

ANALYSIS

Carlsberg Breweries A/S

Copenhagen, Denmark

Table of Contents:

SUMMARY RATING RATIONALE	1
CORPORATE PROFILE	1
MANAGEMENT STRATEGY	2
RATING DRIVERS	2
MOODY'S RELATED RESEARCH	8
APPENDICES	9

Analyst Contacts:

PARIS	33.1.70.70.22.29
Yasmina Serghini-Douvin	33.1.5330.1064
<i>Assistant Vice President-Analyst</i>	
Yasmina.Serghini-douvin@moodys.com	
Marie Fischer-Sabatie	33.1.5330.1056
<i>Vice President-Senior Analyst</i>	
Marie.Fischer-Sabatie@moodys.com	
Eric de Bodard	33.1.5330.1040
<i>Managing Director-Corporate Finance</i>	
Eric.deBodard@moodys.com	

Summary Rating Rationale

The Baa2 rating recognises:

- i. Overall stability of operating cash flows underpinned by a diversified revenue base across Europe and Asia
- ii. One of the largest brewers in the world, exhibiting enhanced profitability since 2008. Margins remain below those of comparable peers but prospect for further improvement
- iii. High exposure to Russia, inducing some operational risk which may lead to cash flow volatility
- iv. Enhanced credit metrics in 2010, driven by improved operating performance and ability to reduce debt. Further de-leveraging expected
- v. Debt mainly raised at the level of CB (moderate amount of debt at the level of operating subsidiaries)
- vi. Satisfactory liquidity profile and manageable refinancing needs

Corporate Profile

Headquartered in Copenhagen, Denmark, Carlsberg Breweries A/S ("CB", rated Baa2/outlook stable) is a leading player in the global beer industry. It notably owns leading beer brands Carlsberg and Tuborg and regional brands such as Baltika, Kronenbourg and 1664. In the UK, Nordic and Baltic countries, it also produces, markets and distributes soft drinks.

This Analysis provides an in-depth discussion of credit rating(s) for Carlsberg Breweries A/S and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](http://www.moodys.com).

FIGURE 1

Key Operational Indicators

FY 2010	Beer Volumes (Million HL)	Net Revenue DKK Million	Operating ProfitDKK Million	Operating Margin(%)	Invested Capital DKK Million
Northern & Western Europe ("NWE")	49.5	36,156	5,086	14.1	28,216
Eastern Europe ("EE")	46.8	18,187	5,048	27.8	67,553
Asia	17.9	5,613	1,044	18.6	10,808

Source: Carlsberg preliminary results 2010

Management Strategy

Part of CB's strategy is to extend its international footprint beyond the more mature and competitive Northern and Western European markets, where per-capita beer consumption is relatively high but volume growth is low. The group has expanded its operations in developing countries in Eastern Europe (mainly Russia) and Asia (mainly China, India and Vietnam). These markets generally display higher potential for growth.

CB's geographic expansion was primarily achieved through acquisitions, which culminated in 2008 when the group purchased, together with Heineken (not rated), certain assets of Scottish & Newcastle ("S&N"). This transaction gave CB full ownership of Baltika, establishing the group as the market leader in Russia, the world's third-largest beer market behind China and the United States.

Going forward, we expect CB to continue its initiatives to grow its margins further. In February 2010, the group raised its profit targets to a more ambitious level, aiming for an operating margin of 15-17% in Northern and Eastern Europe, 26-29% in Eastern Europe and 15-20% in Asia: in total, CB now targets an operating margin for the group of 20%, compared with 17.1% in 2010. The group expects to achieve this through: (i) increased production efficiencies; (ii) the streamlining of its cost base; (iii) commercial initiatives; and (iv) the building of a solid premium brand portfolio in emerging countries.

In addition, CB illustrated in 2010 its intention to pursue external growth in Asia¹. Given the degree of fragmentation of the Asian beer market, its growth potential and management's ambition in this sector, Moody's expects CB to make more transactions in the region in the near future. The group's acquisitions amounted to DKK2.7 billion in 2010 and they were financed with free cash flow.

Rating drivers

To assess the credit quality of alcoholic beverage companies, Moody's factors into the ratings a range of qualitative and quantitative factors, which are summarised in Appendix 1 (in line with Moody's Global Rating Methodology for the Alcoholic Beverage, published in September 2009). The main credit considerations are discussed below.

¹ Increased shareholding in the Wusu Xinjiang Group in China and Gorkha Brewery in Nepal

One of the top brewers globally showing enhanced operational performance

CB ranks as the world's fourth-largest beer company in terms of volumes, behind Anheuser-Busch InBev (Baa1/stable), SABMiller (Baa1/stable) and Heineken (not rated). Among others, it holds number one positions in Scandinavia, Russia and France, with market shares of approximately 50%, 40% and 30%, respectively. In 2010, the group generated revenues of DKK60.1 billion (approximately US\$10.8 billion) compared with DKK44.8 billion in 2007, before the acquisition of certain assets of S&N. In the same period, CB enhanced its operating margin,² which increased to 17.1% in 2010.

CB's performance proved resilient in the past two years, against a backdrop of challenging economic conditions, adverse country mix and less favourable price/mix effects in most of its markets.

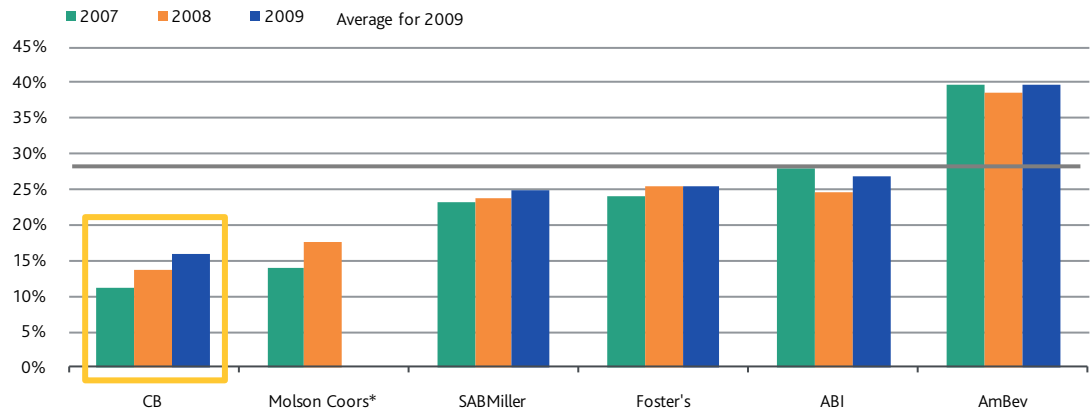
In 2010, CB's organic beer volumes declined by 1% (up 1% excluding the effects from Russian stock-building in Q4 2009), and its organic revenue growth fell 3%, reflecting pressures on volumes and negative price/mix, not quite offset by a favourable currency impact. Albeit still small, the group's Asian businesses grew dynamically (+17% and +14% in 2010 and 2009, respectively), supporting its revenue growth.

At the same time, CB's reported operating profit grew by 9%. Although Eastern Europe posted a lower operating margin (down 70 basis points to 27.8%) as a result of higher input costs, marketing investments and a negative country mix, the region continues to boost the group's overall profitability to 17.1%.

Most importantly, management pursued its initiatives to reduce its cost base and improve efficiencies in the organisation. This included, among others: (i) the delivery – ahead of schedule – of DKK1.3 billion in synergies from the acquisition of certain assets of S&N; (ii) the turnaround of CB's operations in the UK, France and Norway; and (iii) a rationalisation of the group's production capabilities in the more challenging Northern and European markets. CB closed three breweries in Finland, Germany and Norway in 2009 and a further two, in Switzerland and in the UK, will close in 2011.

² Based on operating profit before special items as reported by the company.

FIGURE 2
Adjusted EBITA margin CAB vs. Main Peers 2007-2009



* 2009 figure not included for Molson Coors as not comparable after the establishment of a JV with SABMiller (MillerCoors)
Source: Moody's Financial Metrics

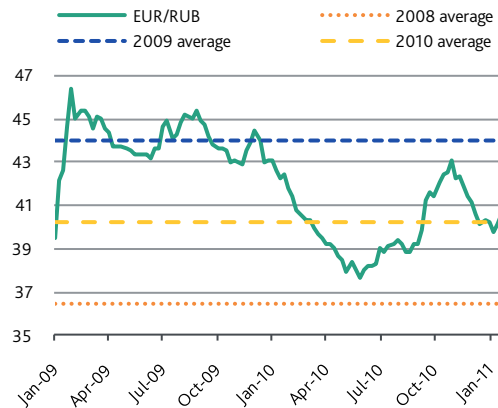
CB's level of profitability is catching up with that of its rated peers, although it remains well behind that reported by the global leaders Anheuser-Busch InBev (above 25%) and SABMiller. Looking ahead, despite the growing pressure on costs and still subdued beer consumption, Moody's expects CB's profitability to further improve towards its more ambitious medium-term internal targets of an operating margin for the whole group of around 20% and between 15-17% in Northern and Western Europe.

CB has generated relatively stable cash flows despite a great exposure to more volatile Eastern European markets

The affordability of beer supports the relatively low cyclical nature of the industry, as consumers continue to drink in both good and bad times and provides resilience and predictability to cash flows. CB has enhanced its diversification with operations across Europe and – to some extent – Asia (see Figure 1).

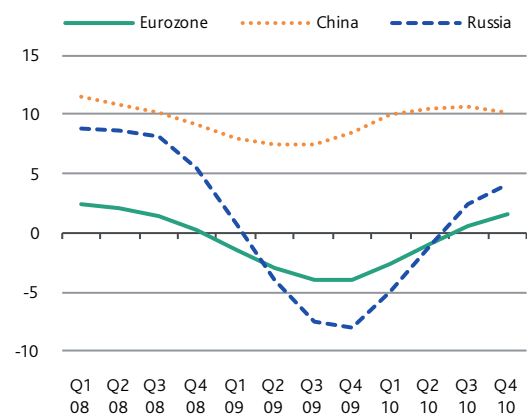
Balancing the above is CB's high exposure to Eastern European markets – which accounted for 49.3% of its operating profit before special items in 2010 – and to those within Russia. This entails higher volatility, notably in terms of: (i) currency; (ii) generally lower visibility and transparency in fiscal policies; and (iii) the relative weakness of local institutions. In 2009 and 2010, we observed fluctuations in the Russian rouble against the euro (the average annual rate was down 20.5% in 2009 and up 9% in 2010). In addition, the sharp increase in beer excise duty that took place in Russia in January 2010 led to an estimated 6% decline in CB's volumes in 2010. The group decided to progressively reflect the duty increase in its consumer prices, which rose by 25% on average in 2010 in Russia. In 2011, Moody's expects CB's operations to benefit from confirmed signs of recovery in Eastern Europe and a dynamic sales trend in Asia, offsetting a still subdued environment in Northern and Eastern Europe.

FIGURE 3

RUB vs EUR

Source: OANDA

FIGURE 4

GDP growth in CB's principal markets

Source: Moody's Economy.com

CB's successful execution of its de-leveraging plans led to further improvement in the group's credit metrics in 2010

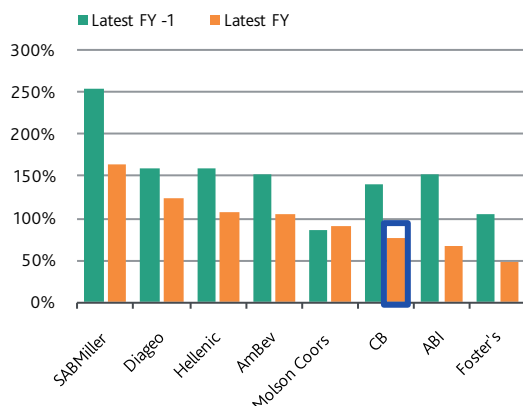
CB's adjusted credit metrics have improved significantly since 2008, and on average positioned the group more comfortably in the Baa rating category in 2010. A solid generation of operating cash flows and the absence of dividend payments to the parent company in 2009 and 2010 led to an increase in the group's ratio of retained cash flow (RCF)/net debt. Similarly, CB's free cash flow (FCF)/debt ratio – which was very low, if not negative, before 2008 – benefited from:

- i. better working capital management, with an unusually high inflow of DKK3.1 billion in 2009 and a still positive, although much lower, inflow of DKK0.7 billion in 2010;
- ii. a moderation in capital expenditures (capex) after two years of important investments in the business in 2007 and 2008: CB's unadjusted capex/depreciation ratio was 84%, 74% and 146% in 2010, 2009 and 2008, respectively.

Consequently, Moody's estimated CB's leverage at the end of 2010 – defined as the ratio of debt/EBITDA (on a gross debt basis, as adjusted by Moody's) – to be approximately 3.0x.

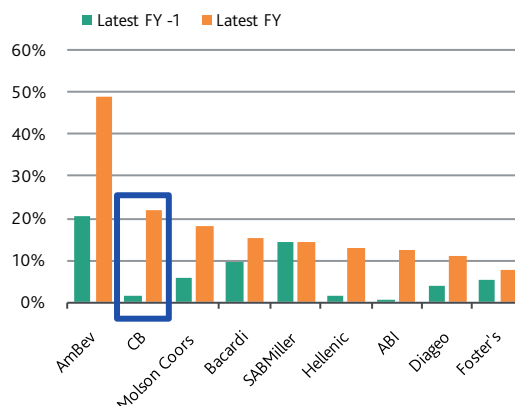
Going forward, Moody's expects that management will pursue its broadly prudent financial policy. We would also expect CB to achieve a further reduction in its net debt, despite expected increases in investments in the business and selective acquisitions in the growing markets of Asia, which will constrain the pace of further FCF generation.

FIGURE 5

Capex / Depreciation Ratio

Source: Moody's Financial Metrics

FIGURE 6

FCF / DEBT ratio

Source: Moody's Financial Metrics

FIGURE 7

Adjusted ratios and implied ratings

	2008		2009		2010 estimates
FFO/Net Debt	13.2%	B	22.0%	Baa	Baa
RCF/Net Debt	11.3%	B	21.3%	Baa	A
FCF/ Debt	1.4%	B	22.2%	Aa	A
EBIT/Interest Expense	2.4x	B	3.4x	Ba	Baa
Debt/EBITDA	4.8x	B	3.6x	Ba	Baa

Source: Moody's Financial Metrics

CB's group structure entails minor structural subordination

CB is a wholly owned subsidiary of Carlsberg A/S, which has full control of the entity (see "Appendix 3: summary group structure chart"). Therefore, Moody's analyses the Carlsberg group as a whole, as well as CB's own metrics and business profile, and the location of the debt within the different entities of the Carlsberg group.

Following repayments of external debt made by Carlsberg A/S and financing activity conducted by CB in recent years, most of the Carlsberg group's debt is located at the level of CB. Although CB's debt is senior to that located at Carlsberg A/S, the existence of debt at CB's operating subsidiaries also creates a degree of subordination for CB's debt-holders.

Moody's views CB's creditworthiness as being commensurate with the average credit strength of the Carlsberg group as a whole. Our assessment of CB's ratings factors in our expectation that the credit metrics of CB will remain at least as strong as those of Carlsberg A/S (on a consolidated basis).

CB displays a satisfactory liquidity profile

Moody's views CB's liquidity as satisfactory, underpinned by cash balances of DKK2.6 billion at FYE 2010 and recurring operating cash flows generated by the group's brewing activity. CB's liquidity profile is further supported by its access to undrawn committed bank credit facilities of approximately DKK9 billion at FYE 2010. CB refinanced part of the S&N acquisition facilities in 2010 through the issuance of a seven-year bond of €1 billion and a new five-year €1.75 billion credit facility, which are in addition to the group's existing committed bank lines. Notably, these include a €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.

The refinancing completed in 2010 extended some of the debt maturities such that CB has moderate debt repayments in the next 12 months, with the next significant maturity being a £250 million bond due in December 2011.

Moody's Related Research

Analyses

- » [Anheuser-Busch InBev, March 2011 \(131788\)](#)
- » [Diageo Plc, November 2010 \(128703\)](#)
- » [SABMiller Plc, November 2010 \(128214\)](#)
- » [Pernod Ricard, March 2010 \(123180\)](#)

Rating Methodologies

- » [Moody's approach to global standard adjustments in the analysis of financial statements for non-financial corporations, December 2010 \(128137\)](#)
- » [Global Alcoholic Beverage Rating Methodology, September 2009 \(119889\)](#)
- » [Guideline Rent Expense Multiples for Use with Moody's Global Standard Adjustment to Capitalize Operating Leases, February 2006 \(96830\)](#)

Industry Outlook

- » [Global Beverage Industry Outlook "Beverage Volumes Inch Up Amid Slow Economic Recovery", October 2010 \(128232\)](#)

Special Comment

- » [European alcoholic beverage companies: Despite hefty purchases made during the downturn, debt hangover reduced, August 2010 \(127178\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Appendices

Appendix 1: Grid

Carlsberg Breweries A/S

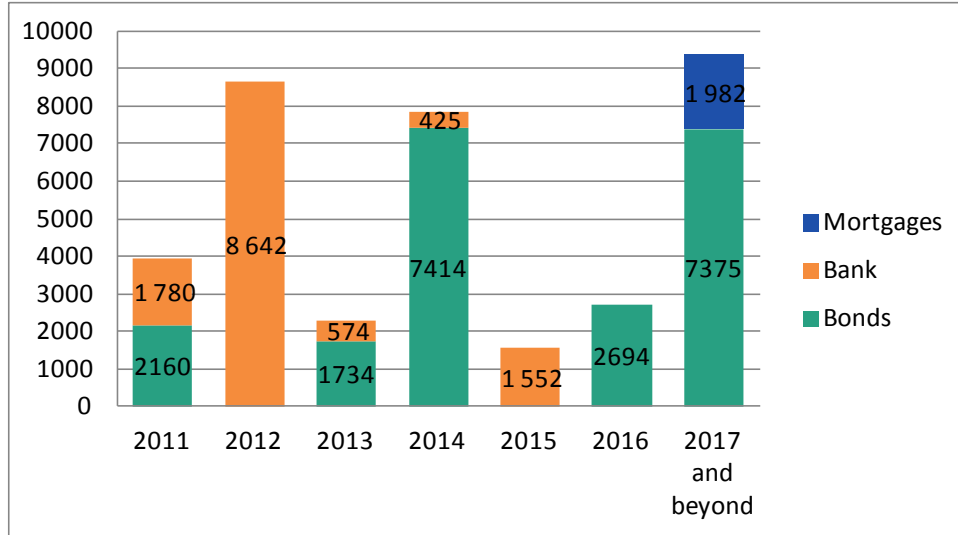
Alcoholic Beverage	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Scale & Diversification (22.5%) [1] [2]							
a) Global Sales (USD Billion)			X				
b) Diversification by Market and Exposure to Riskier Markets					X		
c) Product/Brand Diversification			X				
Factor 2: Franchise Strength & Growth Potential (22.5%)							
a) Efficiency of Distribution Infrastructure				X			
b) Quality of Brand Portfolio and Market Position							
c) Innovation and Organic Revenue Growth			X				
				X			
Factor 3: Profitability / Efficiency Flexibility (18.9%) [1] [2]							
a) Efficiency / Potential for Cost Reduction			X				
b) Profitability (EBITA Margin)							
c) Return on Average Assets (EBITA / Average Assets)			X				X
Factor 4: Financial Policy And Credit Metrics (36.1%) [1] [2]							
a) Financial Policy				X			
b) FFO / Net Debt				X			
c) RCF / Net Debt			X				
d) FCF / Debt			X				
e) EBIT / Interest Expense				X			
f) Debt / EBITDA				X			
Rating:							
a) Indicated Rating from Grid				Baa			
b) Actual Rating Assigned				Baa2			

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, Part 2 and Part 3". In addition, Moody's adjusts for one-time items

[2] Estimates as of 31 December 2010; Source: Moody's Financial Metrics™.

Appendix 2: Debt maturity profile

Carlsberg's Debt maturity Schedule



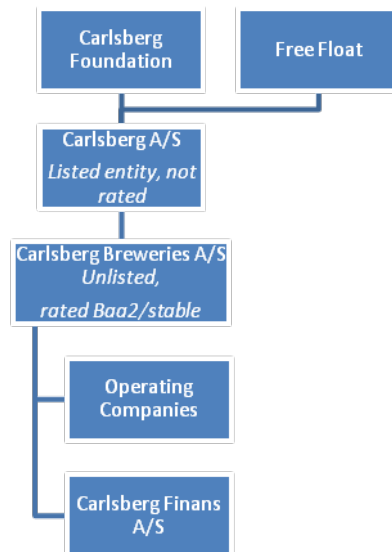
Source: Carlsberg 2010 preliminary report

Appendix 3: Group summary structure chart

CB is a wholly owned subsidiary of Carlsberg A/S which, besides its core beverage business, has other, smaller activities comprising real estate development.

The parent company's largest shareholder is the Carlsberg Foundation – created in 1876 by Carlsberg's founder, J.C. Jacobsen – which owns 30% of the share capital of Carlsberg A/S and 73% of the voting rights (through a combination of A shares, which each carries 20 votes, and B shares, which each carries two votes).

According to its charter, the foundation must hold at least 51% of the votes and more than 25% of the share capital of Carlsberg A/S at all times. Carlsberg A/S shares trade on the Nasdaq OMX Copenhagen A/S Stock Exchange.

Ownership

Source: Carlsberg Breweries, Moody's.

Report Number: 131907

Authors

Yasmina Serghini-Douvin
Eglantine de Muizon

Production Associate

Amanda Ealla

© 2011 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK".

MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.