Carlsberg A/S

Q1 2021 Trading Statement

Conference Call

28 April 2022

with:

CEO Cees 't Hart and
CFO Heine Dalsgaard

PARTICIPANTS

Corporate Participants

Cees 't Hart – Chief Executive Officer, Carlsberg A/S
Heine Dalsgaard – Chief Financial Officer, Carlsberg A/S

Other Participants

Edward Mundy – Analyst, Jefferies International Ltd.
Fintan Ryan – Analyst, JPMorgan Securities Plc
André Thormann – Analyst, Danske Bank A/S
Andrea Pistacchi – Analyst, Bank of America
Simon Hales – Analyst, Citigroup Global Markets Ltd.
Laurence Whyatt – Analyst, Barclays Investment Bank
Tristan van Strien – Analyst, Redburn (Europe) Ltd.
Søren Samsøe – Analyst, SEB Enskilda (Denmark)
Mitch Collett – Analyst, Deutsche Bank AG (Broker UK)
Trevor Stirling – Analyst, Sanford C. Bernstein
Pinar Ergun – Analyst, Morgan Stanley Securities Ltd.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to Carlsberg Q1 2022 Trading Statement. For the first part of this call, all participants are in a listen-only mode. Afterwards, there will be a question-and-answer session. [Operator Instructions] This conference call is being recorded.

I'll now hand it over to the speakers. Please begin.

Cees 't Hart, Chief Executive Officer, Carlsberg A/S

Good morning, everybody, and welcome to Carlsberg's Q1 2022 Conference Call. My name is Cees 't Hart, and I have with me CFO, Heine Dalsgaard; and Vice President Investor Relations, Peter Kondrup.

I will provide the headlines for the quarter, and Heine will take you through the accounting implications from the decision to sell the Russian business, and the full-year outlook. Please turn to slide 3.

It was a turbulent quarter for Carlsberg due to the war in Ukraine, which affects us very much. We are deeply touched by the extent of the human tragedy, and our first priority remains the safety and well-being of our Ukrainian colleagues.

We have taken many initiatives to protect and help our people and the surrounding communities in Ukraine. To mention a few, for safety reasons, we suspended all three breweries immediately after the invasion. We advanced bonus payments and we continue to pay salaries to all employees. We account for our employees on a daily basis. We have set up shelter facilities for employees and families at the Lviv Brewery. Our Polish team takes care of our Ukrainian employees and families who flee to Poland. We produce drinking water to local communities. And, finally, we have, together with the Carlsberg and Tuborg Foundations, donated DKK 75 million in humanitarian help.

As a consequence of the war, we carried out a thorough strategic review of our presence in Russia. And based on this review, we made the difficult decision to divest our business in Russia. While this was indeed a landmark decision, we believe it is the right thing to do in the current environment.

Although the war in Ukraine requires significant attention, we also assure that most of our employees focus on the short- and long-term health of the more than 90% of our business that is not impacted by the war. As a result, we delivered strong performance for the quarter with strong volume and revenue per hectoliter growth.

The 9.1% organic volume growth was mainly driven by the on-trade reopening in Western Europe and a strong start to the year in many Asian markets, and with particularly well-executed Chinese New Year in China. On a like-for-like basis, group volumes are now approximately 10% above the pre-pandemic level in Q1 2019. Revenue per hectoliter grew strongly by 13%, driven by a combination of a positive channel mix due to the much improved on-trade channel compared with the beginning of 2021; a positive country mix; and the implementation of price increases in several markets. As a result, organic revenue growth was 23.6%. And on a like-for-like basis, revenue was approximately 15% above pre-pandemic 2019 levels.

Please turn to slide 4, and a brief update on some of our key categories and channels. On the back of good growth in Q1 2021, the growth trajectory for our alcohol-free brews continued with 7% growth in Q1. We saw very good progress in most markets, but overall Group performance was a bit muted due to the volume decline in Ukraine.

Likewise, our craft and specialty volumes continue to deliver solid growth rates. Volume grew 8% with China and France being the key growth markets this quarter. Brands such as Grimbergen and Brooklyn delivered high growth, with Brooklyn in particular benefiting from the on-trade recovery. The brand reported more than 60% growth, albeit from a low base.

1664 Blanc only grew modestly. It continued strong performance in the key market like China, while Poland and South Korea declined. Somersby had a soft quarter due to the declining Polish market. The on-trade channel is recovering very nicely and we saw around 30% volume growth in the on-trade channel. This was particularly driven by Western Europe, as Q1 last year was heavily impacted by restrictions and most restrictions were lifted in many markets during Q1 this year.

Please turn to slide 5, and Western Europe, which delivered a very healthy growth in both volume and revenue, supported by easy comparables. Volumes grew organically by 15.4%. This strong growth was driven by the rebound of on-trade, which was more or less closed during the first quarter of 2021. Off-trade volumes therefore also saw a small decline. The 18% growth in revenue per hectoliter benefited from the positive channel mix in addition to country mix, and also price increases in some markets. Organic revenue was up 36.2%. Including the impact of currencies, reported revenue growth was 38.4%. Our alcohol-free brews delivered volume growth of 13%, supported by brands such as Tourtel in France and Carlsberg 0.0 in markets such as Sweden, Poland and Germany.

We saw a mixed volume development in the Nordics. Denmark, Sweden, and Finland posted double-digit growth rate. In all markets, on-trade was an important driver of growth. The volume decline in Norway was impacted by the reopened borders to Sweden and less promotional activity compared with last year. In all Nordic markets, the non-beer portfolio performed very well.

Volumes were up more than 20% in both France and Switzerland, supported by very good progress for our craft & speciality and alcohol-free brews portfolios. The Pepsi franchise in Switzerland had a good start from a very low level. In Poland, alcohol-free brews continued to grow. However, the total market was impacted by the accelerating inflation, price and tax increases on beer, as well as the war which all negatively impacted consumer offtake. Our volumes declined by high single digit percentages, in line with the market. Volumes in the UK were significantly up organically versus last year by more than 60%. Key drivers were the reopening of the on-trade and market share gains which were supported by very good growth for the Carlsberg brand.

Please go to slide 6, and Asia where we had a good start to the year, helped by good execution of the Chinese New Year activities. Volumes grew by 10.5%, driven by growth in all markets but India and Hong Kong. The revenue per hectoliter improvement of 5% was the result of premiumization and price increases. Our international brand portfolio, including Carlsberg, Tuborg and Blanc, grew volumes. Organic revenue growth was 16.5%, while reported revenue growth was 20.7%. The higher reported growth was because of the positive currency impact partly offset by the deconsolidation of Nepal.

Volumes in China were up by double-digit thanks to successful New Year activities and continued good progress for our growth priorities including expanded distribution, the international and local premium portfolio and Big City growth. The initial results of the launch of Somersby have been very positive. Our strongholds in China were not impacted by the spread of the Omicron variant, but the increasing number of cases and spread of the virus may pose a significant challenge in the months ahead.

Our Indian business had a slow start to the year, with January and February being impacted by the outbreak of Omicron and volumes in March rebounded, delivering record high monthly volumes.

We saw very good volume growth in Laos, Vietnam and Cambodia. In Laos, we benefited from fewer restrictions and saw record high volumes of both beer and soft drinks. In Vietnam, volumes grew by high-single-digit percentages. The local Huda brand grew strongly and the Carlsberg brand also achieved very good growth. In Cambodia, we continued to see impressive results for the Sting energy drink.

Malaysia posted very good volume growth, albeit this was on the back of easy comps. The craft & speciality portfolio delivered growth progress.

And slide 7, and Central & Eastern Europe, due to the very significant volume decline in Ukraine, regional volumes were down by 2.1%. Revenue per hectoliter was strong at 11% and driven by price increases, country mix, and in some markets a positive channel mix. Revenue was up organically by 8.2% and in reported terms by 9.4% due to the positive currency impact. Excluding Ukraine from 2021 and 2022, organic volume growth was 8% and organic revenue growth 18%.

The Balkan market saw good growth of premium brands, including Carlsberg, Tuborg and craft & speciality. On-trade rebounded strongly after last year's lockdowns. Our business in Italy grew volumes in a declining market with growth achieved in both on- and off-trade. Carlsberg, Tuborg and Grimbergen all delivered high growth rates. In Greece, our volume growth was modest, impacted by our price increase, a highly promotional market and general inflation impacting consumer offtake.

In Ukraine, volumes were impacted by the war and operations were significantly reduced in March. For the quarter, volumes were down by almost 50%. In our export and license business, we saw strong growth for Carlsberg and Tuborg, in particular in Turkey, Ireland, Canada and Israel. The division also achieved double digit growth of alcohol-free brews.

In Russia, volumes grew by 4% and revenue was up organically by 18%.

And now over to you, Heine, and an explanation of the changes to the accounting presentation and the write-down.

Heine Dalsgaard, Chief Financial Officer, Carlsberg A/S

Thanks, Cees, and good morning, everybody. Please turn to slide 8 and changes to the accounting presentation of Russia. Last week, we announced the key changes following the decision to divest the Russian business. As a consequence of this decision, the Russian business will be presented separately in the Group accounts as from the 1st of January 2022.

In the P&L, the net result from the Russian business will be presented in one-line as "net result from Russian operations held for sale", and that is below profit after tax. In other words, revenue EBIT finance costs and tax from Russia will not be included in the respective P&L lines. The net result from Russia will include the write-down of the Russian net assets. I'll come back to that in just a moment.

In the appendix to the Q1 announcement, we provide restated 2021 P&L and regional figures for the full year, the half-year and also for the quarters. Note that there are also small changes to the Western European numbers due to intercompany transactions. In the balance sheet, Russia will also be included as one-liners in both assets and liabilities.

The divestment of the Russian business is complicated and may take up to 12 months. A few words on what will happen to equity when the divestment is completed. The accumulated currency translation reserve within equity related to the Russian business will be reclassified from equity to the income statement and included in the net result from the Russian business. After reclassification of the currency translation reserve, the amount will be recognized in retained earnings. Therefore, there will be no change to total equity. The reclassification will have no effect on the Group's tax position. As at end of March 2022, the accumulated currency translation reserve related to the Russian business represented a loss of around DKK 42 billion.

Please go to slide 9. As a consequence of the decision to divest Russia and as a consequence of the operational impact from the war on Ukraine and on other parts of the region, several write-downs have been recognized.

The Russian net assets all being reassessed at fair value, currently resulting in a write-down of approximately DKK 9.5 billion in the Russian P&L. This is not based on external offers for the business, but on a range of internal assumptions and subject to a very high level of uncertainty and volatility. Consequently, the fair value of the Russian business is highly sensitive to changes in the assumptions and may change until the final value can be determined, based on an actual transaction. The write-down of the net assets related to the business in Russia will be included in net result from Russia operations held for sale in the P&L.

In Ukraine, the war has of course impacted customers and sales outlets. And as a result, we have written down doubtful trade receivables, obsolute inventories and some commercial assets in total amounting to around DKK 300 million. This write-down will be recognized in special items.

Finally, the war has also led to impairment and write-down of goodwill allocated to the Central & Eastern European region, including the goodwill related to our business in Ukraine. In total, write-down of goodwill in Central & Eastern Europe amounts to around DKK 700 million, which will be included in special items.

We assume that we will be able to resume consistent production at our breweries in Ukraine when the situation in the country stabilizes. However, due to the extraordinary nature of the situation, there will be changes to the presentation of profit and loss from the business.

Volumes and revenue in Ukraine after 24 February will continue to be included in regional figures. However, until a consistent level of operations is resumed, the operating result will be reported at DKK 0, as costs not covered by revenue will be reported in special items due to the very special circumstances.

Please turn to slide 10 and the outlook for the full year.

The guidance is impacted by two important decisions. Firstly, Russia will not be included in the ordinary business result and is therefore not included in the guidance. The restated 2021 operating profit excluding Russia and intergroup transactions amounted to DKK 10.129 billion. Secondly, operating profit from Ukraine will be included at zero for 2022.

Based on this, we expect an organic operating profit development of around minus 5% to plus 2%. Excluding Ukraine in 2021 and 2022 and looking only at the rest of the Group, this would translate into an operating profit development of around minus 1% to plus 7%.

We want to emphasize that the earnings expectations is significantly more uncertain than usual due to the development of the war in Ukraine, the continued rising and volatile input costs, possible supply chain disruptions, any government imposed restrictions relating to the pandemic, mainly in China, uncertain consumer behavior from the accelerating inflation, and as well the overall macroeconomic development.

Based on the spot rate yesterday, we assume a currency impact on operating profit of plus DKK 350 million. All other assumptions remain unchanged from last week. Net finance costs, excluding FX, are assumed to be around DKK 550 million to DKK 600 million, effective tax rate 22% to 23% and CapEx around DKK 4.5 billion. The slightly higher finance costs and lower CapEx than communicated in February are due to the changed accounting treatment of Russia and also reduced CapEx in Ukraine.

Slide 11, please, and an update on the share buyback. The Group's financial position and liquidity remain strong despite the reclassification of Russia. Based on the restated figure excluding Russia, the net interest-bearing debt to EBITDA at year-end 2021 would have been approximately 1.37 times and this is well below our leverage target of below 2 times.

In addition, in March we established a one-year fixed term bank loan of €500 million and in April, we recommitted our €2 billion committed revolving credit facility with all our relationship banks. So we feel very comfortable with our funding position.

Last Friday, we ended the year's first quarter share buyback program. In total, around 1.1 million shares were repurchased at a total value of DKK 1 billion, corresponding to an average share price of DKK 890. The daily volume bought represented an average of around 7% of daily traded volume on Nasdaq Copenhagen. Because of the Group's strong financial position, we are today initiating the second quarterly buyback. The value of this second share buyback program will amount to DKK 1 billion. The Carlsberg Foundation will participate in the share buyback on a pro rata basis. Further details can be found on page 5 in the Q1 trading statement.

And now back to you, Cees.

Cees 't Hart, Chief Executive Officer, Carlsberg A/S

Thanks, Heine. Before opening up for Q&A, let me summarize. Q1 was a turbulent quarter due to the terrible situation in Ukraine, and we do our utmost to protect our people. We have decided to divest the Russian business. In the rest of the business, we delivered a strong start to the year with strong volume and revenue per hectoliter growth. We are initiating another DKK 1 billion share buyback today.

That was it from our side. As usual, for the Q&A, we will limit the number of questions to two per person to ensure that as many as possible get a chance to get through. After your questions, you are welcome to join the queue again. And with this, we are now ready to take the questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will have a brief pause while questions are being registered. The first question comes from the line of Edward Mundy from Jefferies. Please go ahead, your line will now be unmuted

<Q – Ed Mundy – Jefferies International Ltd.>: Good morning, Cees, Heine and Peter. Two questions from me, please. The first is the very strong revenue per hectoliter in Western Europe, +18%, you mentioned that includes positive geographic mix, channel mix, as well as headline pricing. Are you able to share what the pricing element was within that plus 18%? And are you seeing any impact on consumption from this pricing, yet?

The second question is really around current trading. It feels like the weather's been quite good within Western Europe in Q2 so far. And I think in your presentation, you said that the spread of the virus in China may pose challenges in the months ahead, which would sort of imply that you're not seeing a slowdown in China. Is that the right read? And could you comment on sort of Q2 trading so far?

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Ed, and good morning. With regards to Western Europe, I'll take it. And then your second question, Heine will take. We have indeed strong volumes and revenue per hectoliter growth in Western Europe. The beer volumes were up by 15%, other beverages development, 17% up, the total volumes were up 1% versus Q1 2019, and then I exclude the UK. We see a strong revenue per hectoliter growth due to the on-trade recovery. As you said, these are easy comps due to the heavy lockdowns in Q1 [2021].

On the 18% revenue per hectoliter improvement, approximately 80% is from the positive channel and product mix. Country mix and price increases supported also positively in this. And in Q2, there will be a positive channel mix also, albeit significantly smaller than in Q1. We see that the pricing impact will be larger than in Q1. However, total revenue per hectoliter improvement will be significantly lower than in Q1 and H2 will be even lower as there will only be few restrictions in H2 – there were few restrictions in H2 last year. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Thanks. Good morning. And so on the current trading, as you know, we don't comment on current trading but it is very clear that since we are now at the end of April, then April trading month-to-date is of course taken into account when setting our guidance range. As you know, we get daily sales reports from our countries and from our regions. As you also are alluding to and as we also mentioned in the call, we do see in China some disruption in April from COVID-19. So far it's not something that's that significant for our strong-holds.

<Q – Ed Mundy – Jefferies International Ltd.>: Great. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thanks Ed.

Operator: The next question comes from the line of Fintan Ryan from JPMorgan. Please go ahead. Your line will now be unmuted.

<Q – Fintan Ryan – JPMorgan Securities Plc>: Good morning, Cees, Heine, and Peter. Two questions from me please. Firstly, within the guidance that you updated last week, could you give us a percent of what's embedded in terms of COGS per hectoliter inflation? I think the previous guidance back in February had factored in around 10% to 12% COGS per hectoliter. But as you sort of sit here today and on a normalized basis, how do you see COGS per hectoliter for the rest of 2022, and again, how well are you hedged for H2 in terms of moving, potential other moving parts?

And then secondly, just following up with a question on the price/mix in Western Europe, I think in the statements you mentioned that you started to seeing some volume elasticity, in both Poland and Germany. Is this something – could you provide some color in terms of what, in particular, is driving this price elasticity with consumer sentiment, or is it Q2 [indiscernible] (25:52) overall portfolio mix? And are there any other markets where you could potentially see some volume weakness as you put any increased pricing as we go through the back end of the year? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Fintan. Heine, over to you for the first question.

<A – Heine Dalsgaard – Carlsberg A/S>: So on the COGS per hectoliter, the assumption from February of when we said about 10% to 12% increase, that included Russia, for good reasons at that point in time. And in Russia, the COGS increase is higher than for the rest of the Group.

If we exclude Russia from the previous guidance, then the COGS per hectoliter increase would have been around 8% to 10%. So the current expectation of 10% to 12% is a couple of percentage points higher than previously on a like-for-like basis. We are, as you know, relatively well hedged for the commodities that we can hedge, in particular barley and aluminum. There are a significant part of our COGS that we cannot hedge and have not hedged, including energy, which is driving a significant part of the increase versus three months ago.

<A – Cees 't Hart – Carlsberg A/S>: Fintan, with regard to your question on Germany, there are three elements. We took very early in the year a price increase, in fact, at the 15th of January. Most of our competitors waited. They have announced to increase prices only per April. Then on top of that, retailers, because we were ahead of the price increases, stopped our promotions and our competitors increased their promotions. So in that respect, we will probably catch up in the second half of the year. But quarter one was indeed a negative volume development and also a bit in share development due to the elements that I just described.

<Q – Fintan Ryan – JPMorgan Securities Plc>: Thank you. And is there any other markets where maybe your competitors haven't followed the price that you've been taking?

<A – Cees 't Hart – Carlsberg A/S>: No, no. I think that's also too early. It is relatively difficult to distinguish all the elements because the on-trade was closed as you know and as you see, to analyze the price mix is relatively complex. But in fact, also in our quarterly review, we didn't get any notable element of an impact of price increases on the market or consumer behavior. I think also it's a bit too early.

<Q – Fintan Ryan – JPMorgan Securities Plc>: Great. Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thank you.

Operator: The next question comes from the line of André Thormann from Danske Bank. Please go ahead. Your line will now be unmuted.

<Q – André Thormann – Danske Bank A/S>: Yes. Thanks a lot for taking my question, and good morning, everyone. So my first question is in terms of your assumptions for guidance. Can you maybe give or elaborate a bit on what have you assumed in terms of risk for down-trading in 2022? That's my first question. And then the second one is what have you assumed for further COVID lockdowns in China for 2022? Thanks.

<A – Cees 't Hart – Carlsberg A/S>: Thank you. Heine, with regard to the guidance, over to you, and China probably also.

<A – Heine Dalsgaard – Carlsberg A/S>: So, good morning André. So on the assumptions behind the guidance range, there are clearly many, many assumptions going into that. We don't see, specifically to your question on down-trading, we don't see any particular sort of short-term down-trading, perhaps with the exception of a few markets close to Russia and to Ukraine. But except for that, the impact short term is relatively limited.

On top of that, some of the main assumptions include a solid on-trade recovery across all markets as the restrictions are being lifted. That is what we're seeing right now. We are assuming that we will be able to pass on the COGS per hectoliter increase of 10% to 12% via the increase in revenue per hectoliter and so far so good. That is what we've managed to do so far and that is certainly also the expectation for the remainder of the year.

And then when it comes to other assumptions, we are assuming that we will continue to invest into marketing, but we will continue as well to be very disciplined and very focused when it comes to managing our fixed costs tightly using our OCM methodology, which have served us quite well so far.

<A – Cees 't Hart – Carlsberg A/S>: China?

<A – Heine Dalsgaard – Carlsberg A/S>: Okay. And on China, André, as said, we had a very strong Q1 in China. But in April, we do see some impacts from COVID, not so much in our strongholds. And so far, as said, the impact is primarily from lockdowns in the eastern part of the country which, as you know, is not our strongholds, but we are, of course, following the situation very closely, and have also increased our inventory levels. The guidance and the guidance range take into account some COVID-19 disruptions, also within our core markets, but not a full country-wide lockdown, which is not – also not what we are assuming.

<Q – André Thormann – Danske Bank A/S>: Okay. Thanks a lot.

<A – Heine Dalsgaard – Carlsberg A/S>: Thank you.

Operator: The next question is from the line of Andrea Pistacchi from Bank of America. Please go ahead. Your line will now be unmuted.

<Q – Andrea Pistacchi – Bank of America>: Yes. Thank you. Hi, Cees. Hi, Heine. A couple of questions, please. On China, you're saying clearly not – very limited impact so far. Are you detecting any impact rather than directly from the lockdowns, the more general sort of tightness in the consumer, any impact from – of that? Then it would be – well, I don't know if you can do this, but give us a bit of an understanding of your geographical breakdown in China, so such as to understand if the Chongqing were to be impacted by lockdown how large is that? How large is Xinjiang these days for your business?

And finally please on China, you are flagging − you're talking about the launch of Somersby. If you could give a bit more color on that. You sound optimistic about the potential for that. Is that a city approach or you rolling it out sort city by city or is it a more broader launch? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, André. With regards to the geographical split, I don't think we want to move into that kind of details in these calls. With regard to the other two questions. First of all, the lockdown and the impact. Yes, we saw in our big cities, which as you know are a bit more to the east, we saw some negative impact, especially Blanc was touched by this in March and also a bit Wusu. So we pick up some of the negative developments at the Eastern Coast but still were able to make a very good quarter.

With regards to the launch of Somersby for us, this is like a test market in China is almost a big launch in any other market but it's a test market for us. We have high hopes and are now also more confident that Somersby could be a next lever of growth in our Chinese portfolio. As you know, we have the big cities, we have the local power brands, we have the international premium brands. We have our solid base in the western part of China. And npw on top of that, we think that we can further develop Somersby. So it is small numbers but as it was a test market and doing very well, we are now starting to roll that out further.

<Q – Andrea Pistacchi – Bank of America>: Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Andrea.

Operator: The next question comes from the line of Simon Hales from Citi. Please go ahead. Your line will now be unmuted.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Thanks. Good morning, Cees. Good morning, Heine. A couple of questions for me, please. Obviously, you talked about the strong reopening that we've seen in a number of markets. I wonder if you could provide a little bit more detail as regards to the strength of Western Europe. I mean, are we back now at pre-COVID levels in the on-premise in the quarter or perhaps more importantly, in terms of the exit rates when we came through March when all of the restrictions, I think, in probably all the markets in Europe were lifted. Are there any particular strong markets you would call out?

And then secondly, I wonder if you could talk about any of the impact you're seeing from the Ukraine situation in some of your other Eastern European markets. You've mentioned with regard to Poland, but I wonder what you're seeing either in the quarter or even into Q2 around some of the Baltic states, etcetera, if anything at all.

<A – Cees 't Hart – Carlsberg A/S>: Thanks. And very good morning, Simon. With regards to the reopening, well, we can compare to – with different years, of course. If you compare this Q1 2019, Western Europe is 9% ahead of that quarter in 2019 and it's a bit mixed with excellent growth, for example vis-à-vis 2019 from Norway, also from Sweden, from Poland, excellent the UK, Germany, and Switzerland is more or less a bit around zero. And France is a bit negative, as you know that we have some issues in France. So all in all, Western Europe came out excellent. And on top of that, we have the Western European index into on-trade versus 2019 and we are now trading on the index of 85 excluding UK and index of 85 with regards to Q1 2022, on-trade versus 2019.

That in terms of the Ukrainian situation in Poland. Well, the Polish market have been impacted by different elements, high price increases on low priced brands; on top of that, an excise increase of 10%, and on top of that, the severe impact of the Ukrainian refugees. I was in Poland two weeks ago. It is really – and I lived in Poland so I can judge it a bit – it is really awful what's happening there with regards to so many people, about 2.5 million Ukrainians, trying to find their way in Poland. The city of Warsaw has now 10% Ukrainians. And, of course, that changes the society a lot but also the market. So Poland has done an excellent job, I think, in helping Ukrainians, but it also has impacted the market, as such, and the market was down.

For the rest in the Baltics and going forward, I don't think we see – it's difficult to say. I don't think we see that much impact of it other than the elements that just painted. And in that respect, we need to see through how the next price increases will impact the market because as you know, the disposable income in the Baltics and in Poland is a bit lower than in other parts of Western Europe.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Okay. That's really helpful. And just to clarify, Cees, the 85% index you mentioned with regards to the on-premise level of sales versus pre-COVID ex UK, that's for the quarter. I would assume it would be higher in terms of the exit rate, given that there were still some Omicron restrictions in place in some of your markets through January and February. Is that the right way to think about it?

<A – Cees ’t Hart – Carlsberg A/S>: Absolutely. I wouldn’t put a percentage on it, but it will be significantly higher than the 85% if you take … probably I guess it will be close to 100% if you take in exit, absolutely, yeah.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Okay. Thanks. Very helpful.

<A – Cees ’t Hart – Carlsberg A/S>: Thank you, Simon.

Operator: The next question comes from the line of Laurence Whyatt from Barclays. Please go ahead. Your line will now be unmuted.

<Q – Laurence Whyatt – Barclays Investment Bank>: Good morning, Cees, Heine. Thanks very much for the questions, two for me as well. Just following the disposal of your Russian business, it looks like China will now be more than 20% of sales and likely to be much more than that in terms of profits. Is there any concern in terms of having so much reliance on one country? And is there any steps you could take to try and mitigate that?

And so similarly, would you make any further changes to your divisional split, moving some countries around into the Central & Eastern European division now it will be significantly smaller once Russia is out?

And then secondly, with the UK market largely back to normal and the on-trade probably ahead of pre-pandemic levels, have your expectations of the Marston’s joint venture changed, now that you’ve had a bit of time to experience it in a more normal market post-COVID? Thank you very much.

<A – Cees ’t Hart – Carlsberg A/S>: Thank you, Laurence. With regards to the consequences for the portfolio, yes, of course. This is something which is a conversation we have in ExCom and also with the Board. And going forward, we can’t say to China, please grow a bit less because then the others come up a bit better. But, obviously, we continue to invest further in China, but, that’s also what we said already in SAIL’27, we also see opportunities to grow in other areas, which would rebalance the portfolio somewhat. And to name a few, Vietnam and India are part of that. But also – and that touches to your question on Marston’s, the UK. We think that we can recover quite a lot in France and now with also the Pepsi deal in Switzerland, with also other plans that we have that we think also a country like Switzerland can contribute to a better portfolio balance.

With regards to your question on the region. Yes, also that is on the table. It’s too early to comment on it now because the region as such is very much needed to carve out Russia to ensure that all the core processes, because it was a fairly integrated business in that region, very well run. Now we need to disintegrate it, de-integrate it. And in that respect, we now need to make sure that we come up with a plan how to come to another kind of maybe regional balance in the future. However, these are all early days. The first focus is to have a proper and a decent carve out.

With regard to the UK, we are only positively surprised, especially also after Q1. We think in hindsight still that we made the right move with Marston’s. Also the Carlsberg business has strengthened over the last one-and-a-half year. The Carlsberg brand came out extremely well, more than 6% growth in Q1. Underlying momentum improved, market share – things we have not seen before 2021. The synergies come through. It’s a very well managed business and we are looking forward to see more of that. So we feel very confident about our business in the UK.

<Q – Laurence Whyatt – Barclays Investment Bank>: That’s great. Thank you very much.

<A – Cees ’t Hart – Carlsberg A/S>: Thanks, Laurence.

Operator: The next question comes from the line of Tristan van Strien from Redburn Partners. Please go ahead. Your line will now be unmuted.

<Q – Tristan van Strien – Redburn (Europe) Ltd.>: Good morning, gentlemen. Just two for me as well. Just a follow-up on China. Can you just maybe expand on the balance of volume and price/mix that you achieved in Q1 and how we should think about that going forward over the year. And then, second, just your export and license business is getting to be quite significant. Is there a strategic purpose or rationale behind that business? Or is it more opportunistic, just kind of traditional way of looking at exports?

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Tristan, and good morning. With regards to the China business, the volumes were up by 11%, revenues 17%. In a declining market, around 1.5%. So we had a very good start of the year with excellent sell-in to Chinese New Year in January. And afterwards, we saw that there was a very good throughput. So we had an excellent execution of Chinese New Year. Also, February, March – February strong. March was a bit weaker, especially due to the lower growth of some of the brands in the big cities, as a result of COVID in the East. So that's where we are at this moment in time.

In the second half or basically in Q2 and further, we might have some impact of COVID that what we already took into account, also in our guidance. And as a consequence, you could argue that maybe the revenue, the price/mix will be a bit muted, but for the rest we see all the levers in China and continued good momentum.

With regards to export and license, well for SAIL'27, we see that in some of these markets that are under the umbrella of export and license, that there are good opportunities. One of them is Korea, the other is Canada. The third one is Australia. We have good propositions there and over the time we have maybe not always captured all the growth opportunities there. And maybe also related to an earlier question about how to rebalance the portfolio after the exit of Russia, also there we see opportunities to rebalance. So it is a specific part of the market where we have high expectations from for SAIL'27.

<Q – Tristan van Strien – Redburn (Europe) Ltd.>: Can I just have a follow-up on that? At what point does it make more sense to start looking at greenfields, especially looking at Australia or Canada, which obviously not close to your countries?

<A – Cees 't Hart – Carlsberg A/S>: Yeah, but let's say, it is part of the plan, we should not reveal here. But we have already an operation there. So it's not really greenfield and that is very different from the big city strategy that we tried five, six years ago; we learned from that. We have established already brands in these markets without indeed a brewery. And then of course the rest is about when there is a kind of enough critical mass to produce locally, so that might be a next step. But the good thing is that we make good progress in some of these countries.

<Q – Tristan van Strien – Redburn (Europe) Ltd.>: Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Tristan.

Operator: The next question is from the line of Søren Samsøe from SEB. Please go ahead. Your line will now be unmuted.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Yes. Hello, gentlemen. Two questions from my side. First, if you can say what markets that was impacted by price increase in Q1 and which, where you see that happening in Q2? And then secondly, around how we should think about cost in the first half versus second half this year? And also, if you can confirm that you expect EBIT growth to be high in first half than second half this year? Thank you.

<A – Cees ’t Hart – Carlsberg A/S>: Søren, good morning. I will take the first part of your question. And then the second question will be answered by Heine. With regard to the market on price increase, frankly you can almost say that it started already before the year-end in Eastern Europe where price inflation started – cost inflation started much earlier. And we also learned from there excellent progress on that. We then focused very much on Western Europe to take pricing. And we’ve talked about it already earlier in the year with regards to how difficult it is to take pricing, but I’m really almost proud to say that we have been able at that moment of time to take the prices that we needed. And then or now, if you like, we’re implementing price increases as we speak in Asia. So all the countries across our portfolio are confronted with significant price increases and as we said earlier, some of these need to have a second round in the second half of this year. For your second question, Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Good morning, Søren. So cost, to your second one on costs, so the first half versus the second half. So in terms of sort of the SG&A area, it’s unchanged in the sense that we have the same discipline, or expecting the same discipline of cost, of course depending on how the world develops, we can gear up or we can gear down on our OCM approach. But the logic that we’ve had over the last few years in terms of SG&A remains unchanged. So, that means we are using our OCM methodology and we started using that as soon as we saw the headwinds coming late February and early March. So in terms of cost, continued discipline.

If you talk about COGS, the headwinds will be bigger in the second half than in first half. Revenue and profits for – and that’s then your second question − revenue and profits for 2022 will be more frontend-loaded than usual. On top line, the Q1 is expected to be the strongest quarter of the year. Q2 will also be good due to expected better on-trade than last year, in particular in April and May. First half profit growth and margins are expected to be much better than the second half, partly partly due to last year’s comps and also partly due to the comment from before of higher input and energy costs that will impact more in the second half than in first half.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Thank you. That’s clear.

<A – Cees ’t Hart – Carlsberg A/S>: Thanks, Søren.

Operator: Next question is from the line of Mitch Collett from Deutsche Bank. Please go ahead. Your line will now be unmuted.

<Q – Mitch Collett – Deutsche Bank AG>: Hi, Cees. Hi, Heine. I wanted to come back to the comment you made, Cees, about volumes being 10% ahead of 2019 on a like-for-like basis, does that include an impact from Ukraine? And I guess, given what you said about the on-trade by going back to about 85% in Western Europe and that implying a CAGR of around 3%, is there any reason why we shouldn’t expect that level of growth to continue going forward once the world gets a bit more normal?

And then my second question is on guidance, and I appreciate an awful lot has happened, but your guidance which is now minus 1% to plus 7% if we strip out the impact of Ukraine, I guess there’s a 1% headwind from the higher COGS. And it does sound like Q1 was perhaps a bit better than expected. So can you maybe just flesh out why guidance is in that range given the strong Q1? Thank you.

<A – Cees ’t Hart – Carlsberg A/S>: Thanks a lot, Mitch, and good morning. When I was referring to Q1 versus the 2022 versus 2019, I was quoting the 9%, it’s Western Europe. When we take – and let me then give you the full picture – when we take Asia, it’s 21%, very much because of strong growth in China. So when we take Q1 2022 versus 2019, China is 36% ahead. But also Laos is 13% ahead, Vietnam 24% ahead. So very good figures in my view.

India is flat, also in Q1 2022, which is somewhat from Omicron in India, but in general, very good figures there. And Central Eastern Europe excluding Russia, then of course because that’s what we do now is minus

2%. And that has a lot to do with Ukraine. With regards to Ukraine, what we said earlier at the moment, if you take that one out in Q1, Central Eastern Europe grew by 8%. So at the moment that Ukraine comes back and let's hope for a very fast peace in Ukraine, we think that we can come back to a bit more normality, but that's more hope and pray than anything else that we can do at this moment of time.

Having said that, it is really excellent work that the local team is doing by reopening two out of three breweries. They have a huge stamina, resilience and not because of us or on our request or pressure but they want to go back to, between brackets, normal life, and hence, we are slightly optimistic also there. With regard to the guidance, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Yes. Good morning. So if we split into two and then say on the one side, what has changed since last time we discussed the guidance in early February. Then on the positive side, as you're also saying here we had a very good start to the year which is then partly offset by the negative earnings impact from Ukraine, and also the even higher input and energy cost versus what we saw just a few months ago.

Generally, in terms of the outlook and that's in the second part, the uncertainty and the volatility is really, really high. The cost headwind is significant. We are well hedged, but the volatility will impact the unhedged positions as well as the certain elements of our COGS that are not hedged like for instance, energy. And then in addition, we are also seeing some impact from suppliers passing through now their energy cost increases.

As you know, our ambition is to offset the COGS per hectoliter increase through higher revenue per hectoliter, and that we have done. So, so far so good, and we expect to continue to do that. So overall, we are confident with our guidance range but there is quite a lot of uncertainty and volatility out there, which is then the logic behind our range of improvement. Yes, we are, and I think you would be the same if you were sitting on our side of the table.

<Q – Mitch Collett – Deutsche Bank AG (Broker UK)>: That's very helpful. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Mitch.

Operator: The next question is from the line of Trevor Stirling from Bernstein. Please go ahead. Your line will now be unmuted.

<Q – Trevor Stirling – Sanford C. Bernstein>: Good morning, Cees and Heine. Two small questions for me. One is a technical one. Cees, when you were talking about the on-trade in Europe, you said ex UK. I'm just wondering why you excluded the UK from that – is it significantly better or worse than the rest of Western Europe.

And the second one, just in Ukraine, you mentioned that two out of three breweries are now open. I presume those were two in Kyiv and Lviv.

<A – Cees 't Hart – Carlsberg A/S>: Yes, it is. Throughout 2019, we didn't have Marston's yet, and we didn't basically pick up all the details from Marston's in 2019. So that's the reason why it's not quoted here. And you're right. In Ukraine, we have three breweries, and the ones – the two ones, if like you like, in the mid and in the west are reopened. That's the Kyiv and Lviv. Yes.

<Q – Trevor Stirling – Sanford C. Bernstein>: All right. Super. Thank you very much, Cees 't.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Trevor. And with that, could we have the last question, please?

Operator: The last question comes from the line of Pinar Ergun from Morgan Stanley. Please go ahead. Your line will now be unmuted.

<Q – Pinar Ergun – Morgan Stanley Securities Ltd.>: Good morning. Thank you for taking my question. Look, I appreciate there's a lot of volatility to answer this question fully, but do you have an early – any early thoughts on what raw material pressures could look like in 2023? And given the sharp cost of living increases consumers are facing, do you expect premiumization trends to hold up in the quarters ahead? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Pinar. First question, over to you Heine.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Good morning, Pinar. So it is clear that there are significant headwinds ahead of us for 2022, and due to our hedging, and I said we are well hedged for 2022, even more cost headwinds, net-net, if you look into 2023.

We're not going into details as to how much it is. We will do that at a later point when we talk about 2023. But we are very much aware of the mountain to climb, also for 2023, and we are preparing for that, including reviewing in details how to continue our strategy of making sure that we pass on COGS per hectoliter increases to revenue per hectoliter increases. So that something is not coming as a surprise to us and we know very much how much it is. And we're not commenting on the exact figure but we are aware and we are focused on making sure that we continue to pass it on.

<A – Cees 't Hart – Carlsberg A/S>: With regards to premiumization, we think that there is still a lot of opportunity to further premiumize despite maybe some pressure on pricing. First of all, when we did our analysis for 2027, SAIL'27 we saw that we are lacking some of the propositions in that area and with the further rollout of some of our major brands, like for example 1664 Blanc, we have ample opportunities to grow. Also and despite, if you like the pricing sensitivity ahead, where we have experienced that in difficult times, when consumers are not able anymore to renew their car or their fridge, they go to, if you like, mini luxury. And there some of these brands can play a very important role. You're right to assume that the price stretch is more important than ever. So we need to cater for all the different price points needed to serve different customer or consumer segmentation.

And so hopefully we have answered by this your question.

And since this was the final question for today, thank you very much for listening in and thank you for your questions. We are looking forward to meeting some of you during the coming days and weeks. Have a nice day. Bye-bye.