin situation.**

Jørgen B. Rasmussen: And if that's the case, then of course we have our own assessments here. But if that's the case, that supports it is more unlikely to continue because I still think that the brewers being in here in the market probably want to, in general, have a profitable business in one of the key beer markets in the world.

Jørn P. Jensen: When it comes to integrated supply chain, no, there are no need to take any cost provisions as such for that now. When it comes to what it means, that is it's now been initiated of course also means/implies that in some markets there will have to be some discussions with unions and so on, so we'll get back with more details on this as we go, but now we have initiated the projects.

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

Jonathan Fell: Good morning, everybody. Two quick things. **First of all, just in relation to stock building, I know the tax increase we had this year was smaller, but was there no stock building in the fourth quarter of 2010 at all, i.e., is all of that - - is all that 1 million hectolitres incremental or actually was there some last year? And second question: In your outlook statement, Jørgen, you mention you're keeping a close eye on the markets and the macro environments so you can adjust investments in sales and marketing activities accordingly. Is that another way of saying you'll protect profits by reducing your A&P investment if it looks markets are so soft that it's not worth spending that money?**

Jørgen B. Rasmussen: First on the stock building, you're right, last year because of the smaller duty increase, we didn't really see any buying in or stock building in distributors and our sense would be this year it's different. So that assumption is correct.

Jonathan Fell: Okay.

Jørgen B. Rasmussen: On the outlook, we're not saying we're just going to cut marketing activities, what we're saying we will monitor the macro environment as we can all see it is quite uncertain out there and, in general, we do not believe the consumer, certainly outside Asia, will be as responsive maybe to new innovations or some other big brand ideas in '12 because every consumer will be a little more nervous and probably a little more cautious and that will be reflected in how we plan going into 2012 and also when we monitor if we see changes, we will make changes and this also includes structural changes across the group because we are in a very uncertain period.

Jonathan Fell: Okay. **I mean is that comment weighted more towards Western Europe than Eastern Europe because obviously if you want to reverse the market share trend, I would've thought you wouldn't want to be cutting back there.**

Jørgen B. Rasmussen: It is more targeted Northern & Western Europe and, as we all know, we only have a half year more left in Russia, for example, where we can advertise main media, so that will also influence how we think. But, yes, it's more targeted to Northern & Western Europe.

Jonathan Fell: Thank you.

Operator: The next question...

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

Operator: Our last question comes from Gerard Rijk from ING.

Gerard Rijk: Yes, good morning. Two questions. **First is about the input costs in Russia again, sorry for that. Last year in end of third quarter, you were much more clear about a strong rise in those input costs and now you are less clear on that. Is there a specific reason for that except for that you still have to investigate the outcome of this quality issue, but last year of course we had of course the same month of reporting and the same harvest going on. Second question is on Vietnam. Your losing there some share, can you elaborate on that why that continues also in the third quarter? And maybe**

the last question about speeding up initiatives, structural initiatives, is that something concerning cost cutting which comes in the short-term or is that more into late 2012 early 2013.

Jørn P. Jensen: To the first one on COGS in general, it is true that we are kind of less precise today versus a year ago, which to be honest is also due to there is a lot of speculation in these markets these days and we don't see any need basically to tell the rest of the market how we are playing all this. So it's not because we have less visibility than we had a year ago, but we will just - - we have just decided basically to be more precise on this in February and not already now.

Gerard Rijk: **Concerning that that's speculation, what do you mean with that?**

Jørn P. Jensen: I mean that as we have at least some of the prices that you're seeing on packaging raw materials in general are not always driven by you can say physical demand and supply.

Gerard Rijk: **So in fact they are lower than what we see?**

Jørn P. Jensen: It can be both up and down, as you know. We'll get back on this in February.

Gerard Rijk: Yeah.

Jørgen B. Rasmussen: On Vietnam, what you really see when we talk about Vietnam, it was a very, very unusual cold start to the year, that's one factor, and then also the Vietnamese economy has had very high inflation and of course impacted the consumer uptake. So what we talk about here is more marketing down, not us losing share because our share basically in Vietnam is flat.

On structural changes, when we talk structural changes, it's not for late 2012, it's a process we have started and we are into, so it's something that will of course be ongoing but also happen in the near-term. And when we talk structural changes, it can be processes, but can also be related to related to headcount.

Gerard Rijk: Okay, thanks very much.

Jørgen B. Rasmussen: I think we have to finish here. Thanks for dialling in. Thanks a lot, and have a good morning.

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