Interim Report
Nine Months Ended 30 September 2009
Carlsberg A/S
CEO Jørgen Buhl Rasmussen
CFO Jørn P Jensen
November 4, 2009
9:00 am CET

Operator: *Good morning, ladies and gentlemen, and welcome to the Carlsberg 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 would now turn the call over to your host, CEO Jørgen Buhl Rasmussen. Please go ahead, sir.

Jørgen B. Rasmussen: Good morning everybody. Welcome to our nine 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.

We are very pleased with the strong EBIT and cash flow improvement for the first nine months. I will start by giving you a summary of our first nine 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.

For the nine months Carlsberg delivered strong EBIT and cash flow growth despite the challenging markets. The result demonstrates that we were well-prepared for the 2009 challenges and the positive impact from the initiatives we took in late 2008 and in 2009 is now increasingly becoming visible in profits. 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. Thanks to these initiatives we are able to upgrade our cash flow target for the year and to keep our profit target unchanged despite slightly lower revenues.
Organic operating profit for the group was up 18% and operating profit grew to DKK 7.7bn. The improvement in the Beverages activities was even stronger with a 27% organic operating profit growth. All three regions contributed to the strong earnings improvement. Operating profit margin improved by 240bp for the nine months to 16.9% with an even stronger improvement of 360bp for Q3 to 20.2%.
De-leveraging of the company has been a top-priority for the year and for the nine months we improved cash flow to DKK 6.1bn and consequently had a similar net debt reduction.

And slide 4
Net revenue increased by 1% with flat organic revenue development.
Carlsberg gained market shares across Asia and Eastern Europe with particularly strong market share gains in Ukraine and Russia. At the same time, we kept market shares flat in Northern & Western Europe.

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 is similar to last year.
The strong operating profit margin improvement was driven by all three regions. The NW European region delivered particularly strong improvement as the year progressed due to the impact from the accelerated efficiency improvements. Both the Asian and Eastern European regions delivered strong and consistent improvement through all three quarters.

And now to slide 5
Although, we believe Carlsberg has made substantial progress during 2009, we understand the significant attention given to the potential changes in Russia and I will just go through some of the potential changes and how we prepare for these.
The Russian government has now officially proposed the 200% excise tax increase from January 2010 with a tax increase from RUB 3 to RUB 9 per litre. The proposal is now being discussed and a decision will likely take place in late November or early December. First reading in the State Duma will be on November 6.
If this proposal is passed combined with the proposed only modest increase in spirits duties it will have a negative impact on the beer market for 2010. It is too early to comment on the size of the impact as it will depend on the size of the duty increases, our pricing decisions, competitive behaviour and also the Russian macro economy.
Other alcohol restrictions are currently being discussed in Russia. What measures may be proposed, in what form and the timing remain still very unclear.
During the quarter the group has invested significant resources on the proposed Russian excise tax increases. We still believe the proposal is highly illogical as it favours spirits at the expense of low-alcoholic beverages like beer. During the autumn of 2009 we have been planning for 2010 in the same detail and with the same sense of urgency as we did in late 2008 for 2009. Whatever the final outcome is on the Russian excise duties we will be well-prepared and it is likely to bring opportunities to further strengthen our position in the Russian market.

Slide 6 shows that beer volumes on a pro rata basis increased by 6% to 88.9m hl for the first nine months. Organic beer volume development was -5% with only Asia contributing positively with organic volume growth of 9%. Acquisitions contributed 11% and organic volume development in Q3 was largely in line with YTD.

Next slide
Net revenue totalled DKK 45.8bn with flat organic growth and 9% being added by the acquired businesses. Adverse foreign exchange developments reduced growth by 8%. Increased average pricing per hl was driven by price increases and value management and off-set the organic volume decline.

Organic operating profit growth for the beverages activities was a strong 27%. Acquired businesses added an additional 14% and adverse currency impact had a -14% impact, delivering a total 26% operating profit growth. In Q3 organic operating profit growth was 28% with particularly strong improvement in Northern & Western Europe.

And now let us turn to the regions and start out with Northern & Western Europe on slide 9.

Reported net revenue declined by 1%, in line with organic revenue while acquisitions accounted for +4%. For Q3 organic growth was flat while reported revenue declined due to the currency impact and disposal of assets in Germany.

As planned organic operating profit growth has accelerated during the year as the impact from the additional efficiency improvements now are filtering in to profits. A 13% organic profit growth was the main driver behind the 15% reported growth for the first nine months. Organic profit growth picked-up strongly in Q3 with 27% growth compared to the 1% organic growth for H1.

Slide 10 please.
The accelerated efficiency programmes have been important in our ability in NW Europe to compensate for declining markets and input cost pressure and actually in Q3 being able to deliver a very strong organic profit growth despite the market challenges. The efficiency improvements have to a large extent been structural changes and we believe the cost base reduction will be sustainable. And just to mention a few examples of these accelerated improvements – firstly, the local headquarter in the Baltics was basically removed. Secondly, the UK sales and logistics organisations were restructured. Thirdly, LEAN was implemented in Norwegian production and logistics and lastly, the Swiss order-intake and delivery structure was changed.
These improvement initiatives have been driven across the whole group and most markets contribute to the 13% organic profit growth for the nine months and the very strong 27% growth in Q3.
Our volumes declined by 6% in line with the market. There are however high volatility and large differences between markets. For instance, the Finnish market was growing slightly; markets in France, Sweden and Switzerland were flat while the Baltics declined between 7 and 9%.
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 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 but the increased net revenue per hl was able to offset the higher input costs.
The mix improved slightly by 1% for the nine months and in several markets like France, the UK and Denmark we had a positive mix while mix was negative in the Baltics, SE Europe and Poland. We still see, however, a change in channel mix as consumers in many markets move away from on-trade in to off-trade.

Slide 11 please and a few comment on specific markets.

Our French business is improving strongly due to improved price/mix and efficiency improvements. The French market is almost flat for the first nine months. While our total market shares as expected has declined for the first nine months, we have for the first time in several years seen a clear stabilization in market share of the two brands Kronenbourg and 1664. Furthermore, we see a very positive impact from our marketing campaign in the Milward-Brown tracking.
Despite a declining UK market our business improved strongly delivering volume growth and significant earnings improvement. We gained both volume and value market share in off-trade and total market share increased by 70bp to 14.3%.

The profit improvement is driven by very successful key account management, sales execution, value management efforts and efficiency improvements.

The total market in Denmark declined impacted by the border trade. However, Carlsberg is gaining market share, improving profitability and in addition has, with the Somersby brand, been establishing and driving a very successful cider category in the market.

In Poland we took early initiatives to off-set the impact from a challenging Polish market, including efficiency improvements and brand portfolio optimization. The business delivered a significant pick-up in profit in Q3 thanks to this.

In conclusion we continue to focus on sustainable efficiency improvements, maintain or grow our volume and value market share and position the business to take advantage of a more stable environment in the future.

And now to Eastern Europe. Please turn to slide 13.

Organic net revenue declined by 1% with a 8% beer volume decline being largely offset by higher net revenue per hl due to our pricing, strong sales execution and value management efforts. The acquisitions added 19% and adverse currency movements minus 19%. In total, net revenue declined by 1%. Organic revenue growth was weaker in Q3 as the volume decline was in line with H1 but the pricing impact was less pronounced.

The organic operating profit growth was very strong at +32%, which was driven by pricing, favourable input costs and the accelerated efficiency improvements.

The Russian business is a key driver behind the earnings improvement, but also the business in Ukraine is growing strongly.

Operating margin improved to 29.1% from 22.8% last year. Excluding the PPA effect first nine months operating margin would have been 30.4%.

Now to slide 14.

Our beer volumes declined by 8% for the first nine months as well as for Q3. Total volumes declined slightly less due to growth in other beverages, mainly non-alcoholic Kvass in Russia and Ukraine.

Most markets declined high single-digits in the first nine months with double-digit declines in a few markets like Kazakhstan and Uzbekistan. We gained market share in all markets except Kazakhstan.

We had a positive price/mix of 6% as 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. There was a negative mix effect due to channel and packaging mix and from Q3 also some negative brand mix change.

Apart from pricing and strong sales execution we have been successful with several of our value management tools. In addition to innovations and focused marketing spend this continues to include thorough planning on how best to optimize the sales split and promotional split between brands and packaging types and is done with great attention to detail.

The very strong margin improvement in E. Europe has been driven by several levers. Firstly, we had positive pricing. Secondly, we have faced lower COGS due to lower input costs benefitting from lower commodity prices but also from production efficiencies, synergies and accelerated efficiency programmes. Thirdly, operating expenses have declined from acquisition synergies and operational changes across many functions. In total the 630bp ebit-margin improvement came from a 530bp gross margin improvement.

And now slide 15 and to Russia.
The Russian market declined by around 10% both for the first nine months and Q3. Baltika gained an impressive 220bp market share for the nine months of 2009 compared to 38.7% for the nine months of 2008. Q3 market share was 40.8% compared to 39.0% for Q3 2008.
The market decline was more than expected and despite recent indications showing stabilising consumer sentiment we have reduced our market expectations to a full-year decline in line with the first nine months. We continue to expect that Baltika will perform ahead of the market throughout 2009.
Baltika shipments and in-market-sales, i.e. sales from distributors to retailers, both declined by 8%.
Pricing remained positive with a pricing effect of +8% for the first nine months and some 7% for Q3. This was driven by price increases done in 2008 and in 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 due to pricing, declining input costs, synergies and the accelerated efficiency improvements which are changed processes and cost base reductions. We believe the cost reductions in Russia, as elsewhere in the Group are sustainable, although some costs will be driven by volume trends and macro economics.

Slide 16, please.

For Baltika there was a negative mix effect of around 3% in first nine months. The negative mix was mainly driven by changed packaging and channel mix. Consumers continue to buy the same brands but move from glass bottles and cans in to PET where consumer prices are lower. However, in Q3 there were some limited signs of trading-down as consumers shifted between brands.

Slide 17 explains the change in channel mix in off-trade.
The larger retail key accounts, including supermarkets and discounters, have gained market share while the smaller outlets have lost. The change in buying pattern is mostly driven by the consumers search for value-for-money in all categories. They very often stay loyal to their brands but buy in larger retailers where prices to the consumer typically are slightly lower.

Slide 18, please.
This is a crucial slide and a key reason why we still believe in medium- and long-term growth opportunities in Russia. The per capita beer consumption is expected at around 70 litres for 2009 which will be somewhat below comparable European markets. Beer only accounts for 25% of the alcohol consumption in Russia compared to above 50% in most European markets and as total alcohol consumption in Russia is somewhat above the European average, we believe beer growth opportunities remain substantial.
Over time we believe beer will capture a larger proportion of Russian alcohol consumption, although we acknowledge the proposed highly illogical tax duty changes could bring short-term challenges, if decided.

And now slide 19
The Ukrainian business performs very well despite the challenging macro environment. The market has declined by 8% while our volumes grew by 2%. The turnaround plan has been extremely well executed and through improved portfolio management, complete changes of sales structure, efficiency

improvements and favourable input costs, profits improved substantially for the nine months.
During the year our business has gained substantial market share and has moved from a weak number three player to a clear number two in the market and our market share has increased by more than 10 share points in just around 2 years.
From July 1 excise duties in Ukraine increased by more than 90% and there are currently discussions of another tax increase later in the year.
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 full control of the business in Kazakhstan and Uzbekistan which will improve the potential for combining our exports business with the local operations.

Please turn to slide 21 for a few comments on the Asian region.
The Asian business continued its strong performance. Reported net revenue increased by 24% with organic net revenue growth of 14%. Operating profit growth was 35% with 21% organic growth with even stronger improvement in Q3.

Slide 22 please.
The markets continue to grow across Asia and our beer volumes increased by 9%. We gained market shares across most markets in the region. The main contributors to the volume growth were China, Indochina and India. In China growth was driven by continued strong performance of Carlsberg Chill, the launch of Carlsberg Light for the restaurant sector in Q3 and growth of our local brands. The unrest near our brewery in Urumuqi in Xinjang had a slight negative impact in Q3.
Our business in Indochina continues to deliver double-digit organic revenue growth. Vietnam was a key driver with 9% market growth and our businesses gained more than 200bp market share.
Pricing remained strong across the region and there was a particularly strong price/mix effect in markets like Malaysia, Cambodia and parts of Western China.
The 21% organic operating profit growth was largely due to the Chinese business and Indochina. In Indochina organic profit growth was around 50% due to the strong volume growth and improved pricing. The very strong 33% operating profit growth in Q3 was mainly due to the Indochina business.

Slide 23 please.
We continue to see substantial long-term growth opportunities in Asia and remain focused on establishing a platform for growth.
Not only do we see volume growth potential, but also value growth potential through brand portfolio improvements of the local brands, further push of our international brands and by strengthening the execution capabilities in the local sales forces by using tools previously developed and implemented in Western and Eastern Europe, although they are adapted and simplified to fit the local environment.
Lastly, we recently signed a MoU after which we should increase our stake in Habeco from 16% up to 30% and today we have signed a MoU to acquire the other 50% in the Hue Brewery. This is in line with our strategy to strengthen our position in Northern Vietnam.
And with this I would like to hand over to Jørn who will walk us through the financials.

Jørn P. Jensen: Thank you, Jørgen. Please turn to slide 25.

As Jørgen said in his opening remark, market conditions have been challenging throughout 2009. We realised the changing market environment in the latter part of last year and began preparing for it. Our nine months results reflect the many initiatives implemented throughout the Group.

Our clear strategy during these times has been and will continue to be to mitigate the high level of external uncertainty with internal measures that **we** can control.

In the third quarter we once again 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 sustainable cost reductions. We are particularly pleased with the 27% organic operating profit growth in Northern & Western Europe in Q3 which was due to an organic 10% reduction in operating expenses including brands marketing.

In the first nine months of 2009, the Group realised an operating profit growth of 18% corresponding to an organic margin increase of 270bp.

The significant improvement in Free Cash Flow I'll talk more about shortly.

Our focus for the rest of this year is on preparing for the opportunities and challenges lying ahead. Our focus will be on growing value per hl, further increasing efficiency across the Group, continuing to deliver strong cash flow and reducing debt further.

On slide 26, you see the development from the first nine months of 2008 to the first nine months of this year.

<u>Organic net sales</u> were flat year-on-year. In reported terms sales were slightly up as FX was offset by net acquisitions. The main negative foreign exchange variances – of around DKK 3.5bn - are primarily due to the Eastern European currencies and the Pounds Sterling. The Russian Rouble was 18% lower, Pounds Sterling was 12% lower and the Ukrainian currency was 28% lower than last year.

<u>Organic gross profit</u> was up 2% compared to last year. Organic cost of sales per hl increased by approx. 2% but was in DKK down around 6%. Reported gross profit margin was 49.4%, up 90bp compared to last year. The gross profit margin improvement is driven by Eastern Europe where the organic gross profit margin improved by 525bp. Approx 70% of this improvement was driven by price and 30% was lower COGS, i.e. synergies, efficiencies and in particular lower input costs. In Northern & Western Europe, organic gross margin was down 60bp due to higher input costs this year although the organic gross contribution per hl was up as price increases compensated for the increased raw material prices. As we have said before, Northern and Western Europe will not benefit from declining input costs until next year as opposed to Eastern Europe where the benefit has come already this year.

Organic <u>total Opex including brands marketing</u> was down DKK 1.3bn and shows clearly that we are focused on reducing the cost base across the group. In Q3 the improvement showed in Northern & Western European numbers with a total decline of 10% bringing the organic YTD reduction in Northern & Western Europe to 8%.

<u>Other income, net</u> was down as expected by DKK 531m primarily due to significant real estate gains in the segment "other activities" last year.

All in all <u>operating profit</u> was DKK 7.7bn, up DKK 1.2bn from last year. The organic improvement was of the same magnitude meaning that the FX was offset by the acquisition effect. In the Brewing activities the organic growth was 27%, 14% in DKK.

Next slide
Special items were DKK 371m, up DKK 74m from last year, and Financial costs, net were slightly up by DKK 42m compared to last year. Other financial items were up 94m primarily due to the fact that the Eastern European currencies in particular devaluated in Q4 last year and in Q1 this year. In other words we have a devaluation effect in the 2009 numbers from the beginning of the year whereas the 2008 devaluation is not visible until the Q4 reporting - when it comes to comparables.

Tax was DKK 1.5bn and the effective tax rate was 29%.

All in all, net profit was DKK 3.2bn, up DKK 712m yoy.

Slide 28
Total assets are down some 7.6bn since end December 2008. The decrease is explained by a reduction of fixed assets, FX movements impacting intangible assets and a reduction of current assets.
Total equity was 58.5bn, 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 21.7bn, up some DKK 1.4bn from 31 December 2008 as a result of our focus on working capital improvement.
Net interest bearing debt amounted to DKK 38.5bn or a reduction of DKK 5.7bn since the beginning of the year.

And now cash flow on slide 29 where you can see that cash flow from operations doubled to DKK 8.5bn.
The improvement is very much explained by the strong organic development although comparisons are still somewhat impacted by the S&N acquisition.
Adjusted EBITDA showed an improvement of DKK 1.8bn driven by the solid organic development in the business and the contribution from the acquired assets.
Change in working capital was plus DKK 1.1bn. As said on previous occasions this year we have strong focus on sustainable working capital reduction and are running a number of very successful initiatives. The working capital programme is working with specific targets for each asset/liability class in each and every market.

Slide 30
As also stated on many occasions this year, reduction of CAPEX is high on the agenda. Capex amounted to DKK 2.2bn in the period, which is about half of last year. The lower capex is spread across the Group.

So all in all free cash flow in the first nine months of 2009 was DKK 6.1bn, which is significantly more than last year.

Finally on slide 32 and outlook where we are pleased that we today are able to upgrade our cash flow target for the year.

As it is well known, the whole thought-process throughout the group this year has been to mitigate the market challenges by quickly implementing sustainable efficiency improvement measures. This has been done successfully demonstrated by the nine month result.

We are therefore able to reiterate a full year EBIT expectation of MORE THAN DKK 9bn and net profit of more than DKK 3.5bn despite a slight reduction in revenue expectations. More importantly we are able to upgrade our cash flow target to more than DKK 6.5bn and now also expect net-interest-bearing debt to EBITDA below 3. This change has been driven by our intense focus on de-leveraging of the company with tight focus on working capital improvement and capex reductions.
Monetisation of redundant assets, including the Valby site is still work in progress and not included in the numbers we are here guiding on. And just for the record: Although slower than anticipated in the beginning of the year the process is for sure moving forward.
Now back to Jørgen for a brief comment.

Jørgen B. Rasmussen: Thanks Jørn. Slide 33 will be the last slide for today.

Firstly, I would like to repeat that we are very satisfied with the Group's progress during the year and our ability to deliver very strong organic profit and cash flow growth despite the challenging markets. This performance has been possible due to very early and detailed planning for 2009 combined with strong execution.

Looking ahead we are following the same recipe for 2010 as we believe 2010 again can offer challenging market conditions – but also interesting opportunities. We have already made detailed plans for 2010 and we believe we are as well-prepared for 2010 as we were for 2009. For 2010 we have included detailed scenario-planning due to the uncertainty on the level of excise duty increase in Russia. We will again be balancing the need for efficiency improvements with our ambitions to drive long-term top-line growth and we will continue to support key brands, activities and drive innovations.
Finally, we will disclose our 2010 expectations when we report Q4 in February.

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. Once again, if you have a question, please press star and one on your touchtone phone.*

Michael Rasmussen from SEB Enskilda is online with a question.

Michael Rasmussen: Yes. Good morning. **Well not unsurprisingly, I would like to start off with talk a little bit about Russia, and you do mention here in your outlook that you have set up a number of scenarios now. Obviously, you're not going to give us any, us or you competitors, any more details on that. But we do see that a number of your competitors have actually talked about phasing out the lower end of the market, i.e., moving up into the more expensive packs where you probably see consumers a little bit less price sensitive. Is that a scenario you would look to or would you look to maintain your relative high market share or even increase it in the lower end of the market? Next question is also on Russia, and I don't seem to be able to find your price and mix impact in the third quarter isolated from Russia, so if you could supply us with that. And the final question, guys, on the possible duty**

hikes, would you say they would be worse or better kind of isolated impacting the beer market than essentially categorising beer as an alcoholic beverages as we've also seen proposed by the Russian government?

Jørgen B. Rasmussen: I can kick off, and then I'm sure Anton will add to my comments of the different questions. Firstly, if we take your first question about what will be the strategy and the impact on the market and happen to pricing, you're right, we do not want to talk about our different scenarios and different strategies at this point in time. That would be giving the game away, we believe, to competition, so that we'll talk about when we start executing. And specifically by segment, what we plan to do, again, no comments. It should be a surprise when we start executing again after the decision will be made on the excise duty, because again no decision has been made. We still have a proposal, so we'll come back to when we know what's going to be the final proposal and when we start executing. We don't want to give away our thinking and strategy at this point in time because we believe overall we are in a much stronger position in the Russian market than any of our competitors based on our scale, size, market, or brand portfolio.

On the... I didn't really get your question on the duty hike and the third question on beer as a category versus a low alcoholic category.

Michael Rasmussen: **Would it be worse to see duties go up by 200% in 2010 or would it be worse to have possible kiosk sales banned?**

Jørgen B. Rasmussen: I think this is a very theoretical discussion. The second point, we have no visibility to the thinking, the planning. We have no idea what they actually talked about, so to talk about what's worse, I think is a very theoretical discussion. What we can relate to would be the current proposal on the excise duty and there we're doing a lot of scenario planning depending on what would be the final outcome and position.

I don't know if you have anything to add, Anton?

Anton Artemiev: Good morning. Yeah, I just can tell that only your first question regarding the strategy, whatever the strategy we decide on, I think the cornerstone will remain the same. We would like to be a market leader in all the segments, and we will strengthen our market leadership under any scenario. That is the task.

Regarding the price and mix, I think it has been mentioned I can just repeat that the impact of price was positive and that was for us in Eastern Europe roughly the same number. For Russia, it was plus 8% with a mix impact of minus 3%. These figures were insignificantly worse in the third quarter. As we mentioned, in addition to slight move from one packaging type to another within the same brand and with a channel mix, we saw again not very pronounced changes within the brand.

For the third question, what is worse? Once again, we don't know yet what will happen. I think we are far knowledgeable within the short while and it is clear uncertainty what kind of the measures regarding the regulation of the beer market will be undertaken, but it is also clear that beer consumptions tends to move. If certain channel will be somewhat limited, then it is clear that the consumption will move to another one, so we are not so much worried with this.

Michael Rasmussen: **Can you tell us what has happened in Belarus this year because I think they had something of a similar ban on these outdoor markets?**

Anton Artemiev: Well, it is our view on Belarusian market that sales of the beer were more impacted by crisis itself rather than the regulation of retail consumption. And once again, the markets are quite different to draw conclusions for the Russian market. Modern trade is far more developed in Russia and we are quite sure it will pick up falling volumes from kiosk or whatever street markets channel.

Jørgen B. Rasmussen: And to the point just mentioned by Anton, we also saw in Belarus other channels, they start picking up some of the volume you are losing in another channel.

Michael Rasmussen: Okay, thank you much.

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

Trevor Stirling: Good morning, gentlemen. **Three questions please. The first one is I noticed that you took provision on an onerous procurement contract, DKK 175 million. Could you give us a little bit colour on that? Does that relate to the litigation in Russia, and does it have any implications for the price that you're going to pay for raw materials going forward? The second thing, you mentioned that there was an impact from raw materials in Eastern Europe but none in Western Europe, can you give us a sense of the order of magnitude of benefit in Eastern Europe, and is that the same order of magnitude we should look forward to North/Western Europe next year? And final question, Finland beer sales according the Brewing Association were actually up 15% in the quarter ahead of an excise duty. When that falls out of the comparison next quarter, could that have a material impact on Northern/Western European volumes, or will it radiate - - it'll get - - it'll be swallowed up by everything else?**

Jørn P. Jensen: Right. If we... For the first question about the procurement contract as such, then you might remember that when we reported full year numbers for this year, we also had onerous procurement contracts in our special items, and it's basically the same story. So when we came into this year 2009, we expected different volumes market-by-market and we had all our contracted volumes. As you have noticed, our volumes, if anything, have been lower more or less in all markets this year compared to what we thought in the beginning of the year would be the case, meaning that we are in 2009 more over-contracted than we thought we would be going out of last year, and that is what is reflected in these 175 million that was posted in Q3 as a special item.

Trevor Stirling: Okay, understood. Thank you.

Jørn P. Jensen: It does not influence kind of anything going forward.

Trevor Stirling: Great.

Jørn P. Jensen: The second question, as we said, out of the 630 basis points margin improvement in Eastern Europe, 525/530 basis points came from an improved organic gross profit margin - and 30% of that comes from lower COGS which is at the end of the day driven by lower raw materials. So you have lower material costs, synergies and efficiency improvements supporting lower COGS. On the other hand, you definitely also have a negative leverage effect coming from the lower volumes in Eastern Europe. So it is at the end of the day very much the impact from lower raw materials that you're seeing in the 30% of the organic gross profit margin improvement of 530 basis points.

Jørgen B. Rasmussen: And to your last question about Finland, you're right that the volume development is impacted by the planned tax increase in Finland in quarter three. At the same time, Finland does not have a big impact on Northern/Western Europe, it's still below 5% of total volume for Northern/Western European Group, so doesn't change the trend as such for the first nine months or for the full year.

Trevor Stirling: Great. Thank you very much indeed.

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

Søren Samsøe: Yes. Hi, guys. **First of all, a question on Russia. Just to be totally clear on your market share development, I seem to remember it was 41.1% after Q2, so we're seeing a strong development year-over-year, but is it an actual small decline quarter-over-quarter? And then secondly on your capex number for this year of 3.5 billion, is this pure maintenance capex or is there anything including which is not maintenance capex, i.e. could we actually, given the fact you have quite significant probably overcapacity right now, could we see lower capex next year?**

Anton Artemiev: On the market share, our market share through all the recent months is around 41%, so those small changes are within the margin of error. So we are roughly 2% up compared to last year on market share.

Jørn P. Jensen: And to do the capex question, yes, it's true that we have now adjusted our capex expectations downwards a bit to less than 3.5. There is a little I guess what you could call 'expansion capex' in Asia in the numbers, but it is... The less than 3.5 are definitely within reach of what you could call 'true maintenance capex.'

And the second part of the second question is a thing that we're going to address in February, as Jørgen said a little earlier.

Søren Samsøe: Okay. **And then just two additional questions. First of all, on the central costs, which seem to go down quite much actually, what is the reason for this, and how will this develop and be going forward? And on the special items, we have an increase, if you just briefly mention, what is actually in these special items in the quarter?** Thanks.

Jørn P. Jensen: Central costs are not allocated costs, yes, down - - definitely down in the quarter. It is phasing, so I don't think with what numbers I have seen in the market that you should change anything on full year, if that is basically the question. So it is really phasing especially on some central IT costs at the end of the day.

Special items, yes, of course a little higher than three months ago due to this previous question on procurement contracts.

Was that basically the questions, Søren?

Søren Samsøe: Yes, I guess so. Thanks.

Operator: Matthew Webb from Casenove is online with a question.

Matthew Webb: Oh hi. **Yes, three questions please. Firstly, I know it's very difficult for you to give any guidance for 2010 in Russia at this stage given the uncertainty of the excise duties, but could we for a minute just assume those duties are not increased? I mean under those circumstances, what sort of outlook do you think you'd be facing in Russia in 2010? I note that the run rate in Q3 was actually a bit worse than in the first half of the year despite earlier comments. I mean should we be concerned that the Russian beer market on an underlying basis will decline into 2010? Second, given that slightly difficult top line situation, could you maybe give a bit more detail on how you would intensify your cost reduction programme in Russia, will it for example involve looking at a brewery - - perhaps a brewery closure? Are there any of your breweries that you feel are perhaps not that well geographically placed or increasing your redundancy? And then third, I just wonder whether you could give some guidance on input costs going into 2010? I mean should we assume that they will actually be lower in Western Europe in 2010; and in Russia, would they be perhaps around flat, is that a reasonable assumption?** Thanks.

Jørgen B. Rasmussen: To your first question about Russia and any guidance on market expectation if there wasn't any duty increase, you're right we will not give it because again I think that would be too early. Secondly, it's probably a very theoretical discussion anyway. There will be some tax increase; I know that for certain. But we still believe in and that was hopefully also highlighted in our presentation - if you look at per capita consumption in Russia nowadays, if you look at total alcohol consumption and how that compares to Europe and the split between beer and strong spirit, we still believe that medium/long-term this is going to be a growth market. There may be some short-term challenges, but no specific guidance on market development even without tax increase at this point in time.

On the top line, and I think it's important to stress that whatever will be the market development, as Anton said earlier, we plan to take market share. As a strength, we plan to keep taking market share. So we plan to outperform the market and then depending on total market development, that will then determine top line. And when we talk top line, it's volume and value. It's not only volume, it's volume and value. And then we'll have to see what we need to do and plan to do in the area of efficiency and changes to processes.

Input costs, your assumptions are right. We are planning on flattish probably for Eastern Europe and then some decline in the other regions on input costs.

Matthew Webb: That's right. **Could I just ask one quick follow-up as well, just on a previous question, in terms of the lower central costs in Q3 due to phasing, I mean should therefore assume that that reverses as soon as Q4? Is the phasing between Q3 and Q4 or was it Q2 and Q3?**

Jørn P. Jensen: Yeah, Q3 and 4.

Matthew Webb: Right. Got it. Okay thanks.

Jørn P. Jensen: And then just to add to the point - - to add to what Jørgen said on input costs, of course also part of all this scenario planning that we have been doing and as Jørgen mentioned in the presentation. Of course in different scenarios, you would also assume a difference in the demand/supply balance in the market, which of course also would give you different input prices.

Matthew Webb: Got it. Yep, understood. Thanks very much.

Operator: Javier Gonzalez Lastra from Goldman Sachs is online with a question.

Javier Gonzalez Lastra: Yeah, good morning, gentlemen. **I have three quick questions. First one with regards to capex, you've mentioned your guidance is DKK 3.75 billion for the full year. I just wonder whether you could split that between what you mentioned maintenance capex, but also elaborate on your real estate investments, especially in Valby, and how we should model that in 2010, how that project is progressing? Second question is with regards to A&P. I remember from the second quarter, if I'm correct, that potential sales or A&P overall was basically down significantly as you basically take advantage - - took advantage of lower media rates. I just wonder whether you could elaborate on that and tell us whether that's continued into the third quarter. And thirdly pricing into 2010, on Northern/Western European Division, whether you could comment as well on that given that the outlook has changed quite significantly with regards to input cost pressures.**

Jørn P. Jensen: First question on capex, first of all, it's not anymore less than 3.75, it is as per this morning less than 3.5. And I said before, it is very much maintenance capex. In this number there is a little expansion capex in Asia, but it's quite close to a true maintenance level. Valby is not at all included in that, and I don't expect it ever to be included in capex, which is why we're running this process that we are running. So no Valby effect at all in capex. Talking of maintenance level on capex is that we have been and will be very focused on is ensuring supporting what we consider to be sales capex, coolers and so on and so forth – that these are fully supported also going forward.

Javier Gonzalez Lastra: **Should I interpret by that that Valby project is let's say being scaled back or you intend to monetise that quicker and therefore not develop the properties, or am I wrong in that rating?**

Jørn P. Jensen: That's completely true.

Javier Gonzalez Lastra: **Sorry, what is completely true?**

Jørn P. Jensen: That you should not expect to see us spending capex on developing that project. By the way, that has been the case for the last year.

Javier Gonzalez Lastra: Okay thanks.

Jørgen B. Rasmussen: Then your second question about advertising brand marketing support, yes, we do benefit from lower media inflation, and I would say when you look across our markets media deflation is somewhere between on average 10 to 15% for a lot of markets and of course that we benefit from. So if we look at our share of voice across basically all markets, we are on average same level as last year, some markets slightly up like France and Russia, but other markets maybe slightly down, but average flat on share of voice.

On pricing, for next year, we don't really want to make any comments on pricing and business for next year. But remember when we talk pricing, pricing and value management are both kind of driving the average value of what we're selling.

Javier Gonzalez Lastra: **But would be fair to say that pricing is going to be significantly softer for the industry overall in Western Europe given that your input cost pressures are no longer a supporting argument for you to push prices in to the consumer? Is that a fair assumption, or should be expecting that you still target relatively robust pricing in Western Europe in 2010?**

Jørgen B. Rasmussen: I think your assumption is right as a trend. It's not as friendly a pricing environment probably in 2010 as has been in 2009 because of what's happening to some of our costs. At the same, pricing is a combination of value management and pricing, so we'll come back with some details when we get into next year.

Javier Gonzalez Lastra: **Put another way, are you now into the third and four quarters, are you seeing any kind of increased price competition from some of the local players in some of your Western European markets already?**

Jørgen B. Rasmussen: No, we don't see a change in trend compared to what we have seen in the first six months. It has always been a tough competitive environment, but I don't see it change in terms of what's being done in the category in different markets and in terms of pricing behaviour. It's very similar the last quarter as we saw for the first six months.

Javier Gonzalez Lastra: **And just quickly on your second question to confirm that, you're basically seeing A&P being reduced in the third quarter year-on-year double digit, i.e., 15%, so in line with the second quarter?**

Jørgen B. Rasmussen: We benefit from the price deflation and that's reflected in our brand's investment numbers, but we keep our share of voice.

Jørn P. Jensen: And don't forget that media costs, media deflation is not all what is included in brand marketing. There are also other costs components which definitely are not decreasing in line with media deflation.

Javier Gonzalez Lastra: **Would you be able to give us a number as a percentage of sales in terms of...**

Jørgen B. Rasmussen: No, we normally don't give out those numbers.

Javier Gonzalez Lastra: Okay thank you.

Jørgen B. Rasmussen: Thanks.

Operator: Melissa Earlam from UBS is online with a question.

Melissa Earlam: Good morning. **I've got three questions please. Firstly, can you just confirm what rouble assumption you're making for your new guidance? Secondly,**

	could you talk a little bit about which the biggest working capital drivers have been in your cash flow improvement, and give us an idea of what you're working capital guidance would be for the full year? And then the third question relating to Russia, can you give us an idea of how the margins that you generate from your kiosk sales, how they compare to your overall Russian margins? Thanks.
Jørn P. Jensen:	To the first question on roubles, it's actually to be honest not that important what we are assuming for the fourth quarter as it is not that big quarter, but we are actually assuming 47. Year-to-date September, the blended average rouble to euro rate has been 44.3. Working capital more than a billion for the full year. And then on margins...
Jørgen B. Rasmussen:	Anton.
Anton Artemiev:	Yeah, margins, margins in the kiosks are roughly in line with average for the business.
Melissa Earlam:	Thank you very much.
Operator:	*Hans Gregersen from ABG Sundal Collier is online with a question.*
Hans Gregersen:	Good morning. **A couple of questions. Regarding input costs in Russia, you state that you're already seen a part of the impact. But giving the surplus capacity going back to your sub suppliers, there must be a significant margin building pressure for them also in 2010. Could you give your view on that? The second question, you mentioned on Slide 18 per capita consumption of pure alcohol around 18 litres. There's some debate about what the real level is if it's rather 10 to 12. Could you comment on that what your source is for the 18? And thirdly, regarding the outlook for next year, when you talk pricing in general, do you look at the overall inflation, alcohol inflation or full inflation? We have seen full inflation going negative over the last couple of months.** Thank you.
Jørn P. Jensen:	To the first question, Hans, on raw materials, as I said before, you can imagine that in the different scenarios that we're working on, you would also assume probably different raw material pricing for next year in Eastern Europe because due to an increase or decrease in whatever you assume on the demand supply imbalance that you're currently having in the market. So what we're saying about 2010 in raw materials is that we already in 2009 have seen very low raw material pricing. And then depending on how we will play the game basically next year, which we'll talk more about in February, then you will also have different raw material scenarios.
Hans Gregersen:	**Yes, but the question is not asking your guidance, I'm asking: What is your industry perception because if the industry is going to face a further decline, if we assume the excise duty increase, that must increase the surplus capacity throughout the entire value chain. Basically what I'm asking is: Would you agree to that that would expand the margin pressure on sub suppliers to the brewing industry in general?**

Jørn P. Jensen: Well, I think you should ask them about that, but I guess they are not just sitting on the back not doing anything; I would assume. But I think it's more a question to those guys.

Jørgen B. Rasmussen: Anton, on the alcohol consumption.

Anton Artemiev: Yeah. Regarding alcohol consumption in Russia, 18 litres is the estimate which is taking into account the illegal Vodka or non-registered alcohol consumption, which is like Vodka produced without paying tax. If you take an official production for different alcoholic beverages and imports and everything, you of course get a number which is closer to what numbers you have mentioned. Once again, for us is important is the total consumption and that's what we - - what makes us confident in the future potential for the beer industry.

Hans Gregersen: **So you're saying roughly that one-third of the total alcohol consumption in Russia is illegal or imported (inaudible)?**

Anton Artemiev: It is estimated that illegal Vodka is now up to 40% of total.

Jørgen B. Rasmussen: Okay. And then to your last question about outlook for pricing and how that kind of linked into inflation, whether it's food inflation or total inflation. We would always take a look at both total inflation and food inflation. But if you talk Eastern Europe or Russia in particular, it's often more aligned to the food inflation, but would differ depending on the markets we talk about here. But I mean I don't think any of us would expect negative or flat food inflation for next year in Russia, and I think you have to some time take some of the official numbers from Russia with a bit of care.

Hans Gregersen: Okay, thank you.

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

Philip Morrisey: Good morning. Thank you. **Could I ask please back to Russia on the potential ban on kiosk sales, and the question basically is whether you have clarity about what it is that conceivably could be banned? Is it simply drinking outdoors, or is it the sale of beer through all of open markets, pavilions, and kiosks? And obviously whether you would perhaps hazard to guess if that ban was to happen is what the impact on market volumes could be? Secondly, could I ask on margin targets, whether it's still your intention come February of next year to revise the medium-term margin targets or whether given all the uncertainties in Russia you might choose to defer that? Finally on Asia, you've obviously made some recent acquisitions, increased your stake in Habeco and this morning I think announced the acquisition of the 50% stake in Hué Brewery. My question on Asia is whether you saw scope from more significant acquisition activity, not just next year but looking into the medium-term, and whether you think you have the balance sheet capacity to potentially fund any more significant scale of acquisition with debt?** Thanks very much.

Anton Artemiev: Yes, regarding kiosk sales, there's largely an uncertainty what kind of measures may take place. We assume that much more clarity will take place before the yearend because there has been a request from the president of Russia to do something, but it was very uncertain to what categories of beverages it will be. For instance, there was a proposal to split beer in the different categories in terms of content of alcohol and then of course there was no clarity whatsoever what type of kiosks might be prohibited for beer sales. And there are different types of kiosks... Well it is just worth waiting for another month or two and then decide. Once again, we can repeat that we believe if there will be reduction in the universe of retail, certainly there will be transfer of consumption to other channels and that should not be an extremely negative impact on the margins.

Jørn P. Jensen: On the second question on margins, yes, it's definitely still our intention to update you on margin on medium-term targets in February. With everything I know today that it will not be impacted by the current uncertainty in Russia only because it's more kind of what we think we can achieve. Of course then we're going to guide you. I have said many times before, we have very good solid scenario planning in place, so it's basically more about just deciding on which scenario to go for, which is as said also before commercially of course sensitive, which is why we're not talking about it today.

Jørgen B. Rasmussen: And to your last question about Asia, yes, we have signed now two MoUs recently in the last three/four weeks regarding Vietnam, one with Habeco and this morning we announced in Hué and of course being part of our strategy to strengthen our business over time in Vietnam. We do still see Asia as a growth platform for our business and we have a number of key markets where we see opportunities for acquisitions, some smaller/some bigger, and they are the more strategic markets - Vietnam, China, and also in time India. So, yes, over time expect it, and we think we have the flexibility to make the right decisions in Asia on our growth strategy in Asia.

Philip Morrisey: That's great. Thank you.

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

Operator: *Andrew Holland from Evolution Securities is online with a question.*

Andrew Holland: Yes hi. **Just coming back to Melissa's question on your rouble assumptions. As I look at my screen, the current spot rate is 43.2 to the euro and you're assuming 47 for the fourth quarter with six weeks to go and your year-to-date average is 44.3 versus your original guidance of 47. It all seems that you are still at this stage unnecessarily cautious on your rouble assumption, which I find quite surprising. And how is it that your top line guidance is assuming such a cautious assumption? Is the first question. Secondly, just on the cost saving, going all the way back to your predicted DKK 1.3 billion of cost savings around the Scottish & Newcastle acquisition, how much of that have you achieved, obviously a very strong margin performance in Q3. Is that a timing issue or should we be assuming that you will achieve a higher cost saving than originally anticipated?**

Jørn P. Jensen: On the roubles, I think I can follow your arguments. Yes, we are maybe overly cautious. On the other hand, it is a pretty uncertain world out there. And at end of the day, it does not change that much for the quarter to be honest because it is not that big quarter as such. But I don't disagree that if anything of course in this context an upside on the quarter.

On synergies, the number is, as also mentioned in the release this morning, 725 annualised is where we are now. Yes, it's slightly ahead of plan, but the total plan as such has not changed.

Andrew Holland: Thank you.

Jørgen B. Rasmussen: That was the last question, and I would just like to close with one remark, repeating what I also said in the beginning of our presentation and at the end, we were extremely well prepared getting into 2009. We believe also with the different uncertainties and opportunities we see for 2010, again we'll be extremely well prepared for 2010, and it will be a very balanced approach between continue our efficiency agenda and then keep building for - - or build towards our growth ambitions as a Company. Thanks for listening in. Thank you.