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Corporates

Beverages
Denmark
Credit Update

Carlsberg Breweries A/S

Ratings

Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

Outlook

Foreign Long-Term IDR	Stable

Financial Data

Carlsberg Breweries A/S

	31 Dec 08	31 Dec 07
Revenues (DKKm)	59,944	44,750
Op. EBITDAR (DKKm)	11,051	7,635
Op. EBITDAR/ revenues (%)	18.4	17.1
Op. EBITDAR/fixed charges (x)	4.2	7.0
Cash flow from operations (DKKm)	8,068	5,184
Free cash flow (DKKm)	816	-420
FFO/interest expense net of interest income (x)	3.7	7.3
Total debt (DKKm)	50,006	19,873
Closing net debt (DKKm)	47,277	17,847
Total adjusted debt/ op. EBITDAR (x)	4.6	2.7
Adjusted Leverage/ FFO (x)	5.6	3.2

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Related Research

- *Fitch: International Brewers to Slow De-Leveraging (19 Nov 08)*
- *Global Beer Industry, Consolidation and Peer Comparison (22 May 08)*

Rating Rationale

- The ratings reflect Carlsberg Breweries A/S' (CB) strong market position in its core Nordic markets — as well as in France, Switzerland, Russia, Ukraine and the Baltic countries — following the joint-acquisition of Scottish & Newcastle (S&N) with Heineken NV; the relatively stable nature of the brewing business; and management's commitment to operational efficiency and to reduce the higher leverage reached following the S&N acquisition.
- The ratings also reflect CB's significant exposure to the currently weakening disposable income of Russian consumers (this market represents approximately 40% of annualised group profits), as well as to the adverse effects of having incurred acquisition debt mostly in euros against cash flow generation denominated in Russian roubles. While the company is cutting costs at its Russian operations to cope with reduced pricing power and stagnating demand, a portion of its local cost base is denominated in hard currency. These profits are losing value when repatriated to pay down euro-denominated debt.
- Had the S&N assets been fully consolidated in financial year 2008 (FY08), CB's adjusted operating EBITDAR would have been DKK12.8bn on an annualised basis. With financial year-end 2008 (FYE08) net debt of DKK47.3bn (including DKK6.5bn of debt due to CB's parent Carlsberg A/S (A/S)), Fitch Ratings calculates a FYE08 lease-adjusted net debt/operating EBITDAR of 3.7x.
- Fitch has forecasted CB's FY09 leverage in different scenarios: of a deterioration in demand for beer in CB's European markets, and also in terms of the performance of the Russian rouble. The agency takes comfort that CB has measures in place to reduce the adverse effect on cash flow of these challenges by cutting capex and costs; and that FY09 leverage should, at worst, remain unchanged at FYE08's annualised level, with sufficient headroom under its financial covenants. Consequently, the Outlook remains Stable.

Key Rating Drivers

- A significant adverse performance of CB's Russian business, impairing CB's ability to reduce its leverage comfortably below 3.5x by FY10, could have negative implications.

Recent Events

CB reported an encouraging set of results for the quarter ending March 2009. Operating profit, excluding acquisitions, was up by 23% versus Q108. Excluding currency effects as well, it was up by 34%. Volumes were down by 5% on an organic basis, however.

Liquidity and Debt Structure

For liquidity purposes, Fitch looks at the Carlsberg group's position on a consolidated basis at the level of A/S. At FYE08, the Carlsberg group had short-term external debt of DKK9.2bn, which was comfortably covered by cash of DKK2.8bn and undrawn facilities of DKK8.8bn mostly maturing in FY12. However, the group needs to raise new external resources in order to meet a lumpy maturity of DKK10.2bn coming up in October 2010. When computing CB's FY08 leverage ratios, Fitch has included a DKK6.5bn intra-group loan from A/S to CB. This loan ranks pari passu with external financial borrowings.

CARLSBERG BREWERIES A/S

Financial Summary

	31 Dec 2008 DKKm Original	31 Dec 2007 DKKm Original	31 Dec 2006 DKKm Original	31 Dec 2005 DKKm Original	31 Dec 2004 DKKm Original
INCOME STATEMENT					
Revenues	59,944.0	44,750.0	41,083.0	38,047.0	35,987.0
Revenue Growth	34.0	n.a.	8.0	5.7	3.9
EBIT	5,964.0	4,574.0	3,837.0	2,786.0	2,182.0
Interest Expense Net of Interest Income	2,387.0	854.0	831.0	828.0	682.0
Net Income	2,328.0	2,119.0	2,189.0	1,253.0	903.0
BALANCE SHEET					
Cash and Equivalents	2,729.0	2,026.0	2,267.0	2,120.0	1,745.0
Total Assets	130,335.0	49,830.0	45,820.0	50,206.0	44,519.0
Short-term Debt	9,165.0	3,711.0	6,217.0	6,749.0	4,769.0
Senior Long-Term Debt	40,841.0	16,162.0	11,865.0	14,671.0	14,447.0
Subordinated Debt	0.0	0.0	n.a.	n.a.	n.a.
Total Debt	50,006.0	19,873.0	18,082.0	21,420.0	19,216.0
Common Equity	42,138.0	11,723.0	10,956.0	11,798.0	9,569.0
Off-Balance Sheet Debt	464.0	608.0	0.0	0.0	0.0
Total Adjusted Capitalisation	97,838.0	33,500.0	18,082.0	21,420.0	19,216.0
Total Adjusted Debt	50,470.0	20,481.0	18,082.0	21,420.0	19,216.0
Preferred Stock + Minority Interests	5,230.0	1,296.0	1,368.0	1,511.0	1,568.0
CASH FLOW					
Operating EBITDAR (Op. EBITDAR)	11,051.0	7,635.0	6,321.0	5,335.0	5,306.0
Cash Interest Paid, Net of Interest Received	2,727.0	1,095.0	930.0	967.0	627.0
Cash Tax Paid	1,524.0	1,037.0	929.0	664.0	662.0
Associate Dividends	31.0	82.0	65.0	78.0	64.0
Other Changes before Funds From Operations**	-472.0	-202.0	169.0	198.0	-202.0
FUNDS FROM OPERATIONS	6,359.0	5,383.0	4,696.0	3,980.0	3,879.0
Working Capital	1,709.0	-199.0	241.0	940.0	288.0
CASH FLOW FROM OPERATIONS	8,068.0	5,184.0	4,937.0	4,920.0	4,167.0
Non-Operational Cash Flow*	-922.0	-3.0	1,338.0	1,336.0	2,963.0
Capital Expenditure	5,292.0	4,929.0	3,188.0	3,009.0	2,363.0
Dividends Paid	1,038.0	672.0	1,048.0	952.0	3,478.0
FREE CASH FLOW	816.0	-420.0	2,039.0	2,295.0	1,289.0
Receipts from Asset Disposals	374.0	339.0	305.0	490.0	n.a.
Business Acquisitions	52,315.0	179.0	576.0	2,117.0	4,785.0
Business Divestments	300.0	0.0	1,946.0	n.a.	n.a.
Exceptional & Other Cash Flow Items	113.0	-143.0	-200.0	-1,655.0	124.0
NET CASH IN/OUTFLOW	-50,712.0	-403.0	3,514.0	-987.0	-3,372.0
Equity Issuance/(Buyback)	24,000.0	0.0	n.a.	n.a.	n.a.
FX movement	-30.0	-82.0	-77.0	50.0	-32.0
Other Items Affecting Cash Flow**	-2,688.0	-1,547.0	48.0	-892.0	-943.0
NET CASH FLOW AVAILABLE FOR FINANCING	-29,430.0	-2,032.0	3,485.0	-1,829.0	-4,347.0
CLOSING NET DEBT	47,277.0	17,847.0	15,815.0	19,300.0	17,471.0
PROFITABILITY					
Op. EBITDAR/Revenues (%)	18.4	17.1	15.4	14.0	14.7
EBIT/Revenues (%)	10.0	10.2	9.3	7.3	6.1
FFO Return on Adjusted Capital (%)	9.2	19.3	18.7	14.2	15.8
CREDIT RATIOS					
Funds From Operations/Gross Interest Expense (x)	3.4	6.3	5.8	5.2	5.2
FFO Fixed Charge Cover (x)	3.4	6.0	5.8	5.2	5.2
Op. EBITDAR/Net Fixed Charges (x)	4.5	8.2	7.6	6.4	7.8
Adjusted Leverage/FFO (x)	5.6	3.2	3.2	4.4	4.0
Total Adjusted Debt Net of Cash/Op. EBITDAR (x)	4.3	2.4	2.5	3.6	3.3
Total Adjusted (Recourse) Debt/Total Adjusted Capitalisation (%)	51.6	61.1	59.5	61.7	63.3

Off Balance sheet debt reflects 8 times gross rent expense plus off balance sheet debt with full/limited recourse.
* Includes Analyst Estimate
** Balancing Item