MOODY'S
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Credit Opinion: Carlsberg Breweries A/S

Global Credit Research - 30 Apr 2010

Copenhagen, Denmark

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured	Baa3

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Key Indicators

[1]**Carlsberg Breweries A/S**

	2009	2008	2007
EBITA Margin	**15.9%**	**13.6%**	**11.1%**
FFO/ Net Debt	**22.0%**	**13.2%**	**26.2%**
RCF/ Net Debt	**21.3%**	**11.3%**	**23.2%**
FCF/Debt	**22.2%**	**1.4%**	**-1.1%**
Debt/ EBITDA	**3.6x**	**4.8x**	**3.1x**
EBIT/ Interest Expense	**3.4x**	**2.4x**	**3.7x**

[1] All ratios are adjusted as per Moody's Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations - Part II, February 2006

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Corporate Profile

Based in Denmark, Carlsberg Breweries A/S ("CB") is 100%-owned by Carlsberg A/S. CB is one of the world's largest brewers in terms of volumes, producing and distributing a wide range of beer brands including the leading Carlsberg and Tuborg beers, as well as regional brands (e.g. Baltika, Kronenbourg, Holsten), soft drinks and bottled water. In 2009, CB produced 137 million hectolitres of beer and posted total net revenues of DKK59.4 billion (about US$11 billion). The group's international expansion culminated in 2008 with its purchase of certain assets of Scottish & Newcastle ("S&N"), including the 50% stake CB did not own in Baltic Beverage Holding ("BBH"), a leading brewing company with, notably, a controlling stake in Eastern European brewer Baltika Breweries.

Rating Rationale

CB's Baa3 long-term issuer rating is underpinned by: (i) the group's scale as one of the world's largest brewers, with leading positions in some of its key European markets, including France; (ii) its overall well-diversified revenue base; and (iii) its prospects for enhanced profitability in the future, spurred by its leading position in Russia through its fully owned subsidiary Baltika Breweries, which has delivered operating margins that are above the group average. Moody's also recognises the successful de-leveraging strategy implemented by CB since the completion of the acquisition of certain assets of S&N in 2008, which helped reduce group indebtedness, leading to an improvement in its credit metrics in 2009. At the same time, the rating takes into account CB's increased exposure to emerging markets, in Eastern Europe specifically, which represented more than 55% of the group's total operating profit in 2009.

The key rating factors of Moody's Global Rating Methodology for the Alcoholic Beverage Industry position CB's rating at Baa2, based on figures at FYE 2009 or one notch above the actual rating of Baa3 reflecting the improvement in the credit metrics in the past year, in particular the significant increase in free cash flow generation on the back of a more moderate investment and a strong working capital inflow. On the other hand, we expect CB to continue to face a challenging trading environment in particular in its key Russian market where a significant increase in excise duties on beer entered into effect in January 2010, and the fact that the credit metrics remain below the targets set for Moody's to consider a positive rating action.

Rating Drivers

Factor 1 - Scale and Diversification

CB ranks as the world's fourth largest beer company in volumes, behind Anheuser-Busch InBev (Baa2/positive), SABMiller (Baa1/stable) and Heineken (not rated). CB has achieved its growth through expanding into the fast-growing markets of Asia and Eastern Europe, as well as through acquisitions. CB's beer production volumes and net sales stood at 137 million beer hectolitres and DKK59.4 billion (or approximately US$11 billion) in 2009, respectively. The group scores "A" for the sub-factor "Scale" according to Moody's methodology.

CB's core business is the production and distribution of beer and its portfolio comprises more than 20 major brands, led by Baltika, Kronenbourg, Carlsberg and Tuborg. These brands have proved instrumental in reinforcing the group's brand equity internationally and regionally. The Baltika brand ranked among the top 15 brand families worldwide in 2008 (in volumes), according to Impact Databank, an industry data provider. CB also has licence agreements to produce soft drinks: in 2009, soft drinks represented approximately 14% of the group's total sales volumes.

CB has expanded its activities outside of Northern and Western European markets - where per-capita beer consumption is relatively high but growth of beer volumes has been subdued - into developing countries in Asia (mainly China, India, Vietnam and Malaysia) and Eastern Europe, which generally display high potential for growth.

Offsetting these promising growth prospects is CB's high exposure to Eastern Europe, especially to Russia, which represented the bulk of the operating profit generated in the group's Eastern European division in 2009 (DKK5.3 billion, or 56% of group profit). In particular, Moody's notes the sensitivity of CB's earnings to the evolution of the Russian rouble, which depreciated by an average of 20% in 2009 and contributed to the DKK4.7 billion negative impact on the group's reported net revenue in 2009.

Overall, Moody's considers that Carlsberg maps to a "single-A" rating for the sub-factor "Product/brand diversification" and "Ba" for "Geographic diversity".

Factor 2 - Franchise Strength and Growth Potential

CB is the fourth largest brewer worldwide and holds a dominant position in the Nordic markets, France (through Brasseries Kronenbourg), Russia and Ukraine and has a solid presence in some of Europe's largest markets, namely Northern Germany, the UK (number 4), Portugal (number 1) and Switzerland (number 1). In Russia, CB estimated its market share to be 40.6% in 2009, well ahead of the number two and three players, Anheuser-Busch InBev (16.9%) and Heineken (13.2%). Moody's views CB's quality of brand portfolio and market position as being commensurate with the "A" rating category.

In the long term, Moody's expects CB's growth to be supported by its geographic mix, which is skewed towards the faster-growing Eastern European countries. However, the economic downturn has put a strain on beer consumption: group organic beer volumes declined by 4% in 2009, with volumes decline reported across all major markets except Asia. Against this backdrop, CB's organic revenue growth was flat as negative volumes development was mitigated by positive price and mix effects of 4%.

In 2010, trading conditions are expected to remain challenging, albeit gradually improving in the second half of the year. CB expects a low-double-digit market decline in Russia, reflecting the still challenging consumer spending

environment and a tightened regulatory environment, which translated into a 200% increase in excise duties on beer from 1 January 2010.

Furthermore, CB's business profile is underpinned by its efficient distribution infrastructure, enhanced recently by the group's roll-out of best practices in the logistical processes and supply chain, to increase efficiency from the delivery of raw materials to the sale to end-customers. As part of the integration programme of certain assets of S&N, CB delivered annualised synergies of DKK970 million in 2009, out of an estimated DKK1.3 billion that the group targeted for the third full year after the transaction.

Factor 3 - Profitability and Efficiency

Despite the challenges discussed above, CB's EBITA margin, as adjusted by Moody's, improved notably in 2009 to 15.9%, from 13.7% in 2008, as the group reaped the benefits of: (i) a full year of consolidation of BBH; (ii) synergies from the acquired assets; and (iii) a more benign input cost environment in its Eastern European division. According to our methodology, CB's profitability is commensurate with the "single-A" rating category.

Whilst CB's level of profitability remains below that of its rated peers, Moody's believes that the group's profitability will continue to grow in the future given that BBH boasts a considerably higher profitability level than the rest of the group: the Eastern Europe division reported an operating margin (before special items) of 28.5% in 2009, compared with 15.9% for the group as a whole. In other regions, profitability is negatively impacted by: (i) the structurally subdued beer volume trends; (ii) tough local and international competition in most Western European markets, such as the UK; and (iii) CB's high exposure to the off-trade (e.g. off-licences, supermarkets), where margins are usually lower than in the on-trade (e.g. public houses, hotels, clubs).

Moody's positively notes that CB has set new higher medium-term internal targets, such as an operating margin for the whole group of around 20%. The main adjustment was made to CB's Northern and Western Europe division, for which the operating margin target was revised to 15-17% from 14-16% before. In these divisions, the group undertook some important changes to rationalise its production capability and increase operational efficiency, notably through the closure of breweries in Germany, Finland, and Norway, and turnaround plans in France and the UK.

Factor 4 - Financial Policy and Credit Metrics

Moody's recognises CB's continued commitment to reducing group indebtedness, which increased following the acquisition of certain S&N assets in 2008. In 2009 there was a significant improvement in CB's reported net debt/EBITDA ratio, which stood at 2.7x, helped by a full year's contribution to earnings from BBH, in line with management's self-imposed target of "below 3.0x", as well as an improvement in Moody's adjusted key credit metrics from the methodology. The credit metrics scored, on average, in the "Baa" rating category; by the end of 2009, retained cash flow (RCF)/net debt was 21.3% and debt/EBITDA stood at 3.6x, which is broadly in line with Moody's requirement for a Baa3 rating with a stable outlook (set at RCF/net debt above 18% and debt/EBITDA below 3.5x).

Moody's also notes that CB owns land in Copenhagen, which it is in the process of selling. If and when monetised, this would bring a degree of financial flexibility to Carlsberg A/S, although Moody's does not currently factor any benefit into the rating.

Liquidity Profile

Moody's views CB's liquidity as satisfactory, underpinned by cash balances of DKK2.7 billion at FYE 2009 and recurring operating cash flows generated by the group's brewing activity. Going forward, we expect the group's free cash flow to benefit from a moderate investment policy. CB's liquidity profile is further supported by its access to undrawn committed bank credit facilities totalling approximately DKK9.4 billion at FYE 2009. These include: (i) a five-year EUR 1.225 billion multicurrency revolving credit facility maturing in 2012, which contains a material adverse change (MAC) clause deemed to be repeated but no financial covenants; and (ii) approximately DKK25 billion in bank loans with maturities of up to five years, subject to a financial covenant that required CB's net debt/EBITDA ratio to be below 4.0x by the end of December 2009.

CB has moderate debt repayments in the next 24 months, consisting of approximately DKK3 billion in bank debt in 2010 followed by a similar amount in 2011, principally bonds. Scheduled debt repayments will peak in two to three years when certain tranches of the acquisition financing contracted in 2008 will come due.

Rating Outlook

The stable outlook reflects CB's relatively stable operating profile and cash flow generation, as well as Moody's expectation that the group will maintain a conservative financial policy. In that respect, we take note of the group's commitment to maintain an investment-grade rating.

In order to maintain its current Baa3 long-term issuer rating with a stable outlook, Moody's would expect CB to meet the following credit metrics and to maintain them: RCF/net debt above 18% and debt/EBITDA below 3.5x.

What Could Change the Rating - Up

To consider a positive rating action, Moody's would expect CB's profitability to continue to improve and CB (and Carlsberg A/S) to improve and sustain credit metrics, including: funds from operations/net debt at around 30%, RCF/net debt above 20% and debt/EBITDA below 3.0x.

What Could Change the Rating - Down

Downward pressure on the rating and/or the outlook would be exerted if CB and/or Carlsberg A/S fail to meet the expected credit metrics (as indicated in the "Rating Outlook" section), as a result of a weakening in operational performance or corporate activity.

Rating Factors

Carlsberg Breweries A/S

Alcoholic Beverage Industry	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Scale & Diversification (22.5%)							
a) Global Net Sales			US$11.1				
b) Diversification by Market					X		
c) Product/Brand Diversification			X				
Factor 2: Franchise Strength & Growth Potential (22.5%)							
a) Efficiency of Distribution Infrastructure				X			
b) Quality of Brand Portfolio and Market Position			X				
c) Innovation and Organic Revenue Growth				X			
Factor 3: Profitability & Efficiency (19%)							
a) Efficiency/Potential for Cost Reduction			X				
b) Profitability (EBITA Margin)			15.9%				
c) Return on Avg Assets (EBITA / Avg. Assets)						7.3%	
Factor 4: Financial Policy & Credit Metrics (36%)							
a) Financial Policy				X			
b) FFO / Net Debt				22.0%			
c) Debt / EBITDA					3,6x		
d) RCF / Net Debt				21.3%			
e) EBIT / Interest Expense					3,4x		
f) Free Cash-Flow / Debt		22.2%					
Rating:							
a) Indicated Rating from Methodology				Baa2			
b) Actual Rating Assigned				Baa3			

Note: Numbers as at FYE 2009

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