Full Year Results 2009
Carlsberg A/S
Jørgen Buhl Rasmussen
Jørn P Jensen
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Operator: *Welcome to the Carlsberg Full Year Results 2009 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, CEO Jørgen Buhl Rasmussen. Please go ahead, sir.

Jørgen B. Rasmussen: Good morning everybody. Welcome to our 2009 results conference call.

My name is Jørgen Buhl Rasmussen and I have with me our CFO Jørn P. Jensen, Sr Vice President Eastern Europe, Anton Artemiev and Sr Vice President Northern Europe, Jørn Tolstrup.

I will start by giving you a summary of our 2009 results and then go through the regions. Jørn will walk you through the numbers, 2010 outlook and our new financial targets. After that we will be happy to take your questions. Please turn to slide 3.

Please turn to Slide 3. Carlsberg delivered strong EBIT and substantial cash flow in a challenging 2009. In late 2008 and in 2009 we took several efficiency initiatives to mitigate the impact from declining volumes. Today's result demonstrates that the detailed planning and focused execution of these initiatives were successful.
In 2009 Carlsberg gained market share in a substantial part of the business. In Asia and Eastern Europe the Group gained market share across most markets, with particularly strong gains in Russia, Ukraine and Vietnam. We kept market shares flat in Northern & Western Europe.
In our planning and subsequent execution in 2009 we have balanced 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.
Operating profit grew to DKK 9.4bn with a 21% organic operating profit growth. The Beverages activities improved even stronger and delivered a 28% organic operating profit growth.
Operating profit margin improved strongly by 250bp to almost 16% with all three regions contributing to the margin progression.
Driven by a focused approach towards capital efficiency Carlsberg delivered a very substantial free cash flow of DKK 10.5bn. As a result net debt to EBITDA declined to 2.7x from almost 4x at end of 2008.

And Slide 4. Group organic beer volumes declined by 4% while we delivered a flat organic revenue development. A positive price and mix off-set the lower volumes.

The strong 250bp operating profit margin improvement was driven by all three regions. Eastern Europe delivered an outstanding margin improvement, with the Asian business showing consistent improvement throughout the year. The NW European region delivered particularly strong improvement in the second half of the year as the impact from the accelerated efficiency improvements came through. In terms of cost items, the improvement was driven by lower cost of goods sold in Eastern Europe and lower operating expenses across the Group.

Slide 5. While we expect 2010 also to be a year of cautious consumer behaviour we believe there will be opportunities for Carlsberg to further strengthen our business.

We will focus on accelerating volume and value market share growth by intensifying investments behind our growth initiatives and some of these will come to the market during 2010. We will support brands and activities with both focused above- and below-the-line marketing spend. Efficiencies will remain in focus and we believe there will be further opportunities to improve across the group; both in terms of operational and capital efficiencies.

Although, we believe 2010 will offer opportunities for our business there will also be challenges like the 200% higher Russian excise duty implemented from January 2010. We anticipate the Russian market to decline by low double-digit percentages following the expected retail price increases and the implementation of a minimum price for vodka. We have invested significant resources internally in to our preparations and planning for the year and we are therefore confident that our Russian business in 2010 has the potential to continue the historical trend of market share gains.

In Russia there is currently some debate on potential legislation linked to alcohol or sale of alcohol. In our expectations for 2010 and medium-term we have included a potential impact from what we know as of today may be the final outcome. We do, however, not feel it is appropriate to discuss the proposals or our insights in to these in greater detail as it is an on-going Russian political process.

For 2010 we expect the Group to deliver underlying operating profit growth – when adjusting for the sizeable Russian de-stocking effect in 2010 – and a more than 20% net profit growth.

On the back of the 2009 performance, as well as our ambitions to strengthen our market positions and our focused efficiency agenda we are comfortable in setting new financial targets for the Group. The new medium-term target for Group EBIT margin at around 20% is ambitious, but we believe we have the right plans in place to achieve this target.

And now Slide 6, which shows that beer volumes on a pro rata basis increased by 6% to 116m hl for the year. Organic beer volume development was -4%. Acquisitions contributed 10%. Despite the volume decline, the Group gained market share in a sizeable part of the business.

Net revenue totalled DKK 59.4bn. Organic net revenue growth was flat and acquisitions added 6%. Increased average pricing per hl was driven by price increases and value management - and this off-set the organic volume decline.

And next slide please. Organic operating profit growth for the beverages activities was a strong 28%.

All regions contributed to the organic operating profit growth. Eastern Europe was the strongest contributor with 38% organic growth. Asia at 19% growth also

did very well. Northern & Western Europe grew 6% organically, but with a marked improvement in H2.
In Q4 organic operating profit growth was 32% with even stronger improvement in Eastern Europe driven by the Russian stock-building.

And now let's turn to the regions and start out with Northern and Western Europe on Slide 9 Reported net revenue declined by 2%, in line with organic revenue development while acquisitions accounted for +3%. For Q4 organic net revenue declined in line with the full-year while reported revenue declined due to the currency impact and German asset disposals.
As planned, organic operating profit growth has accelerated in the second half of the year as the impact from the additional efficiency improvements filtered in to profits. While organic operating profit growth was 6% for the year, it was 1% for H1 accelerating to 9% for H2.
In Q4 2008 we divested two brands which gave an approx. DKK 150m gain that was included in EBIT. Adjusting for this gain organic operating profit growth would have been flat for Q4, 17% for H2 and around 10% for the year.

And now Slide 10. Our volumes declined by 6% in line with the market. During 2009 there was high volatility and large differences between markets. For instance, we saw flat or slightly growing market in France, Switzerland, Finland and Sweden while the Baltics and Balkan declined between 6 and 10%. We noticed a slight improvement in market conditions during Q4.
Our market shares were on average flat across the region and we increased net revenue per hl by 4% due to a strong focus on value management and pricing.
In several markets like France and Denmark the mix was positive, off-setting negative trends in the Baltics 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.
Improved efficiencies have been important in NW Europe to compensate for declining markets and input cost pressure. These efficiency improvements have - to a large extent - been structural changes and we believe the cost base reduction will be sustainable.
The improvements translated into a 100bp operating margin increase for the region, a continuation of the positive margin trend for the last 4-5 year – a trend that we also anticipate will continue the coming years.

Please turn to slide 11 please for a few comments on specific markets.
The French market was flat, and our business delivered double-digit organic operating profit improvement due to changed brand positioning, new portfolio pricing ladder and efficiency improvements. While our total market share declined for the year as expected, the market share deterioration of the two brands Kronenbourg and 1664 stopped in the second-half following the re-launch in Q2.
Despite a 4% decline in the UK market our business improved strongly delivering volume growth and significant earnings improvement. We gained both volume and value market share in off-trade, gained the Wetherspoon supply contract in on-trade and total market share increased by 110bp to 14.4%. The profit improvement is driven by volume growth, successful key account management, value management and efficiency improvements.
Despite the Danish market declined, our profitability grew. Carlsberg gained market share, implemented efficiency measures and strengthened price and mix.

The improved price and mix was among other things helped by the Somersby brand that has successfully been driving the cider category.
Profits in the Baltics came under pressure due to the weak macro economy in these markets, but despite of this, our Baltic business is still delivering double-digit margins.
Several structural changes took place in 2009. A number of initiatives included brewery disposals, changed distribution models and a new and more integrated way of working across markets and functions. In conclusion we will 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, and please turn to Slide 13. Organic net revenue increased by 1% with the 6% beer volume decline. Total volumes declined slightly less due to growth in other beverages, mainly the non-alcoholic Kvass in Russia and Ukraine. We gained market share in all markets except Kazakhstan.
The volume decline was largely offset by higher net revenue per hl due to pricing, strong sales execution and value management efforts. The positive price and mix of 6% was due to price increases 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 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. All of this is done with great attention to detail in terms of regions, urbanisation and channels.
In total, net revenue declined by 3%. Organic revenue growth picked-up in Q4 entirely due to the stock-building at distributors in Russia ahead of the excise tax increase from January 2010.
The organic operating profit growth was very strong at +38% which was driven by several levers like positive pricing, lower COGS from lower commodity prices and production efficiencies and declining operating expenses from acquisition synergies and accelerated operational changes.
The Russian stock-building in Q4 very positively affected the quarter. Excluding the DKK 300m additional operating profit, the organic operating profit growth would have been around 26% for Q4 and 31% for the year.

And Slide 14 and Russia specifically. In Russia we gained an 180bp market share in 2009 and reached 40.6% compared to 38.8% for 2008.
Despite recent indications showing stabilising consumer sentiment the Russian market declined by an estimated 10% for the year as well as in Q4. In 2009 our shipments declined by 6% while in-market-sales, i.e. sales from distributors to retailers declined by an estimated 8%. The difference between shipments and in-market-sales is of course due to the stock-building in the distribution system.
Pricing remained positive with a pricing effect of +9% for the year and 10% for Q4. This was driven by price increases and better portfolio management. Like in the rest of Eastern Europe the pricing strategy is differentiated by region, segment, brand and SKU.
The Russian business delivered 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.

In Russia we had a negative mix effect of around 3% in 2009. 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 the second half there were signs of trading-down as consumers shifted between brands.

And now Slide 15. The market share gains in Russian in 2009 are a continuation of a trend established for the last 16 years. Although there have been fluctuations between quarters the business has consistently year-after-year gained share organically. We firmly believe we will have opportunities to continue to gain shares driven by the strongest brand portfolio, the strongest route-to-market with an integrated production, logistics and distribution set-up and by a strong business- and management-model.
In Q4 2009 our market share was unchanged year-over-year at 39.3%. As stated in the past, it is important to look at trends when assessing market share development since market share short term is influenced by many factors, like timing of price increases versus competition, timing of innovations, promotions, etc.

And now Slide 16. Despite a challenging macro environment and a 94% excise tax increase in July 2009, our Ukrainian business performed very well. The market declined by 7% while our volumes grew by 5%. The initiatives taken in Ukraine include expanded distribution, improved portfolio management, a complete change of the sales structure, go-to-market model and efficiencies. In addition favourable input costs helped profits improve significantly in 2009.
During the year our business has gained substantial market share and has moved from a weak number three player to a clear number two, and our market share has increased by more than 10 share points in just around 2 years.
The business in Uzbekistan reported strong revenue growth and earnings improvements. In a flat market in Belarus, we gained significant market share and strong organic profit growth.
The business in Kazakhstan suffered from a declining market. Our market share is 44%, but we are strengthening the business by combining our Baltika export business with the local operations.

And now turn to Slide 18 for a few comments on the Asian region. The Asian business continued its strong performance throughout the year.
Reported net revenue increased by 19% with organic net revenue growth of 14%.
Despite increasing input costs operating profit growth was 30% with 19% organic growth due to improving price and mix and volume growth.
China and Indochina were the main drivers behind the 2009 growth.

And slide 19. The markets continue to grow across Asia and our beer volumes increased organically by 8%. We gained market shares across most markets in the region.
The main contributors to the volume growth were China and Indochina. In China our business delivered high-single digit volume growth. This was driven by continued strong performance of Carlsberg Chill, the launch of Carlsberg Light for the restaurant sector and growth of our local brands. The Carlsberg brands grew around 15% in this market.

Our business in Indochina continues to deliver double-digit organic revenue growth. Vietnam was a key driver with 8% market growth and our businesses gained more than 250bp market share.
Timing of the Chinese New Year affected market volumes negatively in Malaysia. Our business delivered mid-single digit organic net revenue growth and a 100bp market share improvement.
In India the launch of Tuborg strengthened the product portfolio.
Pricing remained strong across the region and there was a particularly strong price and mix effect in Malaysia, Cambodia and parts of Western China.
The 19% organic operating profit growth was mainly driven by the Chinese business and Indochina.

Slide 20. Asia now accounts for around 13% of Group beer volumes.
We believe in long-term volume and value growth potential in the region. Value growth will be driven by brand portfolio improvements of the local brands, premiumisation, further push of our international brands and stronger execution capabilities by the local sales forces from using previously developed tools that are implemented in Europe.
In 2009 we signed two MoUs after which we should increase our stake in Habeco from 16% up to 30% and acquire the other 50% in the Hue Brewery. This is in line with our strategy to strengthen our position in Northern and Central Vietnam.
With this I would like to hand over to Jørn who will walk us through the financials.

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

Jørn P. Jensen: Thank you. So turn to Slide 22 please. As Jørgen said in his opening remark, markets were tough in 2009 and volumes have been under pressure. However, the rigorous and detailed planning for the year, including accelerated efficiency initiatives and contingency planning were successful as the 2009 profit and cash flow numbers demonstrate.
Throughout the year we increased the underlying profitability across our business quite significantly, resulting in 18% growth in operating profit in DKK. Operating margin was 15.8%, an increase of 250bp from last year.
The significant improvement in Free Cash Flow I'll talk more about shortly.
Our focus for 2010 is to continue the journey we are on and deliver on our ambitions again in the coming years. Our focus will increasingly be on outperforming market development in volume and value, further increasing efficiency across the Group and continuing to deliver strong cash flow.
Now please turn to the first part of Income Statement on the next page.

Now please turn to the first part of the income statement on the next page. You here see the development from 2008 to 2009. My comments will primarily focus on the organic development.
<u>Organic net revenue</u> was more or less flat year-on-year – up only 0.4%. In reported terms sales were slightly down due to FX which was not fully offset by net acquisitions. The main negative foreign exchange variances – of around DKK 4.7bn - are primarily the Eastern European currencies and the Pounds Sterling. In average the Russian Rouble was 17% lower, Pounds Sterling were 11% lower and the Ukrainian currency was 29% lower than last year.
<u>Organic gross profit</u> was up 3% compared to last year. Organic cost of sales per hl was up 2% year-over-year but was in DKK down around 6%. Reported gross profit margin was 49.2%, up 130bp compared to last year. The gross profit

margin improvement was only driven by Eastern Europe where the organic gross profit margin improved by 520bp. Approx 70% of this improvement was driven by price increases and around 30% was lower COGS, i.e. synergies, efficiencies and in particular lower input costs. In Northern & Western Europe, organic gross margin was down 50bp due to higher input costs this year. However, the organic gross contribution per hl increased as price and mix compensated for the higher raw material prices. In Asia we saw the same picture as in Northern & Western Europe, i.e. input costs up, relative contribution margins down but absolute contribution per hl up due to price increases. Northern & Western Europe and Asia will benefit in 2010 from lower, hedged input costs as opposed to Eastern Europe where benefits came in 2009.
Organic total Opex including brands marketing was down DKK 1.5bn or 7%. As you know, we have been extremely focused on reducing the cost base across the group throughout 2009 and this focus will continue going forward. In 2009 we had lower costs in both Northern & Western Europe and in Eastern Europe, where we in organic terms saved 7% vs. 2008, whereas we in Asia did spend 5% more than in 2008. The efficiency improvements were necessary due to the challenging market conditions in 2009 and although some cost reductions were linked to volume, it is our clear expectation that a significant part of the cost base reduction is sustainable as it has predominantly been driven by structural and process changes.
Other income, net was down as expected by DKK 742m primarily due to significant real estate gains in the segment "other activities" last year.
All in all operating profit was DKK 9.4bn, up DKK 1.4bn from last year. The organic improvement in the Brewing activities was DKK 2.1bn or 28%.

And the next slide please. Special items were DKK 695m. This is primarily due to restructuring costs and redundancy payments in Northern & Western Europe and losses on excess contracting of raw materials. Although on a lower level than in 2008, these costs were in 2009 on a somewhat higher level than what is expected looking forward.
Net financial items amounted to DKK 3bn against DKK 3.5bn in 2008. Net interest costs accounted for DKK 2.2bn compared to DKK 2.4bn in 2008. The lower interest costs are primarily due to a decrease in average funding cost. Other net financial items were DKK 830m vs DKK 1.1bn in 2008 and were mainly related to losses on debt denominated in foreign currency of DKK 501m, primarily in the first half of the year – of which Eastern Europe accounts for some DKK 400m - and write-downs on financial assets of DKK 150m. The decline in other net financial items is among other things explained by the one-off costs in 2008 related to the establishment of financing for the S&N transaction.
Tax was DKK 1.5bn and the effective tax rate was 27%.
All in all, net profit was DKK 3.6bn, up almost a billion from 2008.

And now slide 25 and just a few words on the balance sheet. Total assets were down some 8.1bn since end 2008. The decrease is explained by a reduction of fixed assets, FX movements impacting intangible assets and a significant reduction of current assets.
Total equity was 59.5bn, positively impacted by net profit and negatively impacted by currency adjustments of foreign entities and distribution of dividends.
Net interest bearing debt amounted to DKK 35.7bn which is a reduction of DKK 8.5bn since the beginning of the year. Net interest bearing debt to EBITDA was year-end at 2.7x

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And now cash flow on Slide 26. In line with the development throughout the year, cash flow from operations increased significantly by DKK 5.8bn.
The improvement is primarily explained by the strong organic development in EBITDA and the very significant reduction of working capital.
Adjusted EBITDA showed an improvement of DKK 2.4bn driven by the solid organic development in the business as well as contribution from the acquired assets.
The change in working capital was better than targeted and very strong at DKK 3.7bn. The development is explained by the intense focus on these lines resulting in a significant reduction in inventories of DKK 1.6bn, lower receivables of DKK 1.0bn and higher payables of DKK 1.1bn. By the way net working capital is still a net investment and not a funding source.
Paid net interests were DKK 1.6bn and the significant change to last year was due to lower interest payments, payments in 2008 related to the establishment of loan facilities in connection with the S&N acquisition and currency instruments. Finally, in 2009 Carlsberg had a positive cash flow of approximately DKK 400m from settlement of various net interest hedges and swaps on loans.

And next slide please and just a few more words on working capital Working capital improvement will continue to be a key focus area. For 2010 we are shifting the focus to the average working capital level for the year instead of year-end levels.
This is done with the aim of achieving a larger impact from working capital on the average net interest bearing debt and consequently, of course, lower interest expenses.
In general we have improved significantly on working capital management but still have a way to go the next years versus best in class on this topic.

Slide 28 please. Capex amounted to DKK 2.9bn, down DKK 2.3bn from 2008. The lower capex is spread across the Group. We have had very strong focus on CAPEX reduction in 2009 acknowledging the fact that we are very well invested in Northern & Western Europe and in Eastern Europe after several years in the past with capex somewhat higher than depreciation. Like working capital and efficiency in general this remains a focus area and we will keep a maintenance capex level below depreciation for a while.
All in all free cash flow in 2009 amounted to DKK 10.5bn.

And now to Slide 30 and 2010 outlook. Although, we did see improvements in some markets in late 2009, consumer behaviour will remain cautious in 2010. For 2010 we expect markets to decline slightly in NW Europe, a low double-digit market decline in Russia and continued growth in Asia. In 2010 we will target continued value and volume market share gains in a sizeable part of our business, increase investments in brands and innovations and also continue to implement efficiency improvements across the Group.
In conclusion we expect a 2010 reported operating profit in line with 2009. Please note that this is the reported operating profit, i.e. including the negative effect in 2010 from destocking in Russia. Adjusting for this stock-building at year end the operating profit growth would be around +7%.
In addition we expect at least a 20% increase in net profit compared to the DKK 3.6bn for 2009.

Furthermore, deleveraging is also on the agenda in 2010.

Slide 31 please. In 2008 we promised to review our medium-term targets when they were reached. Following the recent strong performance we feel confident in setting a new medium-term operating margin target for Eastern European at 26-29% compared to the previous 23-25%.
The Northern & Western European region is well on-track to deliver the targets previously indicated. Consequently we are comfortable in upgrading the goal to a 15-17% operating margin target. Efficiency improvements will remain a key driver, while the intensified focus on profitable market share growth will also contribute to meet these ambitions.
For Asia we now have a public margin target. Margins in Asia will for a while be more volatile depending on how we choose to spend costs for growing the business.
Finally we have decided to implement a new, ambitious target for the Group. The target is set at around 20% operating margin to be reached within 3-5 years.
Please go to the next page for a little more colour on these targets.

As you know we have been through significant changes in recent years. The size of the Group has expanded significantly and we have established a group with a balance of mature markets and markets that will also offer medium- and long-term top-line growth opportunities.
In addition, a significant number of internal initiatives have taken place during the years with the ultimate goal of producing more value for our shareholders through operational initiatives and improved capital efficiencies. We believe we have come far in this process, but we also believe the Group can do much better. We have now, or will in due course, put a lot of the levers in place to improve profitability further and meet the target of around 20%.
It will not just be a cost exercise. We will also use value growth to meet the target.
Meeting 20% in 3-5 years is for sure ambitious and will correspond to a doubling of margins in 10 years compared to group margin of around 10% in 2005.
In the 2009 statement we continued to give you margin targets for Eastern Europe and Northern & Western Europe as well as our Asian margin target. Going forward we will focus increasingly on the Group margin target.
Slide 33, please and Jørgen, back to you.

Jørgen B. Rasmussen: We are very excited about the platform and results that have been created in the recent years. We believe we have the geographical platform, the organizational structures and the right people to continue to grow profits and value in 2010 and beyond.
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 then one on your touchtone phone. If you wish to be removed from the queue, please press the hash key. If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star and one on your touchtone phone.*

Our first question is from Michael Rasmussen from SEB Enskilda.

Michael Rasmussen: Yes, hi, good morning. Well done, guys. **I would like to start talking about your new 20% Group margin target. Should we expect any kind of restructuring cost special items on the way towards this ambitious and great target? First question. Second question comes down to Russia, and I think you need to give us a little bit more insight into how should we expect the quarterly earnings development to be like. I know that in 2009, you did around 700 million in EBIT in the first quarter. Could we use this as a buffer and then take out the 300 million or will it be much more negative impact in Q2 and potentially in Q1 as well? And the last question comes down to cash flow generation, a very big surprise to many I think what really happened here in the fourth quarter. First of all, I'd like to ask into a little bit more details on the working capital, these 3.7 billion improvement in the full year. I think you said 1 billion of improvement at the Q3 results back in November, so certainly a big change there. And also capex came out somewhat below your guidance, is there going to be a higher capex in 2010 or going to stay around the maintenance level of 3.5?** Thanks.

Jørgen B. Rasmussen: Let me start with your second question on Russia and kind of the flow of earnings through the year. As we have put also in the release, you will see compared to 2009, our earnings will be skewed towards the second half based on the stockbuilding end of 2009 and therefore of course the destocking in 2010.

Michael Rasmussen: **But with the things we're seeing in the first quarter, i.e., how much of the production potentially will go down on the back of this inventory hike in the fourth quarter? And also, I know you had - - you said you had 525 basis points help from the gross margin last year. Now we're seeing raw materials swinging into negative territory for you guys, so I guess it would be a very, very different 2010 to 2009. Could we see potentially Q1 be loss making on operating level?**

Jørgen B. Rasmussen: I would say you can see phasing will be very different in 2010 versus 2009, that's correct, because of the impact from quarter one and the stockbuilding in 2009 and secondly also, as we also stated in our release, the stage pricing increase will also have an influence on first half or second half.

Jørn P. Jensen: And to take... Michael, to take the first question, the 20%, and I guess the question was more around big restructuring costs or not, then, as I said, restructuring costs or special items were at a very high level in 2009, and that will not be the level going forward, and that is not what is included either in how to reach the 20% EBIT margin target within the medium-term.

Free cash flow, yes, as I also said, it was better than targeted. Everything worked well. No negative surprises at all anywhere. So adding it all up, it was definitely better than expected.

Michael Rasmussen: **But can you give us some more details? I mean the level is like 3.5 times bigger.**

Jørn P. Jensen: You can say that it has been a better execution in general from what we internally called our cash raised initiative; and everyone has delivered on everything, which is what has been driving this very high improvement year-over-year in 2009. And as also said, it's definitely not so that we figure that we are where we should be on this. There is still more to do on working capital, and that is also a key focus for the next years and is definitely a key focus for 2010.

Jørgen B. Rasmussen: And, Michael, to add to what Jørn said, I think it's also what we have talked about before, the mindset and the kind of governance in Carlsberg has changed. There's a much stronger buy-in across the Group in terms of when we do bigger initiatives - from markets and centrally to a governance and mindset - and Carlsberg is different today compared to how it used to be and therefore our ability to execute is getting better and better.

Michael Rasmussen: Great. **And kind of capex levels, do we see...**

Jørn P. Jensen: Capex is slightly lower than compared to what market consensus was, and it might be a little more in 2010, but not a lot more. Probably very much actually in line with what consensus was for 2009.

Michael Rasmussen: Okay great.

Operator: Our next question is from Nikolaas Faes from Exane BNP Paribas.

Nikolaas Faes: Yes, good morning. **First of all, can you tell us what your assumption is on the rouble/euro exchange rate when you make your EBIT forecast for the full year? Secondly, could you also comment on the pricing environment in 2010? And I'm looking comments clearly on Russia for how did you do - - how did you adjust your pricing at the beginning of the year, plus what do you expect on pricing environment in the Western European part? And then thirdly, could you give us a little bit more colour on the development of Somersby, where are we now? How big is the brand? What part of Danish profits are now coming from Somersby and also what are your plans for the brand to launch it on a more global scale?** Thank you.

Jørgen B. Rasmussen: Okay.

Jørn P. Jensen: Should I just to get rid of the first question basically, just around 44, Nikolaas.

Nikolaas Faes: Thank you.

Jørgen B. Rasmussen: And if I start with Somersby and then take pricing environment afterwards, Somersby, as you probably know, has been very successful in Denmark and really established cider as a category in Denmark, which didn't use to exist and has been rolled out to Sweden and Norway and some other markets; and it's developing great and we see Somersby having more and more opportunities across many of our markets, so it's establishing a new kind of subcategory for Carlsberg and a profitable subcategory, so one we see having further potential in terms of also further line extension and some additional concepts adding to what we already have today.

Pricing environment...

Nikolaas Faes: **And how big is Somersby now in Denmark?**

Jørgen B. Rasmussen: In Denmark, it'll be close to about 10%, a little less 10%.

Nikolaas Faes: **10% of your business or from - - or the total non-alcoholic beverages market?**

Jørgen B. Rasmussen: Of our business.

Nikolaas Faes: Oh okay. **And that is that you done it over a two-year period?**

Jørgen B. Rasmussen: Yes. So when I said 10%, it's of earnings; and of course the whole dynamic in the category is changing, so more and more players further accelerating growth in the category, becoming more and more attractive as a category in the Danish environment.

Nikolaas Faes: **And where are you on that launch part in Sweden?**

Jørgen B. Rasmussen: Sweden is more early days and slower penetration.

Nikolaas Faes: **You have also more competitors there I suppose.**

Jørgen B. Rasmussen: No, but also cider is not very well known concept in Sweden, so it's a bit of the same. But Sweden because of the environment you're in, there are more restrictions in terms of what you can communicate and advertise, it takes longer normally to establish a new product category.

And then pricing and pricing environment – I'll take the broad view, and then Anton can take Russia. I think in line with what we had said before, the pricing environment is clearly more challenging. Everyone, retailers, are looking for more customers coming into the outlets and therefore pricing discussions are more challenging. We still expect overall from value management, pricing, everything together, we will have some benefits, smaller benefits in 2010.

And Russia specifically.

Anton Artemiev: Good morning. As far as Russia is concerned, I can tell you what we have done so far. There has been a 4 to 5% increase in prices for our products in Q4, and then there was around 6% price increase starting from January 1. And of course in the coming year, the decision to increase duty on beer by 200% will impact one way or other pricing decisions, but we will not disclose our future plans and steps on this. Thank you.

Nikolaas Faes: **So the price increase that you did in Q4, that was at trying to capture already a bit of the volumes which came earlier is your part of the profit there or...**

Anton Artemiev: It was a part of our pricing strategy and, yeah, you see what happens.

Nikolaas Faes: **And is this price increase on average equal all your product range or is there some differentiation there?**

Anton Artemiev: No, no. Of course, we have differentiation. In any price decision, we take it by SKU, by region, by segment so that I name you averages.

Nikolaas Faes: **No, on the SKU, on the segment side, what would be you saying is the average price increase for your premium brands and how much for your more lower-end brands up till now?**

Anton Artemiev: The details on price increases in different segments, we don't comment. Sorry.

Nikolaas Faes: Okay. No, I understand.

Jørgen B. Rasmussen: It's so important for our strategy and it is done by region, by segment, and we don't want to put everything out there. But maybe to add to what Anton said, if we look at competition, they seem to have followed more or less our pricing approach. The only exception seem to be Heineken, as I think they are also saying today, they end up with kind of a big price increase in a significant part of the trade, not everywhere. So in key accounts, we haven't seen the increase coming through yet.

Nikolaas Faes: **So would you say, Jorgen, that competition actually then in January more than your 6%?**

Anton Artemiev: Heineken did others not necessarily. There has been some difference.

Nikolaas Faes: All right. Thank you.

Operator: Our next question is from Trevor Stirling from Sanford C. Bernstein.

Trevor Stirling: Good morning. **Three questions please. First one: Anton mentioned increase 4-5% Q4 and 6% on Jan 1. Could you say how much that would be equivalent in roubles per litre, the combination of the two price increases averaged across the portfolio? Second question: Are there any indications on what retailers are doing? Are they maintaining cash margins or they are looking more to maintain percentage margins? And the third question: I appreciate that you can't give any commentary on what you expect might be the outcome of the legislative process on the regulatory, but could you just tell us what is the public status at the moment? Has a bill been introduced to the Duma yet or are we still waiting for that stage of the process?**

Anton Artemiev: I start with the Duma. There are several initiatives, and I guess you have heard most of those, and those initiatives go in respect of possible limitations. They go on possible limitations in kiosk sales and house signs of the beer, there are many initiatives. And to the extent we know what will happen; we believe we do have quite the good insight into what's going on. We have of course built all these scenarios and probabilities into our plans, in our thinking. But once again for the reasons that this is internal political debate, it concerns Russian policies, we don't want to go into details in this matter. As far as the margins are concerned, once again, we have our own strategies in pricing. Distributors may have their own ideas. We are in touch with them what to do, but we don't want to disclose, again, our business agreements and our business plans with our partners.

If you take an average price of the half litre bottle in retail before say the heavy price increases in the part of 20+ roubles and the same would go for ex-factory litre price roughly. So if you had 4, 6, or 10%, you can calculate what it is.

Jørgen B. Rasmussen: Just to make sure there's no misunderstanding on the price increases referred to by Anton earlier, so the price increase in quarter four last year was 4 to 5%, not 45%, and then the increase we talked about in January was around 6%.

Trevor Stirling: Okay, thank you very much.

Operator: *Our next question is from Paul Hofman from Crédit Agricole.*

Phil Hofman: Yes, hi. Good morning. Paul from Crédit Cheuvreux. **A couple of questions to make it also clear for me. On input cost, first one, you say you will benefit in Asia and Western Europe. What would it be overall or other words, what will - - what do you expect in Central Eastern Europe; will it be flat year-on-year? And again, secondly on these price increases, referring to Page 14 of the presentation, I believe you said price increase in Russia of around 10%, is it then simply the addition of all these price increases you mentioned in Q4 in January or is it something else you refer to?** Thank you.

Jørn P. Jensen To the first question about input costs, yes, we will. We will have lower input costs in Northern/Western Europe and in Asia this year, and that we know because it's hedged. And when it comes to Eastern Europe, then, yes, pretty flattish input costs versus 2009.

Phil Hofman: **And is that... What kind of visibility do you have for Eastern Europe? It's of course more spot market driven or...**

Jørn P. Jensen Yeah, it's more spot market, but of course we also now already have some agreements, especially for the summer on the key raw materials as such, so we have high visibility on input costs for Eastern Europe now.

Phil Hofman: Okay thank you.

Anton Artemiev: And on pricing, the number you mentioned, 10% in the third quarter is the quarter on the quarter of a previous year, so average quarter compared to average quarter.

Phil Hofman: Okay, that's clear.

Anton Artemiev: So it's nominal increase, it's of the certain point.

Phil Hofman: Yeah, that's clear.

Operator: *Our next question is from Søren Samsøe from Danske Markets.*

Søren Samsøe: Yes, good morning, gentlemen. It's Søren Samsøe from Danske. **First of all, a question regarding the market share development in Russia. You seem to have lost a bit of market share of course partly due to the price increases you made first. But also, could you comment on whether you know specifically if competitors have made product launches in Q3 and Q4 and if you expect to come out and make launches in 2010 that could reverse this situation? Also you just mentioned something on the raw material side, but could you elaborate a little bit on what the support will be from lower input costs in North/Western Europe in 2010 on the gross margin side, and also how your hedging is now for '10 and '11 in both North/Western Europe and**

Eastern Europe? And then finally on the free cash flow side, if you could mention anything specifically that could be different on cash conversion in '10 versus '09? Thank you.

Anton Artemiev: Yeah. On the market share, you're right in quarter four we have been flat compared to the quarter four of the previous year. But more importantly is that the trend year-on-year is we have gained the market share 1.8%-points, and it is normally so that you should look at trends rather than fluctuations because fluctuations can be influenced by different phasing of promotion activities, pricing and different methods of price increases, and by product launches, as you mentioned as well, and that's very correct that some of our competitors have launched new products and innovations to the market in the second half of last year, which is a bit unusual. Normally, or at least in normal times, it's more efficient to do it before the season. And of course, without going into details, yeah, we do have plans for 2010, very, very interesting plans on innovations and new product launches.

Jørn P. Jensen: When it comes to the second question of raw materials, then what you did see in 2009 in Eastern Europe where we had the decreases in the raw materials, as mentioned, we had 520 basis points gross profit margin improvement. And as I said, around 30% of that was driven by lower input costs. For Northern/Western Europe, it will be a little less impact than what you did see in Eastern Europe, but there will definitely be a positive impact on gross profit margins coming from the lower input costs in both Northern and Western Europe and in Asia this year.

When it comes to hedging for 2011 that is still at a pretty limited level. When it comes to free cash flow, then the most significant change in the cash flow statement 2010 versus '9 will, with everything we know today, be on working capital where we definitely do not expect a year-over-year improvement even close to what we have seen in 2009, which also is due to the fact that we, as I said, are changing our focus on working capital to be more on day-by-day improvements versus year-over-year improvements or quarter-over-quarter improvements and the aim and purpose of doing that is that we get even higher reduction in our average net interest bearing debt than what we have seen so far. So that will definitely change in the free cash flow statement for 2010.

Søren Samsøe: Okay, thanks.

Operator: *Our next question is from Ian Shackleton from Nomura.*

Ian Shackleton: Yes, good morning, gentlemen. **Two questions. Could you give us a little bit more help to get down to that net profit guidance you've given us and particularly what you're assuming for tax rate and what type of special items we should assume in 2010? And secondly, can you give us an update of where we are on the Valby site?**

Jørn P. Jensen Yep, Ian, special items around 250, tax rate around 27. Valby definitely still in the market. No conclusion yet, as you can understand, but it's definitely still an asset, basically a redundant asset that we are looking to optimise the value of. So I'm not going to make any promises this year on this, but it's definitely as relevant to get rid as it was last year.

Ian Shackleton: **Just... I mean there has been a little bit of press comment in the last day or so about other sites that could be sold. There again, should we be expecting something in the next 12/18 months or is that further out?**

Jørn P. Jensen I think the speculation has been about around Leeds, and you know that that will definitely not be the next 12 to 18 month as it will not be closed until 2011 and then other speculation which I think is untimely basically.

Ian Shackleton: Okay, thank you.

Operator: Our next question is from Matthew Webb from Cazenove.

Matthew Webb: Hello. **I've got three questions all on Russia please. First question: In the past you guided to medium-term volume growth for the market of 3 to 5%. No mention of that today. Should we assume that that's been withdrawn or that that still stands obviously from 2011 onwards? The second: You've guided to no improvement in the Russian margin over the next five years, and I just wondered why that was given the cost savings you'll be achieving in that business. Is it that you're expecting a significant step down in 2010 given the next operational gearing and then a recovery over the subsequent four years or how do you get to that target? And then finally the guidance for the Russian market of low double digit volume decline, what pricing assumption for the market as a whole is not based on it? Is that based on a partial pass on the increase or a total pass some of it or even a full pass on plus - - partially on other inflationary pressures that you and your competitors are on that?** Thanks.

Jørgen B. Rasmussen: Okay, I can kick off and then again Anton can add. On the medium-term outlook for total market in terms of the 3 to 5% market growth, we still have the same view on that. So as soon as we come out of this kind of short-term crisis and probably after '10, we expect to get back to the average 3 to 5% market growth per year. And also if you look at what would be the likely consumption per capita after 2010, there should be many years of growth to come in Russia just to get to the European average for the total market, so 3 to 5% - we see no reason for why that should not come soon after 2010.

Your question about margin for Eastern Europe being kind of within the range we had this year, clearly we will have a negative volume impact in 2010, so in terms of leverage we have a negative impact and that's included in our margin guidance for the out years for Russia, but no kind of significant change to trend in Russia is assumed in our margin guidance, so we still expect over time also some premiumisation going on in the marketplace.

And then last on pricing assumption for the total market; again, we don't want to be too specific here in terms of what would be our pricing assumptions. I think we know what Heineken has said today. I think we also in general see very different picture sometimes, which mean traditional trades being 80% of the market and the key account trade, so I think I don't want to say a lot more on pricing assumptions for the total market when we say low double digit decline expected for this year.

Matthew Webb: Okay, I appreciate that. **But could I just follow-up on the medium-term guidance and its relationship with the - - or sorry the medium-term volume**

growth guidance and its relationship with the margin guidance, because if you're assuming that the market's going to back to growing at 3 to 5% a year from 2011, obviously you'll get some positive operational gain from that. You'll probably grow ahead of that because you're gaining share and yet you've got the margin going nowhere, so I can only assume that you're factoring in quite a significant fall-in in margins from that business in 2010 or otherwise I can't make sense of it.

Jørn P. Jensen: I don't know, Matthew, what do you mean by a significant reduction?

Matthew Webb: **I don't know, 300 basis points maybe.**

Jørn P. Jensen: We will definitely be within the medium-term target range also this year.

Matthew Webb: Okay.

Anton Artemiev: One thing to remember, given the growth from a certain point of 3 to 5%, the rest of Eastern Europe, other markets, will grow at a higher speed, we believe and they have lower margins, so there will be a certain country mix in that.

Matthew Webb: I see. That's a very good point, yeah. Thanks very much indeed.

Operator: *Our next question is from Peter Testa from One Investments.*

Peter Testa: Yes, thank you. **Just a couple questions please. One is just on North/Western Europe, I was wondering if you could give us a bit more feel on how cost savings will come through. I mean Q4 organic profit was basically flat, which should've had the largest part of cost increases of the quarters in the year, but you're quite optimistic going forward, so I was wondering if you could help us understand how the cost saving margin momentum improvement will come through. Then on the second question was just to finish on the net profit element. I was wondering if you could give us what your view is on other financial items for 2010. And I think I'll leave it there.** Thank you.

Jørgen B. Rasmussen: Okay. On Northern and Western Europe on the margin and when you look at quarter four, bear in mind what we also put in our release, the sale of brands we had in last year which impact the year-on-year improvement in that region. The improvement we're talking about going forward will clearly come from us working on the efficiency agenda and you saw in '9 that in the second half we really started seeing some more impact from those changes we made in '9 and late '8. We see that agenda continuing and we have a number of key projects going on across our markets in Northern and Western Europe. I'd say the agenda is very often about governance and try to do more in one location instead of in every market, where we think it makes sense, but still frontend be very much a local organisation in terms of sales and marketing efforts. But a gradual improvement over time in Northern Western Europe, a lot through efficiency, but also gaining value share and volume share in the Northern/Western European region, by also accelerating our investment into France and accelerating our initiatives on innovation, which you'll see you more of the coming years.

I don't know, Jørn if you have anything to add.

Jørn Tolstrup Rohde: Jørn Tolstrup. We have a lot of initiatives going across the region, being back office and production taking out costs and that will continue also for 2010 with a lot of initiatives in that area.

Jørn P. Jensen: And the second question on other financial items or you could just take it as financial items as such, then if you use a 6% all-in interest rate on the starting debt - the debt start of the year, i.e., end of last year - and then use that as kind of proxy for how total financial items will be for 2010.

Peter Testa: **Okay, so the other financial items falling down to a very low number basically and the rest reflecting interest?**

Jørn P. Jensen: Yes.

Pete Testa: Okay. **So if I could just follow-up on the North/Western Europe, I understood that there was the exceptional last year, but you said it was basically a underlying a flattish margin and you mentioned that a lot of the cost plans have started late 2008 benefits into 2009 and I was wondering whether there was essentially Q4 was reflecting kind of a phasing on the cost side. And then within that going forward trying to understand, you didn't mention things like product mix and pricing initiatives versus cost and things like that, whether you're assuming with the benefit this year on raw mat and less cost, whether you expect that sort of jaws to continue to open up at a similar pace to 2009 or what you think.**

Jørgen B. Rasmussen: I mean I think, as we have said, we do expect to get benefit from input costs in 2010 in Northern/Western Europe but not, as Jørn explained earlier, to the extent as we have seen in Eastern Europe, but we will see a benefit in '10 coming through for Northern/Western Europe, which again of course will help the bottom line margin in Northern/Western Europe.

Jørn P. Jensen: And in general, there are just a lot of initiatives going on in all markets in Northern/Western Europe and in the rest of the Group and they will all help to drive up the margins in Northern/Western Europe.

Jørgen B. Rasmussen: One project we haven't spoken about today would be the business standardisation projects where we are investing quite a lot and that will clearly help us build a platform to do more in terms of efficiency going forward when we have rolled it out across Northern/Western Europe.

Peter Testa: Great. Okay, thanks for the help.

Operator: *Our next question is from Melissa Earlam from UBS.*

Melissa Earlam: Good morning. **A few questions please on cost savings. First of all, can you give us an idea how the 970 million kronor split, how much of that is in Eastern Europe? And then can give you an idea how the rest of Kronenbourg savings? You target about 300 million, I think, progressing and whether you see any incremental opportunities now that you're obviously much deeper involved in the business?** Thanks.

Jørn P. Jensen: We'll just find the numbers for you on the split between the two regions. Basically it is in line with the split. The overall split we made when we announced the 1.3

billion in January 2008, and we are, if anything, slightly ahead of the curve and do expect to when we are at the year three to reach the 1.3 billion, so it's all coming in in line with plan or slightly better than planned.

Jørgen B. Rasmussen: And that would be the case also France.

Melissa Earlam: Thanks.

Jørgen B. Rasmussen: I guess we should say probably one more question and then we should close the call.

Operator: Our last question will be from Jonathan Fell from Deutsche Bank.

Jonathan Fell: Good morning everybody. **Sorry, I've actually got three; although, they're quite small ones. First of all, could you confirm whether or not you need to get positive price mix in Russia this year to meet your targets? Secondly, kvass and other beverages in Eastern Europe provide a very strong performance. I'm just wondering if you can give us a feel for what overall size of volumes you do in those lines now and how much of a portion of the overall use in European business those are. And then thirdly, just a technical thing on minorities, a charge well down in the fourth quarter and slightly down for the full year despite strong growth in EBIT. I would've expected those things to move more broadly in line with each other, so I'm just wondering what the reason for that is.**

Jørgen B. Rasmussen: I can take the first on pricing and mix, and the answer is really what I've said before about that, because of this duty hike and also we have inflation to deal with and we have a very detailed plan, I don't really want to be specific about our plans on pricing for 2010, but, yes, looking forward you could say as a kind of general rule, as we have had in the past, we would tend to look at certainly covering food inflation, to be in line with food inflation for pricing in most of our Eastern European markets. If you take the outlook then we would expect over time to also see some premiumisation in the marketplace, so trading up over time, coming out of this period, which we call kind of a reset prices period.

Anton Artemiev: Regarding kvass and probably our other non-beer initiatives in Russia, I have to say that beer will remain our core business and the main focus for our future. Having said that, it is still true that we are - - we have launched and will be launching some non-beer product. If you take kvass, for example, it's a very seasonal product. We only started it this summer. Very hard to say how big it is on an annual basis, but it has in the high months already reached up to 8% of Russian market and we have more plans for next year. There will be some other interesting innovations in non-beer. But once again, beer will remain our main focus for Russia.

Jørn P. Jensen And the detail, I don't have the detail explanation to minorities here. Peter will get back to you on that later today.

Jonathan Fell: Thanks.

Jørgen B. Rasmussen: Thank you for listening in.