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Speakers: Jørgen Buhl Rasmussen, CEO, and Jørn P Jensen, CFO

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OPERATOR: Welcome to the Carlsberg Q3 report 2014. At this time, all participants are in a listen-only mode and later we will conduct a question-and-answer session. Please note that this conference is being recorded.

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

JØRGEN BUHL RASMUSSEN: Thank you and good morning to everybody and welcome to our nine months 2014 results conference call. As you heard, my name is Jørgen Buhl Rasmussen and I have with me our CFO, JØRN P JENSEN, and Vice President of Investor Relations, Peter Kondrup.

Please turn to slide 3 and the headlines for the first nine months. We saw market value growth in all regions. In volume terms, beer markets were mixed with slightly growing Western European markets, a decline in Eastern Europe and continued growth in Asia. We grew our market share year-on-year in Western Europe and Asia and our Eastern European market share grew sequentially. Driven by our strong commercial execution, we continued to improve price and mix and delivered a very healthy 4 per cent price/mix improvement. We continued to push our commercial agenda and maintained a high level of investment in our international brand portfolio and we launched several innovations and maintained an overall high level of commercial activities. Our cost agenda remains unchanged and we focus on executing our many efficiency programmes, including the rollout of BSP1, which went live in three more markets in October. The significant integration task of Chongqing is progressing according to schedule and we are strengthening and refreshing sales capabilities and brand portfolio, as well as implementing Carlsberg tools and processes in all functions. Despite the weak Eastern European markets, we sustained a solid operating profit growth, delivering 5 per cent organic growth for the nine months.

Slide 4, please. Beer volumes for the nine months declined organically by 2 per cent. Volumes grew in Western Europe and we saw flat volume development in Asia and declining volumes in Eastern Europe. Reported beer volumes grew by 4 per cent due to the acquisition impact from Chongqing.

Slide 5, please. Organic net revenue growth was +3 per cent, supported by the continued healthy price/mix development of 4 per cent. Operating profit grew organically by 5 per cent. That was driven by growth in Western Europe and Asia and a decline in Eastern Europe as a result of the market decline and higher costs than last year. In addition, Q3 in Eastern Europe was impacted by different phasing of sales and marketing versus last year, write-off on obsolete stocks and the phasing of last year's cost reductions. The acquisition impact was related to the purchase of Chongqing Brewery and the substantial negative currency impact was due to weaker currencies in seven markets, especially in Eastern Europe. All in all, the group delivered flat reported operating profit growth, despite the volume decline in Eastern Europe and the substantial negative currency headwind.

Now slide 6, please, and an update on our international premium brands. Overall, we continued to push our commercial agenda and saw a strong performance of our international premium brands. The Carlsberg brand grew 3 per cent in its premium markets. The brand did particularly well in Asia, driven by good performance of Chill and Light in China and Carlsberg Elephant in India. In September, we started the activation of the Euro 2016 football sponsorship. The Tuborg brand grew 23 per cent. An important driver was Asia, where volumes more than doubled as a result of good performance in China and India. 1664 grew by 10 per cent, mainly driven by good performance in France. This was partly due to easy comps due to destocking in Q1 last year and partly due to market growth and share gains. In addition, the brand achieved good results in Asia. Our super-premium beer, Grimbergen, grew 30 per cent due to strong expansion to new markets and market share gains in France. Somersby grew 43 per cent as a result of rollout in new markets, line extensions in existing markets and strong performance in Poland, the UK and Portugal.

Now to slide 8, please, and a few comments on our regions. The Western European markets were slightly growing for the nine months. In Q3, markets declined, mainly as we were cycling last year's very strong July. We continued to strengthen our market positions and our overall Western European market share grew year-to-date with a particularly strong performance in Q3. We gained market share in the majority of our markets. Based on the nine months performance, we are on track to deliver share gain in the region for the fourth year in a row. Our beer volumes grew organically by 3 per cent, mainly as a result of market share grow, slightly growing markets and destocking in France last year. Price/mix was down by 1 per cent. The positive impact from our value management efforts across the region was offset by the growth in other beverages and channel mix. Our non-beer volumes grew organically by 6 per cent, primarily due to a strong performance in the Nordics. In Poland, we grew beer volumes by 6 per cent in a market growing by an estimated 1 per cent and we gained both volume and value share. Strong commercial execution, increased distribution and strong performance of our local power brands, Somersby and Radler, explain the strong growth. Price/mix was flat in Poland. Our French volumes grew by 13 per cent in a market growing by an estimated 3 per cent. Our volumes were positively impacted by last year's destocking in Q1. Our market share was slightly up, driven by strong performance of our premium brands such as 1664, Grimbergen and Tuborg Skøll, as well as by K by Kronenbourg in the mainstream segment. The UK market grew 1 per cent after a strong Q2 and a soft Q3 and our market share declined. Our Nordic business performed strongly, driven by better weather than last year, soft-drinks category growth and strong commercial execution, which included the launch of innovations and the ongoing value management efforts. The markets and our volumes grew in Denmark, Norway and Sweden, while the Finnish market was flat. In March, BSP1 was rolled out in the UK and on 1 October in Finland, Poland and Switzerland. The next wave of markets is expected to be in the spring of 2015. Operating profit grew strongly by 7 per cent and operating profit margin expanded by 50 basis points to 14.9 per cent. The earnings growth was driven by the volume growth, cost savings within supply chain and the overall efficiency improvements in all areas throughout the Group and in spite of the higher BSP1 costs.

Slide 9 and Eastern Europe. The Eastern European beer markets remained challenging due to the overall uncertain microenvironment in Russia and Ukraine. The Russian beer market declined an estimated 6 to 7 per cent for the nine months, supported by good weather in Q3. The beer market in Ukraine was down by approximately 10 per cent. Our beer volumes declined by 10 per cent, mainly driven by our Russian business. Organic net revenue declined by 1 per cent and by 17 per cent in DKK due to the significant negative currency impact from the Russian and Ukrainian currencies. Price/mix was very strong at 9 per cent. The price/mix was mainly driven by price increases, mix improvements and the changed pack sizes in Russia. Organic operating profit declined by 4 per cent and operating profit margin by 50 basis points. The strong price/mix and efficiency improvements were not enough to offset the impact from lower volumes and in Q3 higher sales and marketing investments versus last year, a write-off on obsolete stocks in Russia and the phasing of last year's cost reductions. The write-off on obsolete stock happened following the significant changes in the Russian market that have caused some inefficiency in the Russian supply chain during the last quarters.

Slide 10 and Russia, please. The Russian market declined by an estimated 6 to 7 per cent for the nine months, as well as in Q3. The market is impacted by the slow economic growth, which impacts overall consumer spending negatively. In Q3 market development was slightly better than anticipated due to the very favourable weather conditions in September. Underlying, we estimate that the market in Q3 declined by higher single-digit percentages. We strengthened our market share versus the second quarter by 140 basis points to 37.9 per cent for Q3, although we lost year-on-year. The reasons behind the year-on-year loss are the same as we explained after Q2. Firstly, our price leadership, primarily in modern trade, impacted our share negatively. Secondly, we have replaced some SKUs with SKUs containing slightly less liquid in order to minimise price increases and improve affordability. This impacted volume share negatively but price/mix positively. Finally, in March and April we had to list the new SKUs at the same time as Baltika changed its legal structure and this created some disruptions in deliveries. We continued to execute on our strategy of balancing volume and value and, consequently, we managed to show much better value and volume share dynamics. Good performance of local brands such as Baltika 7 and Baltika 9, as well as good performance of several of our premium innovations, were drivers of this. Our volumes declined by 11 per cent due to the market decline and market share developments. Price/mix for beer was +8 per cent, driven by price increases in March and May, mix improvements and value engineering, ie the launch of the aforementioned smaller pack sizes, and in October we took another price increase of 2 per cent. We often receive questions on regulation. The only new since our Q2 announcement is that the proposed excise tax freeze for 2015 has been through the first reading in the Duma.

Now slide 11, please, on Asia. In Asia, our continuous efforts to strength our market position continued to yield positive results and we increased our market share in most markets in the region. We kept a high level of commercial activities, including a strong push behind our international premium portfolio, which continues to deliver outstanding results. Tuborg more than doubled its volumes and Carlsberg grew 14 per cent in its premium markets. In addition, we revitalised our local power brands and further strengthened sales capabilities. Including the Chongqing acquisition, beer volumes grew by 26 per cent and 35 per cent in Q3. Organically, volumes were flat. With 4 per cent organic volume growth in Q3, the volume trend improved during the year. We saw particularly strong growth in India, Nepal, Cambodia and Laos and for the international premium portfolio in China and India. For the nine months the beer markets in the western Chinese provinces performed worse than the overall Chinese market due to the unrest in Xinjiang and bad weather in several provinces. In Q3, dynamics in the western Chinese provinces were better than the overall Chinese market, which declined by an estimated 8 per cent. In addition, our volumes were impacted by the delisting of unprofitable of SKUs in one province. Excluding China, our regional volumes grew organically by 10 per cent. Driven by a strong price/mix of 7 per cent, organic revenue growth was 11 per cent. Organic growth in revenue accelerated during the year. The strong price/mix improvement was driven by our international premium brands, price increases, value management efforts across the region and delisting of low-priced and unprofitable SKUs in China. In China, the portfolio clean-up led to a very strong price/mix and we achieved low single-digit organic revenue growth in spite of the volume decline. Organic operating profit grew by 7 per cent. Profits were impacted by investments in growth such as the start-up in Myanmar and higher sales and marketing investments. However, this negative impact was more than offset by the positive price/mix and an income from a terminated licence agreement in Q2. Profit dynamics also accelerated positively during the year. As expected, the operating profit margin decline was due to the consolidation of Chongqing Brewery that has a margin somewhat below the Asian regional average.

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

JØRN P JENSEN: Thank you, Jørgen. Please turn to slide 13. As already explained, trading conditions in Eastern Europe remained tough in Q3 due to the impact of the uncertain geopolitical environment on the economies and the consumers. In this business climate, I am pleased that we were able to offset the negative development in our Eastern European business through strong commercial execution and a tight focus on costs and efficiencies across the Group, which delivered growth in operating profit in both Western Europe and Asia. For the first nine months, price/mix, gross profit and operating profit per hectolitre were all up mid-single digit. BSP1 is now live in in six countries. On 1 October, Finland, Poland and Switzerland went live and the transition has gone very well. As I have stated before, the transformational BSP1 project is very important and represents a step-change in our Western European operating model.

Now to slide 14 and the income statement. Organic net revenue increased by 3 per cent or DKK 1.5 billion, driven by a positive price/mix. The acquisition impact amounted to DKK 2.2 billion and was mainly related to Chongqing Brewery. The negative currency impact was mainly due to the Eastern European currencies. COGS per hectolitre increased slightly organically. However, due to the positive price/mix, gross profit per hectolitre developed positively and was up 6 per cent in organic terms. Reported gross profit margin was up 10 basis points, while the organic gross profit margin improved by 60 basis points. Total opex increased organically by 6 per cent. This increase was mainly driven by higher logistics costs in Eastern Europe, BSP1-related costs in Western Europe and higher sales and marketing investments. BSP1 costs amounted to approximately DKK 350 million, in line with our plans. All in all, organic growth in operating profit was DKK 369 million or plus 5 per cent. As I mentioned on the previous slide, this growth was driven by strong results in Asia and Western Europe, which more than offset the negative development in Eastern Europe. Reported operating profit was flat due to a significant negative currency impact.

Now to slide 15. Special items were up a little versus last year and amounted to DKK -218 million. Net interest costs were down DKK 185 million compared to last year due to lower average funding costs. Other financial items were impacted by currency movements and fair value adjustments and increased by DKK 150 million. Pre-tax profit was flat versus last year to the adverse impact from currencies. Finally, the tax rate was 25 per cent and consequently reported net profit was down 1 per cent.

Now to cash flow on slide 16. The sum of the first three lines - EBITDA including other non-cash items - adds up to DKK 10.1 billion, which is on par with last year. The change in trade working capital was minus DKK 427 million. Trade working capital was impacted by seasonality and higher invoiced prices. The 12-month average trade working capital to net revenue was minus 3.7 per cent compared to minus 3.5 per cent last year. The change in other working capital was impacted by lower VAT payables and amounted to minus DKK 706 million. Paid net interests were DKK 1.1 billion, which was down significantly from last year. The decline was due to lower funding costs, as well as settlement of financial instruments last year. All in all, the cash flow from operations was DKK 6 billion.

On slide 17, capex was DKK 3.3 billion and was primarily driven by capacity investments in Asia, some structural enhancement investments in Western Europe and finally investments in sales equipment to generate top-line growth. Net acquisitions amounted to DKK -23 million. This was significantly less than last year, when it was impacted by prepayments related to the acquisition of shares in Chongqing Brewery. All in all, free cash flow was DKK 2.6 billion, an improvement of DKK 119 million versus last year.

Now to slide 19 and the full year outlook. Based on unchanged assumptions, we maintain the outlook for the year. We expect low to mid-single digit percentage growth in organic operating profit. Including the acquisition impact from Chongqing and the assumed significant currency headwind, reported operating profit is expected to decline by low to mid-single digit percentages. The outlook is based on an unchanged average rouble/euro exchange rate of approximately 50 for the year.

This includes an average exchange rate of around 48 for the first nine months and a further devaluation in Q4. Despite the lower operating profit margin in Eastern Europe in Q3, we expect the full year margin to be, as previously indicated, close to last year's level. You might also recall that the margin was quite high in Q2, ie there can be significant differences from quarter to quarter. Adjusted net profit or clean EPS is expected to decline by mid to high single-digit percentages. As I said after Q2, this outlook does not assume the usual high level of stocking at distributors in Russia at the end of the year.

JØRGEN BUHL RASMUSSEN: Thank you, Jørn. This was all for today before the Q&A. To summarise, the group managed to deliver 5 per cent organic operating profit growth and increased cash flow despite the market challenges in Eastern Europe. We delivered solid market share performance in most markets and especially our international premium brands and innovations are performing strongly. Price/mix was a healthy 4 per cent. Finally, that we are able to deliver such results in the current environment underpins the strength of our business model, our brands and our people, as well as our ability and determination to focus on executing on our key priorities. Now we are happy to take questions.

OPERATOR: Thank you. We'll now begin the question-and-answer session. If you have a question, you have to press star and then one on your touchtone phone. If you wish to be removed from the queue, please press the hash key or the pound sign. Once again, I'll remind you. If you have a question, please press star and then one on your touchtone phone.

The first question is coming from Mr Michael Vitfell-Rasmussen from ABG Sundal Collier. Please go ahead, sir.

MICHAEL VITFELL-RASMUSSEN: Thank you and good morning, everybody. I'd like to start up in Russia and ask if peers have followed you in putting in less volume in each bottle and just how that is driving the market dynamics, ie are consumers actually reacting to this at all? Then also, if you could give us a little bit more insight into the 140 basis point market share improvement you saw sequentially from Q2, what do you think is driving this? Do you think you can drive your market share kind of above the level that you had before the changed legal structure in Baltika?

Then a second question on Russia and the deregulation. There's been some more stories in the media both about the potential beer duty freeze but there's also been some talks about a change of the kiosk ban and other changes. Can you give us a full update, please, on how you see these things and, more importantly probably, what do you think is driving this sudden change to lawmakers? Finally, are you budgeting 2015 with or without higher duties in Russia? Thank you.

JØRGEN BUHL RASMUSSEN: Thanks, Michael. To your first question about downsizing, I can say the competition seems to be following. If you take the major players, the four players, the big ones, two more are definitely following and one is already in the market and the other one is kind of coming into the market, so there's only one left of the four major players where we haven't seen any signs yet.

On the 140 basis point share growth, a very strong performance in general in modern trade where we see strong performance. I would say it's a combination of brands, innovation and promotional activity that drives the share gain. As I've said many, many times in the last many, many years, the share will be up and down in quarters and it's more important that we stay on a positive trend line, so don't assume 140 basis points every quarter. It will be up and down by quarter. The trend line is much more important to look at and I think we are on the right trend line this year compared to last year.

On regulation, as we stated also in our release, the duty freeze has been through the first reading, not yet the second reading, and that's really the important one. I would say it looks likely, but nothing is given until it has been through the second reading. Let's see. In general there's definitely, as you refer to also, a lot more kind of positive statements being made about regulation and not regulation and maybe turning back some of the regulation being put in place in the last few years, so more positive sentiment about regulation for the beer category and for alcohol in general. I think it's driven overall by a tough climate in Russia, a tough business climate, but also based on a much better understanding in the political environment that this industry - the beer industry - has been through some very, very difficult years with a lot of negative consequences in terms of GDP, in terms of employment in the regions, et cetera. I think their understanding is much better now than what it was a couple of years ago and probably drives this more positive sentiment.

JØRN P JENSEN: Michael, on your final question, as always, we are not at this point in time discussing individual assumptions in the budget for next year. We'll take all that when we get to February.

MICHAEL VITFELL-RASMUSSEN: Okay. Thank you very much.

OPERATOR: The next question is from Trevor Stirling from Bernstein. Please go ahead.

TREVOR STIRLING: Morning, gentlemen. A couple of questions from my side. Firstly, in looking at Russian margins, we've had a lot of quarterly volatility and you outlined some of the reasons for that. If you're trying to look at the underlying trend, is it fair to look at the nine months and the 50 bps of margin decline in the nine months and say that's really the underlying trend at the moment?

As a second question related to that, as you talked to us already that you're re-examining your network in Russia, I fully understand why you're not in the position to talk today, but have you any idea when you think you will be ready to talk about what the future shape of the network might be?

JØRN P JENSEN: Trevor, yes, to the first question. You're right that it can be volatile from quarter to quarter. Underlying it is a small reduction that we're seeing as a trend for this year. As you also alluded to, when it comes to the network, as we said last time, we do have too many breweries in Russia and we will talk about that when we are ready to talk about, ie when we can announce something, and that is not today.

TREVOR STIRLING: Okay. Could I ask maybe one follow-up, Jørn? The central costs were down by about €100 million in the quarter. Is part of the reason behind that, as you've talked in the past, about charging out BSP costs to the regions?

JØRN P JENSEN: DKK 100 million. No, it's more about, again, phasing between quarters. For instance, in Q3, when we had three markets going live, it's far more local costs of implementing than it is about central support development costs being incurred. That again will vary from quarter to quarter.

TREVOR STIRLING: Okay. Thank you very much, Jørn.

OPERATOR: The next question is coming from Sanjeet Aujla from Credit Suisse. Please go ahead.

SANJEET AUJLA: Yes. Hi, guys. I noticed again the price/mix trends continue to be strong in Eastern Europe. I think you had expected a bit of a deceleration in the second half of the year. Can you just allude to that and what we can expect for Q4?

Then just regarding the shipment phasing from Q4 to Q1, given the lack of distributor stock-up this year, can you just give us an updated quantification on that? Thanks.

JØRGEN BUHL RASMUSSEN: Yes. On the price/mix trend, I would say it's very much in line with what we expected and we also referred to the price increases we have taken this year. We took two in the first half and then we have taken 2 per cent in October. I don't really want to make a comment specifically for the quarter four pricing or the price/mix benefit. But we are seeing in general still in the Russian market a positive mix, so we are seeing the upper end of the market, whether it's in our business or the total markets - super premium, premium and other mainstream - doing better and having better trends than the lower part of the market, so that's still very positive. Then bear in mind, without talking pricing for next year, assuming there won't be a duty increase for next year, of course that will have a positive impact on what is required on pricing for next year.

On the shipment phasing, if there's no duty increase, as we have said, we assume our distributors will not stock up to the same extent as they've done in the past, and of course will have a negative impact on volume for Q4 but then a positive impact on Q1 next year.

SANJEET AUJLA: Are you able to quantify that phasing?

JØRGEN BUHL RASMUSSEN: As always, you can go back and see what we normally talk about when we have stocking-up before a duty increase. It's at the end distributors deciding how much they stock up or not stock up, so I hate to give any or too much indication. But maybe it was plus or minus close DKK 1 million in volume, hectolitre.

SANJEET AUJLA: Great. Thank.

OPERATOR: The next question is from Søren Samsøe from SEB. Please go ahead.

SØREN SAMSØE: Thank you. First a question regarding your mix both in Eastern Europe and in Russia. I think your price/mix was around 8 to 9 per cent. Maybe you could quantify the exact mix effect and then maybe elaborate a little bit on the effect on mix also and what you expect going forward in this high food inflation environment. Will people start to trade down and have you already seen some effect in some segments about this? That was the first question.

The second question is regarding your market share development. Is it all driven by this strong marketing push you have done in Q3 or is some of it also driven by maybe some of the competitors having higher prices than you or something like that, if you could elaborate a little bit about the movements in the market there? Thank you.

JØRGEN BUHL RASMUSSEN: I can, Søren. I'm not going to split price/mix, so the 8 per cent and 9 per cent into what is price and what is mix, apart from emphasising again that mix is positive, so it's not only price. Mix is positive. We see stronger growth in the upper end of the market: super-premium, premium. If we look forward, we still expect mix to be certainly minimum flat or maybe slightly positive. We still believe there's a lot of opportunity, even in tough times, to have a slightly positive mix or at least a flat mix, so we don't see a high risk for down-trading in Russia. It's driven partly by modern trade where you can do a lot more category management and modern trade is growing faster, but also us in particular - but I would say the market - getting more and more into multi-packs. That also drives or tends to drive a slightly more positive mix.

On market share development, it's not only price promotion. As I said earlier, it's really also linked to innovations. It's linked to some of the sponsorships we have, how we activate those in the market and some of the brands we are launching. But then again, look at the trend line. We are on a positive trend line versus last year. That's where we want to be, but quarters can be always up and down.

SØREN SAMSØE: Okay, and then there's --

JØRGEN BUHL RASMUSSEN: Maybe … because I know we touched on that last time after Q2 and we also referred to it this time around. In modern trades, we are still seeing one kind of player still being behind on price increases. The rest of us are more or less in line, so it's not like competition is pricing up more than Baltika.

SØREN SAMSØE: Okay. Then finally, just regarding the excise tax increase freeze in 2015, could that also go into 2016, do you think? Thank you.

JØRGEN BUHL RASMUSSEN: I think it's far too early to guess on and let's see first of all if the tax freeze or duty freeze for 2015 will be confirmed in the second reading. It still has to go through that second reading and third reading before it's finally decided.

SØREN SAMSØE: Okay. Thank you.

OPERATOR: The next question is coming from Nik Oliver from Merrill Lynch. Please go ahead.

NIK OLIVER: Morning, guys. Thanks for the questions. Just one follow-up on the Russian market share. I saw that the other segment was flat sequentially, in terms of share, and, given your comments about premiumisation and the discount end of the market being softer, do you think that segment has now peaked in terms of relative size in Russia?

A second question on M&A: just given the weaker than expected current trading and I guess outlook for the Russian profit pool, has that changed your thinking at all on M&A in terms of diversifying into different regions, et cetera?

JØRGEN BUHL RASMUSSEN: Nik, on other segments, the market share, again as I've said many times, I think we are close to seeing this other segment peaking based on some of the drivers for where they are today being kind of retro Soviet-style brands. It's about draught in off trade and in some cases also about price. I think we're getting close to it. They have peaked. Is it exactly 22 per cent? I don't know but over time I also expect the segment to come down in market share. That's all I can say.

NIK OLIVER: Okay, thanks.

JØRN P JENSEN: Nik, on M&A, no, nothing has changed over the last quarter when it comes to how we think on M&A. This is very much first of all about driving more value out of the business that we have and we think there's far more to do. Then, if opportunities, typically bolt on to where we are already, pop up, then of course we're looking at it. But we haven't changed anything strategically or so in our M&A thinking.

NIK OLIVER: Okay. That's very clear. Thank you.

OPERATOR: The next question is from Ian Shackleton from Nomura. Please go ahead.

IAN SHACKLETON: Yes, good morning. Thinking forward to next year and particularly the impact from FX, obviously we can do the translation element fairly easily but I was just thinking, from a transaction point of view, can you just remind us to what extent you've got input costs in Russia in hard currency still?

JØRN P JENSEN: As part of COGS in Eastern Europe, there are some raw material categories - especially packaging material categories - that are basically priced in forex, at least as a starting point. Then you can imagine that we are doing whatever we can to get that exposure out of our COGS and that is done by negotiation. I don't want to be precise on this at this point in time. 2015 we'll talk about it in February, but of course we're doing whatever we can to minimise our forex exposure also when it comes to the transaction effect.

IAN SHACKLETON: Just to be clear, on the raw materials, on the barley, it sounds like that should all be sourced out of Russia? That will be locally sourced?

JØRN P JENSEN: Was that a question?

IAN SHACKLETON: It was a question, yes.

JØRN P JENSEN: Okay. But again we'll take all that in February.

IAN SHACKLETON: Okay. Just going back to the 2014 guidance, I think historically you've given us some of the other moving parts and I just wanted to check whether anything had changed. You talked about COGS per hectolitre being in line with last year and sales and marketing especially with net revenue being in line. Is there any change in that guidance for 2014?

JØRN P JENSEN: No, there are no material changes in any of our assumptions.

IAN SHACKLETON: Very good. Thanks very much.

OPERATOR: The next question is from Richard Withagen from Kepler Cheuvreux. Please go ahead.

RICHARD WITHAGEN: Yes, good morning. Two questions. First of all on Eastern Europe, you specifically mentioned the impact of obsolete stocks on operating profit. Could you perhaps quantify that and whether that could also occur again in some of the next few quarters?

The second question is on capex. What is your capex view for 2014? Do you expect any major outlays for China given the recent acquisition?

JØRN P JENSEN: When it comes to obsolete stock, basically what we are trying to say is that that more or less washed away the positive impacts from better weather in September than expected going into the quarter, so it's not a huge number, not at all.

When it comes to capex, no, no changes at all again versus three months ago. That goes for Asia as well.

RICHARD WITHAGEN: Thank you.

OPERATOR: The next question is coming from Andrew Holland from Société Générale. Please go ahead.

ANDREW HOLLAND: Yes, hi. Can I just clarify what is actually going on in Russia? We're getting some slightly conflicting observations about the Russian economy from different consumer companies. I'm just wondering. I think you said yourselves that people sitting in Moscow and St Petersburg are probably not too bothered about what's going on in Ukraine, so is it imported inflation that's the problem? Can you tell us what food and beverage inflation is running at in Russia at the moment? Can you tell us whether you think that's going to continue into 2015 and whether a lower oil price is also going to have an impact on how consumers spend their money?

JØRGEN BUHL RASMUSSEN: Yes, Andrew. If I start with the more specific part of your question on the food inflation, if we take year-to-date food inflation would be around 9 per cent but if you take September in isolation it's probably more like 11 or 12 per cent. Food inflation is high and it's coming up, if anything, based on more and more having to be imported.

I think despite that you see if you look at Q2 consumer confidence is slightly up, but we certainly expect that to come down again. I think the consumer or the man on the street on average is not very optimistic about the future. They do see some employment being lost here and there, so not a very optimistic consumer and we expect certainly not the climate to ease in the near term and neither in early part of 2015.

On the oil price, if it comes down and stays down, of course it's never good for the Russian economy. But then again, time will show how that develops over time.

ANDREW HOLLAND: Okay, thanks. I don't know whether I've missed it or whether you haven't given it. Can you say what your Russian volumes were in Q3?

JØRN P JENSEN: Yes. We haven't said what our Russian volumes are. We said what our Eastern European volumes are, which are on page 25 of the release.

JØRGEN BUHL RASMUSSEN: You can say Russia is basically driving the Eastern European trend. There won't be a big difference.

ANDREW HOLLAND: Right. I think you referred to 11 per cent down in Q3 for Eastern Europe, so we can take that as the same for Russia, can we?

JØRN P JENSEN: It won't be very different.

ANDREW HOLLAND: Okay. Thank you.

OPERATOR: The next question is from Andrea Pistacchi from Citi. Please go ahead.

ANDREA PISTACCHI: Yes, hi, good morning. Thanks for taking my questions. Two, please. First, on Chongqing Breweries, the consolidation benefit on EBIT seems to be a bit more substantial than previous, so I was wondering whether this is a cost saving benefit starting to come through there, the synergy benefits or rather phasing.

Then, if you could talk about the pricing environment in Western Europe, your price/mix was a bit negative. I guess that was depressed a bit by the good growth you got in other beverages, but if you could talk about the underlying pricing environment, please, and if it got any worse?

JØRN P JENSEN: To the first question, actually, we do not see any surprises in the inorganic part in Asia. It's very much in line with the plan, so no changes and no surprises versus what we had expected previously.

JØRGEN BUHL RASMUSSEN: On the pricing environment in Western Europe, I would say it's always tough. It's definitely not getting better. It's probably getting tougher in Western Europe. We would normally say in Western Europe we can get a flattish to low-low single-digit benefit from price/mix. That's in general what we believe. But I would say the trend, if anything, is slightly worse and getting tough on pricing and mix in Western Europe.

ANDREA PISTACCHI: Thank you.

OPERATOR: The next question is coming from Simon Hales from Barclays. Please go ahead.

SIMON HALES: Thank you. Morning, gentlemen. Just a couple of follow-ups, really. Just going back to Trevor's question around the central costs in Q3, clearly lower. But obviously, as you go into Q4, given the rollout of BSP, as you said, in the beginning of October in three new markets, should we expect a sharp pick-up in central costs therefore in Q4 perhaps ahead of the average year-to-date run-rate by quarter? Then secondly just around your financing costs, I thought the finance coupon in the period looked to be lower than I expected. Can you say what that was and how we should think about that finance coupon for the full year and as we look into 2015, please, Jørn?

JØRN P JENSEN: Un-allocated costs, I think the best way to think about this is, as we have said previously, that it will be more or less on a full-year basis the same as last year. On funding costs, yes, slightly lower, so a slightly lower coupon, but not very different from how we expected this to be three months ago.

SIMON HALES: What was the coupon in the third quarter on a blended basis?

JØRN P JENSEN: I don't think we have that in front of us.

SIMON HALES: Okay. I'll follow up --

JØRN P JENSEN: No, hang on. Peter will come back to you on that one.

SIMON HALES: No worries. Thank you ever so much.

JØRN P JENSEN: Thank you.

OPERATOR: The next question is from Chris Pitcher from Redburn. Please go ahead.

CHRIS PITCHER: Yes, good morning. On the Russian price situation, you mentioned you've taken pricing up in October. I don't know if I missed it or not, but could you say how much that was by and when the mix benefit from the smaller packs will be in the base? I'm just looking to see what the Q4 versus Q3 pricing development would be.

Then, in terms of the timing of the second reading, could you give us an idea when we should expect that? Obviously we're getting later into the quarter and that limits the amount of time that wholesalers have got to stock up if it doesn't go through.

Then thirdly, on Poland, a much better performance in terms of market share than I was looking for and with price/mix broadly stable. Could you talk a little bit more about what's going on in the background for Poland, which seems to have got a lot more competitive? Thanks.

JØRGEN BUHL RASMUSSEN: Yes, Chris. To answer your first question, the October price increase was 2 per cent. On your question about price/mix based on the downsizing of pack sizes, we started downsizing in the middle part or late part of Q1 and then kind of penetrated the market during Q2 and I would say more or less now in full in Q3, so that's how that has kind of penetrated during the year.

The timing of second reading on the duty increase we expect to be very soon. It could be this week, it could be next week, so it's very shortly we should expect to see the second reading of that.

On Poland, I hope you saw, those of you who attended the Capital Markets Day in Poland, why we are doing as well as we are doing in Poland. It is a very competitive market and of course competitors always take action if they start losing market share. I think what we have built in Poland is a strong execution machine and strong leadership. Also, we have a nice brand portfolio of local regional brands and national brands and then we have some of our international brands doing extremely well like Somersby doing extremely well in Poland. It's a mixture but, as I'm sure you all learned in Poland when you were down there, it's not driven by a discount customer only. It's very much also in traditional trade that we are performing strongly.

CHRIS PITCHER: But specifically on Poland, since we did the trip to the market, we've had your two big competitors announce quarterly updates where their price/mix in Poland has been down mid to high single digits, a significant deterioration. I'm just wondering if that is a deterioration versus what you were seeing beforehand and whether you can continue with your performance in light of that change.

JØRGEN BUHL RASMUSSEN: We do not expect a very different performance as we are seeing now in Poland, so a kind of flattish price/mix in the current market environment with the portfolio we have we believe we can probably continue. Can we continue the same volume growth versus market growth? Because we are very strong so far, time will show but we believe we can on average beat market development but not always with the same kind of business as we do now. It's volume and it's value, so it's not based on price, just taking down price. It's volume and value following each other.

CHRIS PITCHER: Thank you.

OPERATOR: The next question is from Tristan van Strien from Deutsche Bank. Please go ahead.

TRISTAN VAN STRIEN: Good morning, gentlemen. Three questions, if I may. The first one is just a clarification from the earlier question on obsolete stocks. Is this just an advance planning issue or is it also about portfolio mix or innovations that didn't quite work out or anything on those lines?

The second question is on the big movement in working capital. You talk about seasonality. If you could just expand that a little bit, since I assume you're comping the same season, and whether you are giving out more trade credit during the period?

Then lastly, on India, could you give a bit of colour on that? Which states really drove that performance in the last quarter? Thank you.

JØRN P JENSEN: On obsolete stock, you can basically exclude innovations. It's much more on the traditional portfolio and it is about that in a market that is declining, as it as the moment, it is just very difficult to have at all points of time the right products in the right warehouses all over Russia. It is just that this market decline as such is stretching supply chain effectiveness as such but, as I said, it's not a huge amount in the third quarter.

TRISTAN VAN STRIEN: Are your current distributor stocks pretty much in line with your sales at the moment or is there a mismatch there at the moment?

JØRN P JENSEN: No, we of course think that the stocks are matching our expected sales for the coming months at all points in time. Of course you can get that slightly wrong and that would then eventually lead to you needing to write off some of those inventories. But as I said, it was not the big event in the quarter.

When it comes to trade working capital, as I also said, our 12-month moving average trade working capital to net revenue improved from last year -3.5 per cent to this year -3.7 per cent. It is basically driven by the top-line growth, this minus in trade working capital for the first nine months.

JØRGEN BUHL RASMUSSEN: Then your last question I'm not sure I understood. You talked about what was driving the --

TRISTAN VAN STRIEN: Yes. In which states did you perform well in India?

JØRGEN BUHL RASMUSSEN: Are you talking about India?

TRISTAN VAN STRIEN: India, yes. It's a big country, so which states?

JØRGEN BUHL RASMUSSEN: Okay. I would say in general all over because it's really driven by our international brands, Tuborg and Carlsberg. Yes, we are stronger in some states than others and maybe slightly better in general in the northern part of India than the southern part of India, but it's really all over, basically.

TRISTAN VAN STRIEN: Thank you very much.

OPERATOR: The next question is from Jonas Guldborg Hansen from Carnegie Bank. Please go ahead.

JONAS GULDBORG HANSEN: Yes, good morning. A couple of questions from my side. You saw very good performance in Indochina. Could you put some colour on what is driving this performance? Then secondly just if you could remind me on what is driving the logistic costs in Eastern Europe? Finally, on the delisting of unprofitable SKUs in China, for how long could we expect these to affect organic growth?

JØRGEN BUHL RASMUSSEN: I can take the first and the third one and then Jørn can talk to logistic costs.

On Indochina, when we talk Indochina, it really is Cambodia, Laos and Vietnam and I would say all three markets do very well. Cambodia and Laos from a market point of view in terms of market growth but also our performance within it. As you know, we have a very, very strong position in Laos. Can we keep driving market growth? We tend to benefit with a 98 or 99 per cent market share and we also have some very strong launches lately. In Cambodia, it's very much our local power brand, Angkor Beer, and then a strong share and also strong market development. In Vietnam, really a strong performance, so market share gains. Again, here we have had on the Huda brand a very strong launch of a new line extension and a key driver in Vietnam of our performance.

On China, your question was about the SKU rationalisation. You've just seen most of the impact in this year because we did in the early part of this year rationalise the SKUs. There could be a little coming into the early part of next year but mainly this year if we don't decide to do more rationalisation at a later point in time and you always have to sometimes rationalise your portfolio.

JØRN P JENSEN: On logistics, as you also saw after Q2, we have high logistic costs in Russia this year or in Eastern Europe this year. There's one element which is high tariffs. Then it is also again optimising, as we talked about before, actually, because it also links somehow into inventory management. We are moving more volumes around at the moment than we ideally should, which again due to to demand planning. It is demand planning. It has been a difficult year also with the market development that has been, as you also know, a bit different from what we actually expected going into the year. But all that we are working on improving and that we think we can, also kind of link this into next year.

JONAS GULDBORG HANSEN: Okay. Thank you very much.

OPERATOR: The next question is from Hans Gregersen from Nordea. Please go ahead.

HANS GREGERSEN: Good morning. A couple of questions. Let's kick off with Western Europe. In Poland, you mentioned your FIT programme, which I understood should drive let's say around a one percentage point share gain over the next couple of years. Could you give some further insight into how this will be executed and implemented? That's the first question. Second question: if we look towards Russia on the price/mix, you have announced 9 per cent for the quarter. Can you break down how much is coming from let's say the pack resizing effects where you can say lower volume, higher stable pricing, and what's left for the rest? Then finally, have you seen no price increases from FX in the modern trade during the quarter? Thank you.

JØRGEN BUHL RASMUSSEN: Thanks, Hans. On Western Europe and the FIT programme being basically about how to really prioritise what you do in the outlets and then how you monitor and follow that up, yes, it will have a positive share impact. As quoted by I think our head of Western Europe, over time it could mean we can gain one share point in Western Europe. It's being rolling out in all key markets and supported by the region. I think we are now in probably three to four markets with the programme, but we'll keep rolling it out and it'll keep being improved.

On the Russia price/mix, I cannot and I do not want to split price and mix and downsizing, but we have said what we have done on pricing and then you can do your calculations.

HANS GREGERSEN: Could you then say how much you have on average reduced the pack size?

JØRGEN BUHL RASMUSSEN: I think we said last time and I certainly repeat that if you talk about downsizing, of our total volume approximately half of that we have downsized and you can say we have downsized by 4 to 5 per cent on average on the different pack sizes.

On FX, I will only base my comments on what I see in Nielsen data and if I look at modern trade year-to-date, their pricing on average is not up a lot.

HANS GREGERSEN: And year-to-date, how far up is that?

JØRGEN BUHL RASMUSSEN: When you say FX specifically or --

HANS GREGERSEN: No, you said the AC Nielsen data. How up-to-date are they?

JØRGEN BUHL RASMUSSEN: They are pretty much up-to-date, so we have September data.

HANS GREGERSEN: Thank you.

JØRGEN BUHL RASMUSSEN: I think we can take one more question, a last question.

OPERATOR: The last question is coming Frans Hoyer from Jyske Bank. Please go ahead.

FRANS HOYER: Thank you very much. I noticed the BSP1 programme and the cost effects on the P&L. Could you talk about the benefits and how you see them building up so far and at what point more specifically over the next several quarters do you see the benefits matching the level of costs, please?

JØRN P JENSEN: In general, there's no changes when it comes to how we think costs nor benefits from the BSP1 programme, so it is all-in-all quite neutral to the business this year. Next year when we will have basically from the end of Q1 more or less all scale markets in Western Europe on the platform, we of course should start to see more benefits than costs. Then, if you think of 2016, more or less all markets are on the platform and no more implementations to do. Then of course that would be quite different from what you're seeing this and next year.

FRANS HOYER: Thank you. Thanks very much.

JØRGEN BUHL RASMUSSEN: I think we will have to finish the call here but, again, thanks for dialling in and as always we'll speak to many of you in the coming days. Thanks a lot.