Q2/H1 2009 Results Conference Call
Carlsberg A/S
CEO Jørgen Buhl Rasmussen
CFO Jørn P. Jensen
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Operator: *Good morning, ladies and gentlemen, and welcome to the Carlsberg Investor Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.*

I will now turn the call over to your host, Mr. Jørgen Buhl Rasmussen. You may begin, sir.

Jørgen B. Rasmussen: Good morning everybody. Welcome to our six months result conference call.
My name is Jørgen Buhl Rasmussen and I have together with me our CFO Jørn P. Jensen and Sr Vice President Eastern Europe, Anton Artemiev.
Today I will start by giving you a summary of our first six months results and then go through the regions. Jørn will walk you through the numbers and the outlook for 2009. After that we will be happy to take your questions.
Please turn to slide 3.

Overall, Carlsberg delivered strong cash flow and operating profit growth for the first six months. Markets remain challenging and volumes in some markets for the first six months have been slightly below our original expectations, but we have been able to compensate for this through our focused efficiency improvements.
Organic operating profit grew by 15% for the Group and including acquisitions we managed to improve operating profit to DKK 4.4bn. For the beverage activities the organic growth was even stronger at 26%. In Q2 we also saw the first visible signs of improvements in NW Europe from the accelerated efficiency improvements. High organic profit growth for Eastern Europe and Asia continued throughout all six months.
Carlsberg has successfully intensified its cash flow focus. We delivered a DKK 2.6bn sustainable free cash flow improvement which was due to improved working capital efficiency, lower investments and higher profits. Due to this strong cash flow we have reduced net debt substantially by around DKK 3.5bn since beginning of the year.
Carlsberg has in its first six months delivered on a very disciplined approach to cost and cash flow and despite challenging markets we are able to confirm our stated profit, cash-flow and net debt targets for the year despite our slightly lower revenue expectations.

And slide 4

Net revenue increased by 9% with flat organic revenue development. Beer volumes declined by 5% organically for the first six months and 6% for Q2.
Carlsberg gained market shares across Asia and Eastern Europe with particularly strong market share gains in Russia. At the same time, we kept market shares flat in Northern & Western Europe.
We improved the organic revenue per hl by 5% year-over-year which was driven by price increases implemented in 2008 and early 2009 combined with intensified efforts on value management. This more than off-set the organic 4% higher cost-of-sales per hl.
While we benefit from media deflation it is important to stress that we continue to support brands and activities with both focused above- and below-the-line marketing spend. We believe our share-of-voice in the markets will be similar to last year.

And now to slide 5
The six months results demonstrate that we were well-prepared for the 2009 challenges. In our planning and subsequent execution we are balancing the need for short-term cost reductions with our long-term growth ambitions. We believe our balanced approach is right and none of the initiatives taken will compromise Carlsberg's growth opportunities – and thanks to these initiatives we are on-track to meet our key financial targets for the year.
The efficiency improvements can be divided in three groups. The accelerated efficiency programmes are the ones implemented in late 2008 and 2009 focusing on bringing forward projects that would have been done in later years. The long-term programmes are the projects we have run for several years in logistics, production etc. These projects continue regardless of current market challenges and will be important in delivering the medium term margin targets. And lastly we have the synergies from the S&N acquisition. All the efficiency improvements have a sustainable impact on our cost base. Hence, we do not anticipate any large pick-up in costs when markets normalise.
The effect of the efficiency improvements are demonstrated by our Q2 results across our regions.

Slide 6 shows that beer volumes on a pro rata basis increased by 15% to 56.9m hl for the first six months. Organic beer volume development was -5% while acquisitions contributed by 20% and organic volume development in Q2 in line with YTD.
We gained market shares in most of Eastern Europe and Asian markets whilst keeping market shares in NW Europe flat.

Next slide
Net revenue totalled DKK 29.4bn with flat organic growth and 16% being added by the acquired businesses. Adverse foreign exchange developments reduced growth by 7%.
Organic operating profit growth for the beverages activities was 26%. Acquired businesses added an additional 24% and adverse currency impact had a -12% impact, delivering a total 38% operating profit growth.

And now let us turn to the regions and start out with Northern & Western Europe on slide 9.
Reported net revenue increased by 3%. Organic sales declined by 2% while acquisitions accounted for +9%. An adverse 4% currency impact was driven by the British Pound, Swedish, Norwegian and Polish currencies.
The 10% reported operating profit growth was mainly driven by acquisitions as organic profit growth was +1%. Organic profit growth picked up in Q2 to +6% as we start to see benefits from the efficiency improvement coming through, although profit growth for the region was held back by our Baltic business which is facing substantial challenges due to the macro economic environment. Adjusting for the Baltics, organic profit growth would have been 7% for first half and 10% for Q2.

Slide 10 please
We estimate that the Northern & Western European markets have declined by approx. 6% for the first six months with high volatility and large differences between markets. For instance, the Finnish market was flat while the Baltics declined between 10 and 13% due to the severe economic crisis in these countries.
We kept market shares flat on average across the region and we increased net revenue per hl by 5% as a result of price increases from 2008 and in the beginning of 2009 as well as strong focus on value management. In 2009, our Northern & Western European business is affected by higher input costs compared to 2008. The increased net revenue per hl was able to offset the higher input costs.
The product mix for the quarter was flat vs. last year. We did see trading down in the Baltics, SE Europe and Poland while we had a positive mix impact in markets like Denmark, the UK and France. We still see, however, a change in channel mix as consumers in many markets move away from on-trade in to off-trade.
The region delivered a 1% organic operating profit growth for first half. As mentioned on the previous slide, the accelerated efficiency improvements in the region are starting to become visible. Due to the time lag from decision to implementation in the region we expect to see a more material impact in second half of the year from this.

Slide 11 please and a few comment on specific markets.
In France Kronenbourg and 1664 brands have been relaunched as part of the commercial restructuring of the business. In the most recent off-trade tracking we have seen the first positive signs of the relaunch in terms of market shares for Kronenbourg and 1664 brands, but it is still early days.
The UK business delivered strong and needed earnings improvement in a challenging market. We gained both volume and value market share in off-trade and total market share increased by 80bp to 14.4%. The profit improvement is driven by very successful value management efforts and efficiency improvements.
Market shares increased in 3 out of 4 Nordic markets with Norway being the only exception. Notwithstanding this, the Norwegian business

is delivering strong earnings growth. Total market in Denmark declined more than average for the Nordic region impacted by the border trade. However, Carlsberg is gaining market share and in addition has, with Somersby brand, been establishing and driving a very successful cider category in the market.
The Polish market is facing short-term challenges driven by a decline in total market and some trading down. Substantial efforts are made to protect earnings through efficiency improvements and brand portfolio optimization.
The Baltics remain under pressure from macro economic turmoil. We have implemented several measures to mitigate the impact. We are still delivering decent profits in the Baltic States but at a significant lower level than in the past.
In conclusion on the region there are significant differences and challenges between markets in terms of growth and consumer behaviour. However, we have a common agenda for the region which is to maintain our market share, position the business to take advantage of a more stable environment in the future and in the meantime execute the efficiency improvements, drive up margins and support our brands.

And now to Eastern Europe. Please turn to slide 13.
Organic net revenue growth was 1% with a 7% beer volume decline being more than offset by higher net revenue per hl thanks to our pricing and value management efforts. The acquisitions added 34% and adverse currency movements minus 17%. In total, net revenue grew by 18%.
The organic operating profit growth was very strong at +47%, or +23% in DKK, which was driven by favourable input costs and the accelerated efficiency improvements.
The Russian business is a key driver behind the earnings improvement.
Operating margin improved to 28.4% from 21.3% last year. Excluding the PPA effect first half year operating margin would have been 29.8%.

Now to slide 14.
Most market declined high single-digits in the first half with double-digit decline in a few markets like Kazakhstan and Uzbekistan.
With a 7% organic beer volume decline we gained market share in all markets in the region except Kazakhstan where our strong market share declined from slightly above 47% to just below 47%.
We have increased prices across all Eastern European markets to mitigate inflation. Our pricing approach has been differentiated by segment, brand and SKU to optimize competitiveness.
Apart from pricing we have been successful with several of our value management tools and actions. In addition to innovations this continues to include thorough planning on how best to optimize the sales split and promotional split between brands and packaging types. Everything is done with great attention to detail and with differentiation by region, city and rural districts.
Also for the Eastern European business the intensified focus on costs and cash flow had a substantial positive impact.

The integration of the acquired businesses is running according to plan and synergies are being realised. At the same time we are maintaining a focus on strong execution in the market place.

And now slide 15.
The Russian market declined by around 9% both for the first six months and for Q2. Baltika gained an impressive 250bp market share for the first half of 2009 compared to 38.5% for first half of 2008. Q2 market share was 41.1% compared to 38.2% for Q2 2008. Please note that our market data provider, Business Analytica, has recalibrated its universe to better reflect the total beer market. Historical numbers have been recalculated accordingly. On slide 40 you can see the recalibrated numbers.
The market decline was more than expected and we have reduced our market expectations to around 5-6% decline for the year. We continue to expect that Baltika will perform ahead of the market throughout 2009.
Baltika shipments declined by 8%, but we estimate that Baltika's in-market-sales, i.e. sales from distributors to retailers, declined by 6% reflecting less of a stocking-up-effect ahead of peak-season this year due to a changed supply/demand balance.
Net revenue in the Russian business was positively impacted by a pricing effect of +11%. This was driven by price increases done in 2008 and in early 2009 and better portfolio management. Like in the rest of Eastern Europe the Baltika pricing strategy is differentiated by region, segment, brand and SKU.
Baltika managed to deliver strong gross and operating margin improvement thanks to favourable input costs, synergies and the accelerated efficiency improvements.
The excellent performance of our Russian business continues to be driven by an extremely strong brand portfolio, the strongest route-to-market with an integrated production, logistics and distribution set-up and by a strong business- and management-model. This should continue to support our outperformance in the current more challenging market environment.

Slide 16, please.
For Baltika there was a negative mix effect of around 3% in first six months. This was driven by packaging mix as consumers continue to buy the same brands but move from glass bottles in to PET. There was also a channel mix within the off-trade sector due to growth in the larger retail key accounts. But as can be seen from the slide showing consumer off-take, there is still no significant trading down between segments for total market nor for Baltika.

And now slide 17
Despite the challenging macro environment, our Ukrainian business continues to demonstrate strong results. In recent months, our business has gained substantial market share and has moved from a weak number three player to now number two in the market. Through improved portfolio management, efficiency improvements and

favourable input costs, profits improved despite adverse currency movements and difficult macro economy. From July 1 excise duties in Ukraine increased by more than 90% and we believe there has been some stock-building in Q2.
In Uzbekistan and Belarus our businesses delivered strong growth and earnings improvements while the business in Kazakhstan suffered from a declining market. We have now achieved 100% control of the business in Kazakhstan which will improve the potential for combining our exports to Kazakhstan with the local operation.

Please turn to slide 19 for a few comments on the Asian region.
The Asian business continued its strong performance.
Reported net revenue increased by 30% to DKK 2.1bn with organic net revenue growth of 15%. Both net revenue and operating profits were positively affected by currency movements notably the Chinese renminbi and currencies in Indochina.
Operating profit growth was 33% with 13% organic growth.

Slide 20 please.
Beer volumes increased by 7% for the region. We gained market shares across most markets in the region. The main contributors to the volume growth were China and Indochina and in China, volume growth was driven by continued strong performance in Carlsberg Chill and growth in our local brands in Western China. The unrest near our brewery in Urumuqi did not affect result in the first half while July has clearly been affected.
Our business in Indochina continues to deliver double-digit organic revenue and profit growth with increasing market shares in all markets throughout the region.
The Malaysian business suffered from a tough comparison due to an earlier Chinese New Year in 2009 compared to 2008. The Malaysian business continues to build on the re-established and stronger business platform with focus on execution, portfolio and wholesale optimization.
The 13% organic operating profit was largely thanks to the Chinese business and Indochina that improved profits markedly in the quarter.

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

Jørn P. Jensen: Turn to slide 22 please.
As Jørgen said in his opening remark, market conditions continue to be challenging but the accelerated efficiency initiatives which we began implementing already in late 2008 and have continued to carry out in '09 have proven to be right – both in scope and in timing - which our six months results also demonstrate.
Our clear strategy during these times continues to be to mitigate the higher level of external uncertainty with internal measures that we can control.
In the second quarter we increased the underlying profitability across our regions quite significantly, reflecting on the one hand the value of our brands and on the other hand an overriding focus on cost reduction. For

first half Group operating profit increased by 26% corresponding to a margin increase of 200bp.
Our focus for the second half of the year remains on execution on our daily business operations and delivery on the targets we have put forward.
The significant improvement in Free Cash Flow I'll talk more about on following slides.

On slide 23, you see the development from the first half of 2008 to the first half of this year.
Organic net sales were flat year-on-year. In DKK sales declined by 7%. The main negative foreign exchange variances – of around DKK 1.9bn - are primarily due to the Russian Rouble, Pounds Sterling and the Ukrainian currency. The Russian Rouble was 17% lower, Pound Sterling was 13% lower and the Ukrainian currency was 25% lower than last year.
Organic gross profit was up 1% compared to last year. Cost of sales per hl increased by approx. 4% in local currency. Reported gross profit margin was 49%, up slightly compared to last year, and positively impacted by higher sales prices across the Group, which more than compensate for the higher input costs in Northern & Western Europe and in Asia whereas Eastern Europe this year has benefitted from favourable input costs.
Organic total Opex including brands marketing was down DKK 671m and shows clearly that we are focused on reducing the cost base across the group. In Q2 the improvement became visible in Northern & Western Europe and the impact from this region will become even more evident in the second half of the year. For the half year, the reduction is to some extent also driven by lower media costs.
Other income, net was down as expected by DKK 314m primarily due to significant real estate gains in the segment "other activities" last year.
All in all operating profit was DKK 4.4bn, up DKK 905m from last year, of which amount DKK 528m was organic. In the Brewing activities the organic growth was 26% or +14% in DKK.

Next slide
Special items were DKK 191m, up DKK 63m from last year. The increase is explained by the large number of restructuring initiatives across the group.
Financial costs, net were up with DKK 168m compared to last year. The main reason was higher net debt following the S&N transaction. Interest costs were DKK 1.1bn in the first six months of the year, i.e. slightly lower interest costs in Q2 vs. Q1 due to the lower net debt. Other financial costs of about DKK 335m is due to currency losses in Q1 in some of our Eastern European companies on debt denominated in foreign currencies – it is basically the devaluation effect from the beginning of the year to end of Q2 – in reality end of Q1 - that is reflected here.
Tax was DKK 813m and the effective tax rate was 28.8%.
All in all, net profit was DKK 1,7bn, up DKK 442m yoy. The positive development reflects, once again, the strong focus on efficiency improvements, cost reduction and synergies coming through.

Slide 25
Total assets are down some 3bn since end December 2008. The decrease is primarily explained by a reduction of fixed assets and FX movements impacting intangible assets.
Total equity was 57bn, positively impacted by net profit but negatively impacted by currency adjustments of foreign entities and distribution of dividends. Excluding the current portion of borrowings, current liabilities totalled DKK 23.4bn, up some DKK 3bn from 31 December 2008 as a result of our focus on working capital improvement.
Net interest bearing debt amounted to a little less than 41bn. I will come back to net debt in a few slides.

And now cash flow on slide 26 where you can see that cash flow from operations almost tripled to DKK 6bn yoy.
Of course, comparisons are still somewhat impacted by the S&N acquisition but the improvement is also explained by the strong organic development.
The sum of the first three lines (EBITDA including other non-cash items) adds up to an improvement of DKK 1.6bn driven by the solid organic development in the business and the contribution from the acquired assets.
Change in working capital was plus DKK 1.9bn or +3.1bn in Q2. As said earlier this year we have a very strong focus on working capital and are running a number of successful initiatives to reduce it. The working capital programme is working with specific targets for each assets class in each and every market. In first half this year the focus have primarily been on payables, and that will continue. However, in H2 there will also be a significant focus on receivables and inventories.

Slide 27
As also stated on previous occasions, reduction of CAPEX is very high on the agenda this year. Capex amounted to DKK 1.6bn in the period, which is a reduction of DKK 1.3bn compared to same period last year and is spread across the Group.
All in all free cash flow in the first six months of 2009 amounted to DKK 4.1bn, which is more than 2.6bn better than last year when excluding the S&N acquisition.

Slide 28
On this slide you see the usual reconciliation of our debt divided into short term, i.e. less than 1 year, and long term debt.
End June we had net financial debt of 42bn. In order to get to the net interest bearing debt of 40.8bn you then subtract so called other interest bearing assets, i.e. interest bearing trade loans and the like.
We have committed long term credit facilities in place amounting to some 52bn which again means that we have undrawn, committed credit facilities of approx 7bn. You also see that our funding surplus, i.e. the undrawn long term credit facilities minus the short term net financial debt, amounts to some 10bn due to actually a negative short term debt end June.

In other words: We have significant and sufficient financial resources.

Shortly a follow up on our refinancing profile on slide 29:
On the left hand side you see how our current credit facilities mature over time after we issued in May two new bonds of EUR 1bn and GBP 300m under the EMTN programme. This is also shown as the green bars on the right hand side.
So even assuming that we will not at all be able to reduce net debt further - indicated by the blue line - we will not have to refinance for a number of years.

On this slide we have illustrated how the net financial debt is split by currency and whether the interest is fixed or variable.
The majority of the debt is denominated in - or swapped into - EUR or DKK, and when it comes to interest rates some 79% of the debt is at fixed rates. The short term facilities and swaps maturing in the rest of this year mean that end this year some 57% of the debt will be on fixed interests. In other words: The proportion of debt on fixed interests rates increased somewhat following our May bond issue and will be reduced over H2.
Maybe I should just make a note on the negative RUB debt end June, i.e. net a cash position. This is due to the fact that Baltika dividends were due in July. The dividends amounted to more than DKK 2.3bn and have now been paid, i.e. this is as of today basically a EUR exposure. This is of course also why cash, in general, and as shown on slide 28, were approx DKK 4bn end June and not netted against the gross debt.
The all-in average interest rate is still below 6%.

Finally on slide 32 and outlook where we maintain our outlook for profits, cash flow and financial leverage for the year.

We have revised revenue expectations as some markets like the Russian market have declined slightly more than we anticipated at the beginning of the year. However, the whole thought-process throughout the group this year has been to mitigate the market challenges by implementing efficiency improvement measures. This has been done successfully which make us confident that we will achieve the profit and cash flow expectations for the year

We therefore reiterate a full year EBIT expectation of more than DKK 9bn and net profit of more than DKK 3.5bn. With capex of LESS than DKK 3.75bn and better working capital management, our free cash flow will clearly be MORE than DKK 6bn.
Monetisation of redundant assets, including the Valby site is still work in progress and not included in the numbers we are here guiding on.
Now back to Jørgen for a brief comment.

Jørgen B. Rasmussen: Thanks Jørn. This was the last slide for today.

Before I sum up just a few comments on the recent management changes. Last week we announced the appointment of three new executives to the ExCom of Carlsberg. Jørgen Tolstrup will come back to Carlsberg after a few years outside the group to head Northern Europe, Jesper Friis has been promoted from CEO of the Norwegian unit to head up Western Europe and lastly Roy Bagattini will join from SABMiller to head up our Asian business. Except for the change in Western Europe, the other two appointments conclude the management change process that started back in January. I am convinced that Carlsberg now has a very well balanced ExCom with strong leadership competencies.

Finally, a few key statements from us on the back of the first half year result:

- Firstly, we are very satisfied with the strong cash flow and organic profit growth.
- Secondly, we were well-prepared for the 2009 challenges which the first half result and outlook support as we have been able to mitigate lower revenue by cost reductions and still keep profit and cash flow targets
- Thirdly, we continue to support our brands and constantly balance the need for efficiency improvements with our long-term growth ambitions

And with this we are happy to take questions.

Operator: *Thank you. We will now begin the question-and-answer session. If you have a question, please press star and one on your touchtone phone. If you wish to be removed from the queue, please press the hash key. Your questions will be queued in the order that they are received.*

Michael Rasmussen from SEB Enskilda is online with a question.

Michael Rasmussen: Yes, good morning. To start off with the synergies that you announced, I see that they are 180 million in the second quarter, a little lower than what we saw from you guys in the first quarter. Now two questions on these 180 million. First of all, could you please give us the split between France and Russia; and secondly, if you could please tell us what would the number be in local currencies, i.e., if we had not seen the heavy depreciation of the rouble? Question number two: On North and Western Europe, you do use the endnote in your results announcement saying that we will see even more material impacts in the coming quarters. Could you please give us the insight into the biggest project, what market, what project, how can we follow this? And finally on your very, very strong working capital improvement in the quarter, how much of this is related to currencies, i.e., lower inventories in reported currencies in Danish kroner, et cetera, et cetera?

Jørn P. Jensen: Michael, that was a pretty detailed question on both in local currencies and DKK and market by market more or less. I don't have the numbers here, but Peter will come back to you on that later today.

The third one about working capital, that is very much driven by payables and not that much from improvement of inventories. That's a key focus area for the second half. Coming from first of January and then up to a peak season in June inventories are not included in the good progress in working capital in June.

Jørgen B. Rasmussen: And to your second question about Northern and Western Europe what kind of projects you should expect to see coming through in the second half, as we have said before, it's really - - a lot of those have been initiated and decided already in the first half. But in a Northern/Western European environment, it takes time before you see the benefit in the P&L because there's a time lag component until implementation, but it's basically across all markets. We have taken action across all markets in Northern Europe, Western Europe, streamlines, improved efficiency, so it's coming from all markets but the time lag component until you start seeing the benefit in the P&L.

Jørn P. Jensen: And it's for sure not one single project going through the markets. It's lots of projects, different projects in all markets.

Michael Rasmussen: All right. Anything new on your standardisation projects that we talked about last year?

Jørn P. Jensen: That it's still work in progress. It's following the plan that we also talked about last year, i.e., you only see kind of negative effect being that we're investing in that now and then benefits to come.

Michael Rasmussen: Okay, thank you.

Operator: *Søren Samsøe from Danske Markets is online with a question.*

Søren Samsøe: Yes, good morning, gentlemen. First of all on the very strong margin improvements you do in Eastern Europe of almost 10 percentage points, if you could just give a rough breakup of how much comes from your own cost cutting, how much comes from low input costs, and then change in - - mix changes in packing and so forth? That was the first one. And then secondly, if you take the cost cutting you have done now so far in Eastern Europe, if you could try to look into next year and also '11, I mean what happens when volume growth picks up again? How sustainable are they? Do you need to then ramp up cost again or are you now at a sort of a more efficient level where you think you can actually continue even with the quite significant volume growth?

Anton Artemiev: Good morning. Yes, as we mentioned, as Jørn mentioned, the record improvement in the margins in Eastern Europe and in Russia have been due to efficiency improvement, price increases, synergies, and partly favourable input costs. Without going into detailed split, I would say that each of these factors has played a significant role. There are no minor factors among this. All of them have played substantially into improvement of the margin.

Jørgen B. Rasmussen: And to your second question about cost cutting and sustainability, a lot of what we have done here, when we talk efficiency improvements, it's about changing the way we operate to become more efficient the way we do different things. So they're really sustainable changes that we can continue to benefit from also going forward. There will be some areas where we'll see a change like the benefit at the moment from lower media costs. At some point, they will probably come back up. But overall a lot of the efficiency changes, that's about changing how we operate within a market or between a couple of markets or in a region, so very much sustainable.

Søren Samsøe: Okay, then just a follow-up question regarding pricing in general. You say of course you are supported by the price increases you made last year, which are going into this year, but are you also continuing to raise prices over the year? Of course, you are in Eastern Europe, but what about in Northern/Western Europe?

Jørgen B. Rasmussen: We have increased prices in all our regions in the first half, not to the same extent as last year. So without going into specifics by market, I would say if you take Northern/Western Europe this year is kind of very low single digits. If you take Eastern Europe, you're probably more into the high single digit increase on average, and then Asia would be somewhere in the middle depending on the markets. That's what we're looking at.

Maybe to the question before about the cost cutting, the only point I should add would be of course some of the cuts are volume related. So if volumes go up, yes, you'll see a change in costs.

Søren Samsøe: Okay. Yeah of course, thanks.

Operator: *Trevor Stirling from Sanford C. Bernstein is online with a question.*

Trevor Stirling: Good morning. Two questions please. The first one relates to momentum in Eastern Europe and guidance. Clearly with close to 10 percentage points of margin expansion in Eastern Europe this quarter, if you maintain that into the full year, the rouble stays where it is at 44 rather than 47, which is in the guidance, it would seem that there's considerable potential upside on the operating profit guidance and that you could actually beat 9 billion by quite a long way. So I just wondered if you could comment on the maths on that. And the second thing was Russian excise. There's a lot of press speculation in the Russian press yesterday that the finance ministry was considering a much stronger excise increase than had been expected. I appreciate that with government, you can never be sure, but I would appreciate just some colour on your perspectives on the current state of play on excise and government thinking.

Jørn P. Jensen: Well to the first one, I guess you can come up with all kinds of positive things which might happen. On the other hand, there are definitely also negative things that can happen. If we balance it all out, we're very confident on the 9 billion plus guidance, and I think that is what you should try to bear in mind. Let's see how it progresses over the year, but 9 billion plus is what we are seeing as the right number for the year.

Trevor Stirling: Okay, thank you.

Anton Artemiev: And regarding excise in Russia, that's true, there have been a number of speculations, and a lot of numbers in the air and what is the final outcome remains to be seen. It is obvious that the minister of finance would now be looking for some sources to fill the state budget deficit; but once again, the process will take time. The proposal should go to the Duma and it remains to be seen what the final proposal is. The Duma will discuss it presumably in September; maybe take even longer time, so it remains to be seen. But in the past historically, there have been also every year different proposals and never so far the extreme one went through. So of course if you ask what happens if the extreme negative outcome becomes through like increasing excise on beer three times, it's obvious. It is negative. It would be a very negative decision for the industry as a whole. It's not only for the beer industry, but also for supplies and alike. So and I think we will raise our voices to communicate that in the best possible way to the decision makers before the decision is made. But in the Company, in the Group, naturally we are getting prepared for any kind of eventuality.

Trevor Stirling: Okay, thank you very much.

Operator: *Ian Shackleton with Nomura is online with a question.*

Ian Shackleton: Yes, good morning, gentlemen. Two questions. Your cash flow guidance looks very conservative. You've got over 4 billion in the first half. You're going for 6 billion for the year. Is there something else happening in the second half? I mean is the capex going to be rising in the second half year or are you just being conservative? And the second question was around Russian beer volumes for the full year, you indicated you expect the market minus 5-to-6. Now if my math is correct and you keep running at the same market share gains that would mean that your volumes would be down about 2% for the year. Is that what we should be thinking about?

Jørn P. Jensen: To the first part, first of all, we're not saying 6; we're more than 6, so maybe that helps you a bit. One more structural thing is of course that if you for instance take a thing like working capital, then of course the benefit from 1st of January to end June, just assuming that the only thing we do is extending payment terms, then of course you get a higher net effect from 1st January to end June than you will get from 1st of January to end December. Simply due to that you both have kind of price and volume effects from 1st of January to end June. From 1st January to 1st of January, you only have the price effect, being the extension of payment days. So we are very confident of saying more than 6; and whether we're too conservative or not, time will show. But we are definitely confident on the 6 plus free cash flow guidance.

Anton Artemiev: Regarding development of the market in the remaining part of the year, one has to say that visibility still remains not perfect, and different factors may influence the outcome. Minus 5/minus 6% is our best guess for the time being and we have changed that from the previous minus 2 because what we saw is that the second quarter in terms of volumes has not developed as we expected. It was somewhat worse. It doesn't necessarily mean that this negative kind of trend will continue in the second half. We'll have easier comparisons. We had bad weather August and September last year. So once again, there are a number of uncertainties. But if the market develops minus 5/minus 6, this is still certainly our plan to develop somewhat better. But when we are talking market share, I remind you that we are comparing to the market share last year and not necessarily month-after-month so that not to create a wrong expectation.

Ian Shackleton: And just if we look at what's happened since the end of June, from what we understand the weather across Russia - - you had a bit more of a summer in July. I presume that's starting to look a bit better is it for the industry?

Anton Artemiev: It's very hard to build your assumptions of forecast on a few weeks' basis.

Ian Shackleton: Okay, thank you.

Operator: Jon Fell from Deutsche Bank is online with a question.

Jonathan Fell: Good morning, everybody. A couple more bits and pieces on Eastern Europe. Just first of all with regard to the margin, I think your mid-term target for EBIT margin is still 23-to-25%. Clearly you were way, way above that in the second quarter. Are you now prepared to upgrade your medium-term forecast for margins here or are there going to be factors which you think in the future will bring that back down again to what your previous targets? And the second on input costs, I'm wondering if you can just talk a bit more about the interplay there as factors obviously I think sort of spot price you're paying for commodities seems to be coming down. But how is that being offset by an increase in cost pressures because of the imported elements of raw materials in Russia and other markets and the fact that the rouble has depreciated?

Jørgen B. Rasmussen: If I take your margin question, remember the guidance would be on a full-year basis, annual basis not a quarterly kind of guidance, so we're not changing our full-year guidance and mid-term guidance on the margin. Secondly, and we keep coming back to it, we are in a time where visibility is low and there's more uncertainty in general so no reason to change our mid-term guidance, but we're confident in the mid-term guidance at the same time.

Jørn P. Jensen: And when it comes to input costs, then you could say that the previous trends that we have been discussing are more or less what we are seeing now. If anything then, the less demand in general in the global markets actually of course also have an impact on the supply demand balance us versus our vendors, which means that prices are slightly lower now looking ahead than they were just three months ago, but we're not really ready to guide specifically on that for next year assuming that it's for next year that you are referring to, but we will definitely come back to that. But if any change, then a small change for the better.

Jonathan Fell: So just on the point about margins, if I look back at past years historically, the second quarter has maybe produced a margin which is maybe 200 basis points above the margin for the year, is there something going on in the business which would mean that structurally the margin for the second quarter would end up being quite a lot higher in future years versus what it would be for the full year?

Jørgen B. Rasmussen: No, I think you should take it in line with what I said earlier. You are in a period where there's a lot of uncertainty. Nothing structurally changed in quarter two; you can see there's been no kind of change in terms of consumption behaviour between the different segments or no significant structural change in the way consumers shop in Russia apart from total volume is down. That's the only structural change you could talk about for Russia at the moment. The point about margin and the more uncertain environments mean we're not at a point where we would think about changing our mid-term guidance on margin.

Jonathan Fell: Okay, thanks a lot.

Operator: *Philip Morrisey from Citi is online with a question.*

Philip Morrisey: Good morning. Hi there. Could I ask please on working capital? Given the impressive first half performance, I just wondered if you could perhaps indicate what sort of cash inflow we might anticipate for the full fiscal year. Secondly as an extension of the point about input costs, you guided or you obviously indicated the cost of sales in the half grew 4%. Presumably, you've now got pretty good visibility on that number for next year and I just wondered if you could give some indication as to how you saw it moving. And then thirdly, back on the point about Russian excise duties, I note your observation, but obviously on prior occasions there have been extreme proposals made and none of those have ever come to pass. It does look from the press speculation as if the tripling of duties that you've referenced rather than simply being a proposal has actually made it into the draft Russian budget proposal for 2010 and I just wondered if the extreme examples that you just alluded to on prior occasions have made it to that point where they appear to have been incorporated in a draft budget. Thanks very much.

Jørn P. Jensen: To the first question, it would be disappointing if working capital improvements are not at least 1 billion plus when the year's over.

On the input costs, then it's the same as we've been saying throughout the year that we expect, and as you said, yes, we definitely have better visibility now than we had three months ago, that we expect input costs in general to be lower in Northern/Western Europe next year versus this year, so it's basically same position as we had on this three months ago.

And when it comes to specific guidance on numbers, then we will come back to that later.

Philip Morrisey: Thank you.

Anton Artemiev: On the excise, once again, any paper, which is called a draft, remains to be draft, and the draft has a tendency to be changed. Whether this will change to what we think is reasonable or it will not, that remains to be seen. To me, the obvious controversy which is now between the no change suggestion on the excise on Vodka and such a strong suggestion regarding the beer makes it so illogical that it certainly requires a discussion. I'm sure this discussion will take place, and I only suggest all of us to wait to the end of this discussion.

Philip Morrisey: That's very helpful. Thank you.

Jørgen B. Rasmussen: I think I would like to emphasise the point made by Anton earlier about the impact if something like this was ever implemented would be far beyond the beer industry, that's one point. But also if something of significance was implemented, with the business we have, we believe that would further strengthen our position within the beer market.

Operator: *Jason DeRise from UBS is online with a question.*

Jason DeRise: Hi, guys. A couple questions here. I wanted to maybe focus on A&P, your sales and distribution went down about 300 basis points for the Group. Is that roughly the same for Eastern Europe and Northern/Western Europe or was there a larger decline in Eastern Europe? The second question on Russia, Rexam was talking about canned volumes being down 30% for the half year and they've actually cut their capacity for the market, so I'm wondering if you think that there's a structural issues around the packaging mix away from cans which tend to be more premium in that market? And then the last question, I wanted to switch gears and talk about the U.K. You're saying that pricing's strong and your profits are up. Wonder if you could comment on how much your pricing is up and maybe just comment in general on the market how the market dynamics have changed in the last year?

Jørgen B. Rasmussen: If we start with the A&P question. Are you talking about asking about what's the change kind of year-on-year on our advertising and promotional investment?

Jason DeRise: Right, but in the two main regions in North/West Europe and then also Eastern Europe because maybe we can see it for the Group down 300 basis points for the quarter at least.

Jørgen B. Rasmussen: I think there's no one answer to that question because we have really been through every market and based on activities, what we are planning on each brand, it has been a selective process where we put our money and where we invest. Secondly, we are benefiting, as we referred to in our release too, from the lower media costs across all markets, whether it's Eastern Europe or in Western Europe, and it's up to 15% at least we're looking at in terms of lower media costs. But I would say overall, Eastern Europe, we are certainly in the key markets, behind the key events trying to keep our investment as much as possible; and our share-of-voice, I'm convinced in most of our markets would be very similar to the same period last year, so we haven't lost share-of-voice - and therefore impact - towards the consumer versus competition in this period in any of our markets, East or West.

If I maybe take the third point and Jørn will come back to the second point about packaging. U.K. pricing, profitability, yes, we have improved and that was necessary and keeps being necessary to keep improving our profitability in U.K. It's not so much price increases, it's a lot about also how we plan promotions, how we work promotions, how we work the portfolio, different pack sizes. So really optimising our mix on different pack sizes, that's how we have achieved better average pricing and it's really done as part of category management together with the customers to optimise the whole beer category and that has been done very successfully in U.K. together with efficiency focus; and you can see at the same time, we've been able to increase market share. And we have to point out, because I know sometimes others are saying the opposite, we are increasing market share not only in volume in off-trade but also in value, so our average price is not coming down versus total market in U.K.

More general about pricing in Western Europe, it's what I said earlier. If you look at pricing this year, it's a lot about our value management and how we work portfolios - then think of this just a kind of increases in several of our markets in Western Europe.

Jørn P. Jensen: And when it comes to the packaging question, yes, then as also said earlier on the call, we definitely see a shift in packaging in Russia, which means, for instance, fewer cans and more PET, which of course is a thing that the supplier you were referring to is seeing reduced volumes. Don't forget that actually the profitability is definitely not necessarily lower on some of those packaging types than on cans.

Anton Artemiev: I would like to add that to be precise, it's not can which is suffering most, it probably suffers along with the market. What suffers most is the glass package for the moment, and the volumes from the glass vs. PET which, as we mentioned, doesn't deteriorate our profitability. But if the whole market is down by 9% in Russia, that means that the can volumes is down with roughly the same or maybe slightly higher volume. But then of course one has to remember that the capacity which was built for production of cans in Russia has been also dumped given the focus of the growing market and nobody expected a crisis of this magnitude. So

I don't see any major trouble with the can as a package. I'm sure that when the times will look brighter, can is a favourite - - will stay one of the favourite packages in Russia and we'll keep it competitor.

Jason DeRise: Can I just come back to on the first question on the media, you said down 15% for the Group? I guess what portion of your sales and distribution expense would be media costs?

Jørgen B. Rasmussen: Just to be clear, what I said was the cost of media was down by up to 15%, it varies by market. I didn't talk about our decrease in terms of brand marketing. That's less. But I'm talking about the media costs, going out there buying media; and if you take our media costs of total brand marketing, we're probably looking at 50% plus/minus depending on the market.

Jørn P. Jensen: But of course significantly less if you take it out of total the cost base, as you're referring to, including sales costs and logistics costs in total, significantly less.

Jørgen B. Rasmussen: This would be a brand marketing effect only.

Jason DeRise: Okay great. Thanks. Just trying to piece together the margin expansion. Thanks.

Operator: Gerard Rijk with ING is online with a question.

Gerard Rijk: Yes, good morning. Gerard Rijk, ING. A question on your outlook. You are detailed relatively of course because of all the attention for it on the Russian market by saying that it will be minus 5/minus 6 for the full year. That's also probably related to some wholesaling issues, destocking of second half last year that you can be so guiding such a number. On the North and West European markets, can you give reasons why this trend of minus 5/minus 6% in these markets will be much different in the second half of this year, and maybe the same also for the Asian sales which are growing by 7%?

Jørgen B. Rasmussen: Yes, in Europe, we would also expect to see slight small improvement in the second half because also some of the European markets clearly got impacted in the latter part of last year because of the crisis. So again, the basis when we get into the second half are slightly easier comparisons. But again, keep in mind that we also state there are variations by market in Western Europe. It's not like one trend and you're looking at going from flat in Finland up to minus 13 in the Baltics. Many markets would be around 3-4%; some would be around 6%. It really varies, but we would expect to see slightly better year-on-year comparison in the second half because of the crisis impact last year second half. Asia, we've been seeing growing markets throughout the first six months basically in all markets with one or two exceptions like Singapore/Hong Kong. We expect again here in market if anything to slightly improve as year-on-year comparison in the second half versus what we've seen up to now.

Gerard Rijk: Concerning Northern/Western, you said improvement, does it mean that in the second half you expect growth or do you mean that you expect a less negative trend in second half?

Jørgen B. Rasmussen: Less negative trend.

Gerard Rijk: Okay, thanks very much.

Operator: Chris Pitcher from Redburn Partners is online with a question.

Chris Pitcher: Good morning. Two questions please. One, can I just get a bit more clarity on your Eastern European margin guidance? If you take the last four quarters to strip out seasonal variances, then you're pretty much at the top end of your medium-term target. But the reason I would imagine that you're not looking to raise that over the medium-term is that a large element of getting that quicker was maybe due to input costs. I was wondering if that's the right interpretation, the reason you're not prepared maybe to raise that 23-to-25% as the current uncertainty around input costs going to next year. And then secondly in the interest guidance for next year given the euro and sterling bond issuances, are you still expecting your interest rate next year to fall to near 5% or should we be expecting a figure nearer to the 6% figure? And as a follow-on from that, should we expect any further refinancing if the opportunity were to arise itself, would you look to refinance further or are you now done? Thanks.

Jørgen B. Rasmussen: Your first question about margin guidance, Eastern Europe, it's not only about input costs; it's about… I mean the visibility is a lot lower in across all markets and certainly in Eastern Europe too, so it's about markets, market expectations, what we should expect. It's about average pricing mix; it's about everything and therefore it's not right to change the guidance. And again, remember this is full-year guidance. It's not based on certain quarters; it's still full-year guidance.

Jørn P. Jensen: When it comes to refinancing interest charges and so and so forth, I said, all in below 6 is definitely good for now, a small decrease coming next year as well. We will always be helped the more we can reduce our interest-bearing debt as such, also when it comes to spreads and those kinds of things.

Refinancing-wise, no concrete plans at all to do anything more for now. If we do something or when we do something, it's because we think we have an opportunity to do something as favourable markets or whatever. But at the moment, no concrete plans and we don't need to do anything for quite awhile as you can see. So we'll continue to follow the markets and then if something favourable shows up, we of course will move, but it's not relevant for now.

Chris Pitcher: To that point, I mean you've mentioned you don't need to raise new debt for a couple of years now. Should we expect a Valby disposal

	before you need to refinance? Is it on the cards soon? I mean there's limited commentary on it in the presentation and the result statement.
Jørn P. Jensen:	Sure. Thanks for asking. So you could say that that process is running. It's a structured sales process and it is probably taking a little longer than I thought three and six months ago, but it's definitely going on. And when we know the outcome of that, of course, we'll come back to you. And if we are successful, that of course would be quite helpful for our interest-bearing debt. But it's not as such the reason why we are not in the market to refinance further debt now. We don't see a need to do it.
Chris Pitcher:	Thank you very much.
Operator:	*Kitty Grøn from Handelsbanken is online with a question.*
Kitty Grøn:	Yes, good morning and congratulations for the very strong Q2 report. I have a question regarding your capex level. You suggested earlier that a recovery of the beer markets would not necessarily lead to a pickup in your overall cost level. But in terms of the capex, I assume that with the new Russian guidance, that you can also sustain this capex level for longer, how much longer do you see this capex level in your Group?
Anton Artemiev:	I wouldn't tell you a number of years, but I would certainly say a number of years and that is because we are well equipped in Russia and we have been looking, well planning all our development in Russia for sustainable growth rates. What we now see is the disturbance created by the crisis. We are confident that the market will come back to a healthier growth rate and for those rates we are already prepared.
Kitty Grøn:	All right. And for the Group as such?
Jørn P. Jensen:	Same logic on Group level. I said before, we are very well invested in Northern/Western Europe. And then of course we're spending a little from time-to-time in Asia where the markets, as you'll see, are still growing.
Kitty Grøn:	So another three-to-four years at this capex level, is that what you're saying?
Jørn P. Jensen:	We're saying a few years.
Jørgen B. Rasmussen:	I think we have time for one more question and then we should close the call.
Operator:	*Hans Gregersen from ABG Sundal Collier is online with a question.*
Hans Gregersen:	Good morning. First of all, coming back to FX, I see you're still using an assumption of 47 roubles on the exchange rate. That's 7% better for the first half and if we apply the current rate, it's 5% for the full year. Would you please comment on what the direct impact will be if the

current rate, everything being equal, is assumed for the remainder of the year as that is not expected in your guidance? Question number one. Question number two: Leeds, anything new there? And thirdly, on marketing expenses, you say that you maintain your share-of-voice. What are you seeing as a trend in the industry? Is the volume of let's say of voice going up or down or is being maintained? Thank you.

Jørn P. Jensen: To the first one, Hans, and as also said earlier, you can definitely come up with things which could improve for the better. You can also come up with things which can actually impact negatively when it comes to this year. So still when we are adding everything together upside/downside so-to-speak, then we are still confident with the 9 billion plus on EBIT. On I don't think that you should add kind of all the positives into one because there can easily be some negative surprises with the lower visibility this year. So 9 billion plus is what we are guiding.

There's no - - nothing new on Leeds.

Jørgen B. Rasmussen: Correct. And then on the marketing side, it's really... If you look at our share-of-voice, and that's kind of measuring our impact versus competition, it's in line with last year, so we're having the same pressure on the market towards the consumer versus what we had last year and we're addressing this because we sometime hear that maybe we have cut marketing and have we cut marketing too much, we have not. Our share-of-voice is in line with last year and therefore we keep driving our brands to support top line and growth ambitions.

Hans Gregersen: But just to clarify, you say that the sort of amount of voice for the industry as a whole is unchanged year-over-year as a broad indication.

Jørgen B. Rasmussen: I think it's probably slightly down but not a lot because if you look at that media deflation and then there's probably a small decline if you look at overall beer industry, but that would be the case for many, many categories. So I think the beer industry in terms of pressure in the markets, advertising pressure is probably holding up better than many other categories.

Hans Gregersen: Okay, thank you.

Jørgen B. Rasmussen: I think we should close the call here. But thanks for listening in and thanks for all the questions.