

CARLSBERG Q3 2023 CONFERENCE CALL TRANSCRIPT

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Edward Mundy – Analyst, Jefferies International Ltd.

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome and thank you for joining the Carlsberg Q3 2023 Trading Statement Conference Call. Throughout today's recorded presentation, all participants will be in a listen-only mode. The presentation will be followed by a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to Jacob Aarup-Andersen, the CEO. Please go ahead.

Jacob Aarup-Andersen, CEO

Thank you very much. And good morning everybody and welcome to Carlsberg's Q3 2023 Conference Call. As said my name is Jacob Aarup-Andersen and I'm the Carlsberg Group CEO and I have with me in the room CFO, Ulrica Fearn and Vice President of Investor Relations, Peter Kondrup.

First of all, let me begin by summarizing the key headlines for the quarter. We achieved solid revenue growth on the back of continued strong improvement in revenue per hectoliter, which offset lower volumes. We maintain our full year earnings guidance despite a challenging trading environment and a step up in commercial investments in the remainder of the year. And we are today starting a new quarterly buyback program amounting to DKK 1 billion.

I'll provide the key group headlines for the quarter and Ulrica will take you through the regions and the full year outlook. But before going into the quarterly details, let me say a few words on my first impressions after my first couple of months in the role. Carlsberg is a company with a unique heritage, purpose and a legacy from our founders, which comes with an immense responsibility. It's about creating lasting and ongoing value for current and future generations.

Combining that foundation with our great brands, our geographical footprint, highly talented people, and a distinct culture it's clear that we have great opportunities to create value in the coming years. As you would appreciate, I've been on boarded in the role at a high pace by intensively deep diving into all major areas of the business, traveling to many markets, visiting breweries, spending time with customers and consumers in off-trade and on-trade channels and with key people across the organization.

On the back of that, let me share my first observations and also some details on what's going to happen in the coming months. First of all, the company culture of Carlsberg is strong. Our people are truly passionate about and proud of the company, our brands and the broader value we create in our communities, taking a leadership role in important agendas like sustainability. A strong undercurrent is a well embedded performance culture, which I will maintain and I will nurture. That will be a key pillar of Carlsberg under my leadership.

We have a strong brand portfolio and market positions, and attractive mix of strong market leader positions and exciting challenger positions in growth markets. The portfolio, both from a brand and a geographical perspective, holds significant growth potential. With the right investments and prioritization, I have no doubt that we will deliver appealing growth rates for many years to come. I'm impressed by the funding the journey mentality with its stringent approach to cost. I don't need to teach our colleagues how to run a tight ship. They know, but even more importantly, they understand the link between tight cost control and the ability to invest in growth, an efficiency mindset that goes hand-in-hand with performance and a growth mentality.

It's fair to say that the past few years have been extraordinary and they've been challenging. Firstly because of COVID, then the terrible war in Ukraine and then high inflation. As a consequence of these headwinds, the focus has very much been on the short-term for the last years, and rightly so, given the need to perform through adversity. Therefore, there are areas where we haven't invested to levels that enable us to deliver on the long-term growth priorities. That's why we decided to step up commercial investments by more than DKK 200 million in the remainder of the year. Ulrica will provide more details on this in her part of the presentation.

We will continue to invest in our brands and our go-to-market capacity to drive sustainable long-term profitable growth year in and year out. Planning top line margins, cash flow and ROIC for our owners is a key component for me. I'm a firm believer in the value of compounding earnings growth to create sustainable shareholder value.

SAIL'27 will remain the strategic frame for Carlsberg. It sets a clear direction. It's well understood and it's embedded across the company, thanks to the broad involvement of the extended leadership team and colleagues across markets and functions. I firmly believe in us driving a relentless focus on premiumization and driving the beyond beer agenda and taking alcohol-free brews to a significantly larger share of our business during this decade. That's all in line with SAIL'27.

However, we also need to recognize the SAIL'27 was developed before the war in Ukraine and before the unprecedented inflationary pressures. Therefore, together with the Executive Committee and the broader leadership team, we are conducting a review of the priorities within SAIL'27. The key focus will be on the allocation of resources and how and where to invest to ensure that we capture the growth opportunities. There is a real potential in our categories, in our brands and geographies, and we will be disciplined in our allocation decisions to ensure the right balance between continued short-term delivery and building the right long-term profitable growth profile of the business.

In connection with the full year announcement in February, we're going to share the conclusions of the review. But to manage expectations, don't expect any dramatic changes to the overall strategic direction. The frame of SAIL'27 stands.

With that, let's zoom in on Q3 and please turn to slide number 3. So all three regions contributed to the organic revenue growth of 5.8%, which was the result of revenue per hectoliter growth of 9%, partly offset by an organic volume decline of 3%, as volume growth in Asia, which is mainly in China and India, was offset by volume declines in Western Europe and Central and Eastern Europe. We're executing well in our markets and we have increased or maintained our market share in nearly 80% of revenue. The strong revenue per hectoliter growth was mainly driven by price increases across markets, of course to offset the significant cost increases again this year.

Revenue per hectoliter was also helped by a positive product mix, as our premium portfolio outperformed the total portfolio. Reported revenue grew by 0.3% to DKK 20.3 billion, impacted by currencies, as the Danish krone has strengthened, particularly against the Chinese, Laotian, Norwegian and Ukrainian currencies.

Let's turn to slide 4 and an update on our growth portfolio categories. Our total premium beer portfolio was flat. We saw a positive volume development in several markets, with particularly good growth seen in markets such as Vietnam, India, China, Ukraine, Serbia, Greece and Poland, driven by both international and local premium brands. Growth in premium is a key strategic priority, as you know, and with the right investments, we're very positive about the long-term growth opportunities for our premium portfolio.

For the international premium volumes, Tuborg volume growth was high single-digit, while Carlsberg volume growth was in the mid-single-digit. 1664 Blanc grew well in Asia and Central and Eastern Europe, and a 2% decline of the brand was driven by Western Europe, where growth in Switzerland, Sweden, Finland and Germany was offset by volume pressure in France, Poland and Denmark. We were very satisfied with Brooklyn, which grew by 27%, although admittedly, of course from a lower base.

Looking at local premium volume, brands such as Jacobsen in Denmark, Frydenlund in Norway, Zatecky Gus in Poland, Karhu in Finland, Wind Flower Snow Moon in China and Kaiser in Greece saw good growth. The growth of alcohol-free brews accelerated in Q3, growing by 6%. We saw strong growth in Ukraine and an export and license markets in the Middle East, while alcohol-free volumes were down in Western Europe. Alcohol-free versions of brands such as Tuborg, 1664 Blanc, Garage and Feldschlösschen saw good growth.

With this, let me hand over to Ulrica who is going to take you through the regions, the outlook and the share buyback.

Ulrica Fearn, CFO

Thank you, Jacob, and good morning, everyone. Please turn to slide 5 and Western Europe. And here we gained or maintained market share in most markets. However, volumes in the quarter were impacted by the unusually wet and cold weather in many markets during July and August. And this combined with a weak consumer sentiment, led to an organic volume decline of 5.2%. We roughly estimate that about one-third of the volume decline was due to consumer sentiment and two-thirds was due to weather. And that is good weather in August last year and bad weather in July and August this year.

Organic revenue growth was 7%, as revenue per hectoliter increased by 13%. The increase was mainly driven by price increases earlier in the year, taken to offset the significant input cost pressure. Revenue per hectoliter was also inflated by the termination of the Kronenbourg licensee agreement in the UK. The previous licensee will continue to produce until early 2024, and until then our revenues will include excise duty. In Q3, these amounted to approximately DKK 170 million or approximately 2 percentage points of the revenue per hectoliter improvement. In addition, the premium Kronenbourg 1664 volumes in the UK supporting revenue per hectoliter.

Looking at our market, the Nordics were impacted by the weather, which in Norway and Sweden resulted in severe flooding. Consequently, volumes declined. However, we outperformed the market, growing our market share in Denmark, Sweden and Norway with particularly significant gain in the premium segment.

In France, the beer market was under pressure due to the soft consumer sentiment. Market volumes were also impacted by fewer promotions compared to last year, although the Rugby World Cup supported consumer offtake in September. Our market share was slightly up, despite volumes being down by mid-single digit. Revenue per hectoliter increased by 10% due to price increases, brand and channel mix.

In Switzerland, our alcohol-free portfolio, Feldschlösschen and 1664 Blanc did well, but total volumes declined by low-single digits in a soft market. Our market share was flat. In Poland, the volume decline in Q3 was less pronounced than in the first half, thanks to a narrowing of the beer price differentials in the market. Positively, we saw very strong performance for our premium portfolio, supported by the local power brands such as Zatecky Gus.

The UK market declined impacted by higher prices and also bad weather. We strengthened our market share and from June 1st we took over Kronenbourg 1664, which is a very good supplement to our UK portfolio and will support our premium strategy. We saw good growth for premium brands such as Brooklyn and Poretti.

Please turn to slide 6 and Asia, where we saw very good volume growth in China and India, while regional volumes were particularly impacted by lower non-beer volumes in Cambodia. The other markets in the region were negatively impacted by the knock-on effect of the economic situation in China, particularly towards the end of the quarter. Against this background, volumes grew by 1.5%, reflecting 3.7% beer volume growth and a 16.4% decline for non-beer volume.

Revenue per hectoliter improved by 2%, mainly due to solid growth of premium brands and high inflation in Laos, partly offset by a negative country mix. Organic revenue growth was 3.7%, while reported growth was impacted by currency depreciation, particularly in China and Laos. Consequently, reported revenue declined by 9.7%.

Our Chinese business delivered 5.6% volume growth, and we were significantly outperforming the Chinese market that declined around 5% to 6% for the quarter. The volume growth was supported by increased domestic tourism and growth for both the premium portfolio, which grew by 4%, and core mainstream brands. In addition, we had favorable comps towards the end of the quarter. We strengthened our market share, thanks to expanded distribution and strong growth for Carlsberg, Tuborg and local brands such as Wind Flower Snow Moon, WuSu, Dali and Chongqing.

Our Indian business delivered volume growth driven by particularly strong growth of Carlsberg and good growth for the large Tuborg brand. Revenue per hectoliter was up by low double digits, supported by price increases and the profit mix.

In Vietnam, our market share strengthened, but volumes were not immune to the significant market decline, driven by the weak macro economy and consequently more price sensitive consumer. This particularly impacted our core mainstream brand Huda. Our international premium portfolio, growing strongly, but not enough to offset the lower margin mainstream volume. Revenue per hectoliter developed positively, supported by price increases and the positive mix.

Volumes in Laos were flat despite multiple price increases during the year, a difficult macroeconomic environment with very high inflation and more rain than usual. We strengthened our market share and our premium portfolio group.

Slide 7 and Central and Eastern Europe, where revenue grew organically by 6.3%. This was the result of a strong revenue per hectoliter growth of 14%, as volume development was minus 6.3%. We saw good share development across the region. The strong revenue per hectoliter development was positively impacted by price increases taken to offset the inflation in our cost base and a positive mix in many markets and negatively by an adverse country mix.

The volume development differed between markets. In Ukraine, our volumes were down by high single digits, impacted by the war and the return of more competition in the market. We saw very strong growth for our premium portfolio whilst the local core beer portfolio, not surprisingly, was impacted by the increased competition.

In Serbia, our volumes were up by high single digits, driven by growth for premium brands. Despite price increases ahead of the market, we gained market share and thanks to these price increases and the positive product mix, revenue per hectoliter growth was in the mid-teens. The beer market in Greece was impacted by severe weather and wild fires in the first half of the quarter. Our premium and alcohol-free portfolios grew strongly, while total volumes were flat.

And then in Italy and the Baltics, the beer markets were in decline due to weak consumer sentiment. And in the Baltics, this was further exacerbated by bad weather. Our volumes declined by low double digit. In Italy, the premium portfolio grew slightly while our market share was under pressure due to less promotional activity.

Volumes in the export and license business was significantly impacted by the transfer of the Kronenbourg 1664 volumes to Western Europe, following the termination of the licensee agreement in the UK.

Before going into earnings guidance a few words from Russia. As you know, the business was put under Russian management control by the Russian presidential decree on July the 16th. In early October, we announced that we had informed Baltika Breweries that we were terminating all license agreements for brands owned by the Carlsberg Group, including international and regional brands. We will continue to take all possible actions, including legal, to protect our employees, assets and operations. But it remains unclear what further developments we will see in relation to Baltika Breweries.

From an accounting point of view. From July, the Russian business was deconsolidated. However, as the investment no longer meets the accounting definition of an equity investment, it was reclassified as a receivable against the Russian government, which was subsequently written down to zero. For more details, please do go to page 4 in the Q3 announcement.

Please go to slide 8 and the earnings outlook for the year. Our Q3 results were achieved despite unfavorable weather conditions and overall challenging consumer sentiment, and we maintained the outlook from August of an organic operating profit growth of 4% to 7%. The guidance includes an expectation of a low double digit percentage increase in COGS per hectoliter for half two. It also includes an expected increase in commercial investments, both compared to half one and last year, as well as our recent decision to further increase commercial investments by around DKK 200 million in the remainder of the year in support of growth categories including premium, alcohol-free and beyond beer as well as growth opportunities in Asia.

Looking at the trading environment across our markets, consumer sentiment in Europe is weak, and that may pose a risk for our volumes, channel and brand mix. In Asia, we are optimistic about Q4 in China, mainly due to favorable comps last year because of the lockdowns, but we are concerned about the macroeconomic environment in Southeast Asia and the continued possible negative impacts on the beer market.

Despite the higher commercial investment, the consumer environment in Europe and macro economy in Asia, we maintain the earnings guidance from August, and this is also a proof point of our ability to control

costs. Based on yesterday's spot rate, we assume a currency impact on operating profit of minus DKK 900 million, in line with previous assumption. There is a small adjustment on our expectation related to financial expenses, excluding FX, which are now expected to be around DKK 750 million, compared to around DKK 700 million previously. The increase is mainly due to debt refinancing at higher interest rate. The assumption for the tax rate is unchanged at 21%. And on CapEx, we now expect a level of around DKK 4.5 billion compared with the previously DKK 5 billion. The small decline is mainly due to phasing.

The slide 9, and the share buyback, which was initiated this morning. Due to the group's strong financial position, we have today initiated a new quarterly buyback program amounting to DKK 1 billion. It will be running until the 26th of January 2024. The new buyback is due to the fact that it is unlikely that the dispute related to the partnership in India and Nepal will be solved by the end of this year. As always, the Carlsberg Foundation will participate in the share buyback on a pro rata basis.

Further details can be found on page 5 in the Q3 trading statement. And now back to you, Jacob.

Jacob Aarup-Andersen, CEO

Thank you very much, Ulrica. Before opening up for Q&A, let me just summarize. First of all, we achieved solid revenue growth on the back of continued strong improvement in revenue per hectoliter, which offset lower volumes. We maintain our full year earnings guidance despite a challenging trading environment and a step up in commercial investments in the remainder of the year. And then we are today starting a new quarterly buyback program amounting to DKK 1 billion.

In 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 of course, welcome to join the queue again.

With this, we're now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, at this time, we will begin the question-and-answer session. [Operator Instructions] The first question is from Andrea Pistacchi. Please go ahead.

<Q – Andrea Pistacchi – Bank of America>: Yes. Good morning, Jacob, Ulrica and Peter. So two questions, please, from me. The first one, Jacob you said you're planning to step up commercial investment. So maybe could you give a bit more color of how you're thinking about reinvestment? Is it purely a marketing spend or is it maybe a bit broader than that price investment or stepping up capabilities? And your – the marketing spend has been up to around 8% of sales for a number of years, do you think that number should be a little higher maybe?

Second question, please. I was reading on Reuters or somewhere this morning in an interview. You said that you're aiming to increase prices further in 2024. Could you elaborate a bit on that; is that a comment also on Europe and connected to this, how are you thinking in Europe in particular about the balance as you take price, sort of bit – how you think about between volume and margins? Obviously, in the last few years, I think the emphasis has probably been a bit more on margins and volume? Thank you.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you very much, Andrea. Let me address both of those. First of all, on the reinvestment, so I think it's very important to state as I also said in my opening remarks, there is a big focus on delivering sustainable long-term profitable growth year-on-year. And therefore, you should not expect dramatic changes to our costs just because of that statement. I think generally the

foundation is strong across Carlsberg; we have strong capabilities, you refer specifically to capabilities, but there's no doubt that there are areas where we could invest more if we want to drive further growth.

And specifically for me, it's very much around commercial capabilities and go-to-market and marketing as you also said. It's not dramatic changes. But it is – it's a natural step up following a couple of years where we have been holding back on investments due to the circumstances we've been dealing with, which are well advertised and which I also touched upon. So the majority of the focus will especially be around our go-to-market, our commercial investments. You mentioned capabilities, we will continue to improve our capabilities and continue to build. But it's not something that you're going to see a dramatic step up around in cost. I think that's something we handle within the envelope of driving on normal cost conscious resource allocation.

You talked about reinvestments via pricing. I think that also leads into the other question. So – but when I talk about investments, I'm not talking about pricing and discounts. I'm talking about sales force, marketing and go to market in general. And so I am fully aware that, of course it opens up some questions. And therefore it's also very important to make it very clear that this is not a dramatic step change of our cost base. It's an increase back to levels we've seen before. In terms of marketing to revenue, don't expect a significant leap in that ratio. We do expect marketing to revenue to edge up compared to where it's been over the last couple of years but it's not something that will be dramatic for you.

On pricing, yes, I said that earlier today in an interview, where I was asked whether prices would be going down or rolling back next year. And I made it very clear that we have seen significant cost increases across the base this year. And when we look into 2024, we are still seeing the overall envelope of cost across all categories to be increasing, not decreasing. And as a consequence, we do not expect to see price declines. On the other hand, you would expect us to, of course, make sure that we are protecting our profitability and reflecting that in our pricing. So it's an unchanged approach from us in terms of being disciplined around making sure that we cover our cost via our pricing. And I hope that that addresses the questions, Andrea.

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

Operator: Thank you. The next question is from Simon Hales of Citi. Please go ahead.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Thank you. Good morning, Jacob. Good morning, Ulrica. Good morning, Peter. So a couple for me, then. I'm going to first just pick up on your last comment there, Jacob, around the cost outlook and whether you could perhaps update us or Ulrica could update us on how we think about that cost picture overall into 2024, particularly in reference to possible movements in COGS. I think obviously you've been a bit more cautious in recent quarters around the prospect of COGS deflation next year. But I wonder whether you could share a bit more color on where you are now, particularly where you hedged on some of your core inputs for next year and then some of the other moving parts in the cost base.

And then secondly, just on Southeast Asia, could you just provide a bit more color of what you've seen in terms of trading in some of those core markets through the quarter? Clearly it sounds like the exit rate was much worse probably in September than what you were seeing in July and August. I'd just be interested in a bit more color than how we should think about those markets going forward.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you. Simon. Why don't I start on Southeast Asia and then Ulrica will talk to the cost outlook. She's a much better expert than I am on that. Just on Southeast Asia, you're right. We did see a picture where you had China and India delivering growth, while the rest of the region was struggling from a volume perspective. Of course, that's a markets phenomenon, and as we also said, we were keeping – keep and maintaining or increasing share in our key markets in Southeast Asia. What we see right now is a clear impact from the Chinese overall macroeconomic slowdown that is

impacting the Southeast Asian economies. And you've seen that evidently and how the markets have reacted.

I think it's too early to – we don't – as you know, as you know, we don't talk about exit rates and entry rates also because we think it's a very difficult exercise in terms of predicting the following quarters. But there is no doubt that we see a weakness right now in the market, in the main markets in Southeast Asia, which are not just about to turn around. So we don't start to predict a deterioration from here. But I think we need to see a stabilization of the Chinese consumer before we start seeing that rippling through to the other Southeast Asian markets.

So I think Asia for us, as you know, it's a multi-faceted region. We're going to see a Q4 where China will – where we expect good growth in China, given the easier comps and the momentum we're having there. India should also continue while we see the rest of the countries that have suffered from this macroeconomic slowdown, we do expect most of those trends to continue into Q4, but not any dramatic step change as such.

So I don't think it's just around the corner. On the other hand, the important thing for us as a firm is that we are maintaining and growing market shares in all of our key markets in Southeast Asia. And that also means we're setting ourselves up for when the growth comes back from a market perspective. And then Ulrica on the COGS side?

<A – Ulrica Fearn – Carlsberg A/S>: Yeah. So on the COGS side, maybe it's, of course, still too early to reconcile the COGS for 2024, but to give you a little bit of [indiscernible] (00:30:57) I mean, we'll give you an update in February. There are still many uncertainties. And now you talked about hedged, we have now about 40% of commodities that have not yet been hedged. And we are in the middle of ongoing discussions with the major suppliers for 2024 and onwards.

But again, maybe a little bit more color on the input cost development. We talked about this before. We're seeing it's the same: aluminum has come down from its peak in 2022, but again, it's not come back all the way down it's just back to the level of early 2021. Barley has come down from its peak and there is – it's only back to the levels of early 2022, but the supply situation has improved. But there is some concerns in the market even so.

And sugar, as we said before, it's close to all time high. Although natural gas is coming down, and then you have a whole set of other costs like packaging, salary, maintenance and the oil price that are increasing. So and on top of that we've got the conversions cost that are also bit sticky and are not coming down despite energy declining and as our suppliers are continuing to have inflation in their cost base.

So many, many moving parts still and high degree of uncertainty. However, as we said before, we referred to, it is unlikely that we see a meaningful decline in COGS per hectoliter in 2024. And actually, even though those commodities are remaining unhedged 40%, our best guess currently is that it will be flattish cost per hectoliter from that point of view. I guess you did mention total costs, and there are other moving parts as well. We do as a sort of keeping comments on that continued inflation in other cost groups is what we're seeing as well. And we do continue to see other costs also increase, such as salaries, sales and marketing and logistics. So that's a little bit more color, albeit, as I said, we're in an uncertain world still for 2024.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Very kind. Thank you.

Operator: Thank you. The next question is from Edward Mundy of Jefferies. Please go ahead.

<Q – Ed Mundy – Jefferies International Ltd.>: Good morning, Jacob. Good morning, Ulrica. Two questions from me, please. The first, on Europe, where you're flagging some weaker consumer sentiment in the quarter. I'm interested to know sort of what's changed relative to the first half. Perhaps can you provide a

bit of color around which markets are seeing anything as down trading – is it total mix, pack mix, and what do you actually see to sort of highlight that degree of caution around Europe? And then Jacob, I wanted to hear around the balance sheet, the Carlsberg has got a strong balance sheet and you're bringing a fresh pair of eyes to the overall portfolio from a geographic standpoint, quite a lot has been done across global player consolidation over the last couple of decades. But how do you think philosophically around the balance between organic growth and inorganic growth for this business?

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you, Ed. Let me just talk to both of those. You asked about Europe and what has changed and just the overall sentiment. So if we look at the – of course, as Ulrica said very clearly, when we look at the quarter, we estimate that two thirds of the volume decline was due to weather and one third was due to the consumer. And I guess overall, the question around, say, underlying trends and whether you're seeing a deterioration. Of course, it's not an exact science. There's a lot of data points that we're looking at. When we look at our numbers, we are generally outperforming in premium across markets, of course, thanks to our strong brands and the good support behind the brands. And therefore we are seeing a limited impact on brand mix in our portfolio.

It's also important to note, as you say, there is a lot of different consumer behavior by markets. And I'll give you a couple of examples. You asked specifically on some color. So if you take a country like France in Europe, market volume is down due to inflation. There's less promotions and poor weather. The discount channel is gaining from hypermarkets, but we're gaining volume and value share. And also our premium portfolio is outperforming mainstream.

If you look at some of the Nordic countries, Denmark, Norway, we're seeing premium and AFB [alcohol-free brews] outperforming. We're seeing some share gains from private label in Denmark as an example, but from a low level, Norway specifically, the market is down trading from premium to mainstream, but we outperforming premium. So again, you see the nuances there. I guess, for Carlsberg as a whole, we are holding up quite well in terms of premium outperforming mainstream.

But I guess a data point for you on Western Europe is that the on trade is declining more than off trade. And of course, there's a big weather impact on that, but we don't want to conclude anything on the basis of one month, but if you look at the month of September where weather was actually good, we still saw on trade performing worse than off trade, which could indicate that the high inflation is impacting consumer behavior. And so, we are cautious around European consumer. We don't see a deterioration from here. That's not the point. But we don't think anyone should expect a significant bounce back in terms of European consumer behavior in the coming months. So, I mean, that's what we're entering the quarter with. It's not dramatic and it's also, of course, in our guidance. But I mean, there's no doubt that we'll go through a period now where the European consumer will remain sluggish.

Then you asked about the balance sheet and first of all, yeah, of course, I recognize the fact that Carlsberg has a strong balance sheet. I think that's one of the key strengths in the foundations of the company. If we look at SAIL'27, it's an organic strategy. We have clear priorities. And as I also said in my intro, I see many opportunities to accelerate organic growth by doing the right investments. That means investing behind our premium brands, the AFB category, beyond beer and also in CSD as an example and that doesn't change anything. That is all organic.

And we have the capacity, of course, with that balance sheet is also to go and invest in inorganic fashion. But I'm a firm believer that it's all about driving organic growth. It's all about driving organic growth and organic value to our shareholders. And of course, when Inorganic opportunities occur that are attractive for us as a firm and that means in terms of our ability to create shareholder value, we will have to look at it.

I don't think anything has changed from that perspective. If my predecessor was in the room, he would also state that he would look at inorganic opportunities that were attractive. So I don't think you should see expect to see a step change. This industry – that much I have learnt – this industry has consolidated. There

are opportunities out there. Those opportunities will certainly occur in terms of windows opening and then we will have a look at it, just like we would have had a look at it the last 10, 15, 20 years as a company.

So for me, it's clear the growth and the value we want to create is predominantly organic. And as I said, if the right opportunity occurs from an inorganic perspective, we will look at that as well. But there is no urgency around that it's all about creating value for our shareholders.

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

Operator: Thank you. The next question is from Trevor Stirling of Bernstein. Please go ahead.

<Q – Trevor Stirling – Bernstein Autonomous LLP>: Good morning, Jacob and Ulrica. Just one question from my side, Jacob but it's really around China and how you're looking at Q4 as you enter into Q4. I appreciate the comps are easy, is there a big regional variation in terms of how the comps play out and yeah – and really any more color on China and the outlook for the rest of the year?

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Hi, Trevor. So thanks for that question. So when we look at Q4, yeah, you're right. The comps are of course, as you say, looking easy compared to what we were seeing last year. Overall, when you look at China right now, we're seeing a relatively broad-based growth in the quarter. Of course, we've said that that core mainstream was going higher than premium in the quarter, which would also indicate that we're seeing slightly higher growth in the home regions versus the big cities.

We're saying premium growth in the quarter was 4% versus overall growth of 6%, which tells you something around the fact that the mix is relatively well-balanced. When I look into Q4, we're not going start doing comps per region, if that's okay. Of course, I hope you appreciate that. Also, as you know, we have a listed business in China, so we have to be careful in terms of how much we give of further information but there's no doubt that as we look into Q4, the reason why those comps were easy is part of that is, of course, most of it is COVID-related and part of the COVID effect on our Chinese business, if you look at it was less travel, less tourism to the western parts of China.

So that's -- there's that element into the overall comps that we looking into in Q4. As tourism is coming back of course it benefits our regions and we said that very clearly when we look at the Chinese numbers for this quarter, we just delivered that the double-digit growth, as an example we saw in Wusu in Q3 was supported by tourism and those effects we would expect to continue and see more often. Hopefully that gave you a bit of color.

<Q – Trevor Stirling – Bernstein Autonomous LLP>: Absolutely. Thank you very much, Jacob.

Operator: Thank you. The next question is from Søren Samsøe with SEB. Please go ahead.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Yes, good morning, all. It's Søren. Just two questions from my side. First of all, it looks like your non-beer volumes are down quite significantly in Asia, I think around 16%, as I understand it relating a lot to Cambodia. Just if you could elaborate a little bit what has happened there and how much of your Asian non-beer volumes are related to Cambodia.

And the second one is on the DKK 200 million extra in marketing cost. I was just wondering if you had not done this investment, would you still be within the guidance range on EBIT growth, could you elaborate a little bit on that. Thanks.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Hi, Søren, thanks for those two questions. So I think just on the latter question as to whether we would still be in our guidance range if we hadn't done the DKK 200 million. I think if we are very precise in that we're giving you a very clear guidance on where we end the year. So but – so I'll defer to Ulrica in a second, if she can give a bit more color around that.

But let me talk about the non-beer volume. You asked specifically around Cambodia, and you are right, we are flagging that when we look at non-China volumes in Asia, Cambodia was more than 80% of the decline that we're seeing in volume. So Cambodia is clearly very significant here and we were very open around the fact that it's – we saw a very tough consumer environment and increased competition that impacted the Sting energy brand and the soft drinks category in Cambodia. And therefore, we saw quite a significant decline in volumes there.

So Sting did have a quite a significant impact in the quarter. You asked specifically how much Cambodia constitutes of the non-beer volume in Asia. I can't give you the exact number, but it is quite significant. It's around 40% to 50% of the Asian non-beer volumes that comes out of Cambodia. And that's also why you're seeing that significant impact here. And I hope that gives you some color you were looking for. Then over to Ulrica, just in terms of whether we should give a bit more color on those DKK 200 million.

<A – Ulrica Fearn – Carlsberg A/S>: Yeah, it's – on the one hand, we can look at it very, very simply and say it's DKK 200 million more that we would have in EBIT. Of course, we would have been within the upper end of our guidance. On the other hand, there are of course many moving parts within it. So simply put is that now I would put this at the top end of the guidance. But of course, it is only one factor out of many as we judge the overall situation where we're at.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Okay. Thanks for that.

Operator: Thank you. The next question is from Olivier Nicolai of Goldman Sachs. Please go ahead.

<Q – Olivier Nicolai – Goldman Sachs International>: Hi. Good morning, Jacob, Ulrica and Peter. Just two questions. First of all, a follow up on China. Your predecessor managed to increase the market share in China from 6% to 8%, partly by the Wusu brand but not only. Could you give us an update on the Wusu brand and how realistic do you think it is to reach 10% market share over time in China?

And second question, you got the license back for the Kronenbourg brand into the UK, I think it was during the summer. What's your assessment of the brand equity of this brand in the UK? Is there a high level of inventories in the trade left by the previous owner? And what kind of timeframe do you have for the brand to contribute to the group EBIT. Thank you.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you, Olivier. Let me start on the China question. So listen, I completely agree. I think it's great to see how we have developed the Chinese business over the years and the share growth we've seen. Everything I've seen after coming in and spending a lot of time with the team on the market and the analytics around it, I see absolutely no reason why we will not continue to grow our market share in China. And I think 10% is a completely realistic mid-term target. So I can only confirm what my predecessor had also been stating. So no change to ambition from that perspective.

You asked specifically around Wusu. Of course, Wusu is one of a number of well growing brands in China. If we look at Wusu specifically, Wusu delivered double-digit growth in Q3 and that was supported by increased tourism. And with that, you also can infer that it was growing stronger in our Western stronghold region than in the big cities. But as I said, after, say a slower growth of Wusu in the first couple of quarters, we're seeing a significantly stronger growth in Q3.

But it's also important to remember, when we look across the total portfolio, we are seeing a number of brands in China that are driving the growth, and it's not just a Wusu growth. We're seeing good growth in Tuborg and Carlsberg and Wind Flower Snow Moon and a number of those brands. So I think it's quite broad-based the Chinese growth we're seeing. Of course, we cannot – over time be completely immune to Chinese macro, but we also do not expect to see a market that is falling 6% year-on-year every quarter. So, of course, that that shouldn't be a structural factor that we have to deal with.

So overall, I have to say, I share the enthusiasm. There is a continued focus on driving our Chinese business forward. Wusu is a clear driver, but also the more broad-based portfolio of other brands that are growing quite fast. And Ulrica, if you want to speak to Kronenbourg in the UK.

<A – Ulrica Fearn – Carlsberg A/S>: Overall, it's a brand that will complement our offers and our customers tremendously in the UK. It's an iconic beer brand and it's growing in both volume and value in the UK and it does have a strong brand awareness amongst both consumers, but it's also got a very distinct story. So bringing that brand across our portfolio will hopefully unlock exciting potential in the UK. But it is a long-term move for the UK business and it will help us deliver on our strategy. It will help us to defend with Kronenbourg to win in the premium category as well. And we have ambitious plans that will help drive us the brand in the UK. But exactly the plans for those of course they will unveil when we come into the next year and we take this on.

<Q – Olivier Nicolai – Goldman Sachs International>: Thank you very much.

Operator: Thank you. The next question is from Mitch Collett of Deutsche Bank, UK. Please go ahead.

<Q – Mitch Collett – Deutsche Bank AG (UK)>: Good morning, Jacob, Ulrica and Peter. I guess at this stage of the year, as a predominantly northern hemisphere brewer, I just would like to get your thoughts on why you didn't narrow the guidance range at this stage. And in particular, perhaps you could give us the primary sources of uncertainty that would see you land towards the upper end or the bottom end of the guidance range?

And then for my second question, you said that the increase in commercial investments, I think you said was going on premium brands, alcohol-free brews and have I missed anything there? And I guess if that's correct could you maybe comment on the levels of investment going on in mainstream beer in Europe, if that perhaps is that you see as less attractive? Thank you.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you, Mitch. Let me start with the last question and then, Ulrica can talk to your question on narrowing the guidance Yeah, the commercial investments, Ulrica, mentioned a number of areas, but the main investment for us will go into premium brands and also geographically towards Asia, some specific Asia investments. In terms of whether that means we're not investing in mainstream, do remember this is investment that goes on top. DKK 200 million will have an impact given that it's in within a short timeframe towards the end of the year. But, of course, it comes on top of our current marketing and commercial investments more generally.

And therefore, we are continuing to invest in our mainstream brands in Europe. There's no doubt that right now with the consumer environment in Western Europe, there are some places, some areas where it makes sense to hold back a bit in terms of marketing and brand investments, simply because of the overall environment. But the acceleration we are doing here is a focus on accelerating premium and accelerating especially Asia.

<A – Ulrica Fearn – Carlsberg A/S>: On the guidance then, Mitch, and yeah, I mean, maybe to start with that we did maintain it because there were a lot of very good positives in there: strong revenue per hectoliter improvements and then the cost control I mentioned, but also that China performance was solid. And then we had the sort of offsetting factors against that, which was the bad weather we saw in many European markets that I spoke about, but also the consumer environment in Europe and the Asian markets outside China been spilling over. And then we sort of commented on our step up in commercial investment that's sort of offsetting the EBIT there.

In that offsetting that are some of those uncertainties that continue into for the rest of 2023. So that overall challenging consumer environment that Jacob talked about, how long it would last for. It is a question mark

how it will may impact volumes and channel mix negatively. We made an assessment and how comfortable where we are, but it is a risk that we will keep on monitoring for the rest of the year, both in Europe and Asian markets outside of China. However, when we talk Asia, the favorable comps in China will also as we talked about, help us from the lockdowns that were there in Q4 last year. So generally, consumer environment is the biggest uncertainty, which is why we kept the range.

<Q – Mitch Collett – Deutsche Bank AG (UK)>: Understood. Thank you very much.

Operator: Thank you. The next question is from Laurence Whyatt of Barclays. Please go ahead.

<Q – Laurence Whyatt – Barclays Capital Securities Ltd.>: Hi, good morning, Jacob, Ulrica and Peter. Thanks very much for the question. Two also for me, please. Just another go on, China. I was just wondering, if you could try and characterize the different parts of the Chinese market for us. I guess we're seeing the issues with Country Garden, particularly on Tier 3 and 4 cities, which I would have thought you'd be more exposed to in the west of China. But also, I wonder if you could comment on some of your peers in the spirits sector mentioning that September and October we're seeing a slightly improved Chinese sentiment. I wonder if you would also recognize those comments.

And then secondly, on your net debt to EBITDA sort of been mentioned earlier, there's a particularly strong balance sheet that you have. Historically, you've not really had a target for that ratio. I was just wondering, firstly, given the changes in management, Jacob you come in, would you consider having a target for you net debt to EBITDA. But otherwise, do you think there's a level in which if you went below a certain net debt to EBITDA ratio, it becomes particularly, I guess unhelpful to the business or perhaps, yeah, just lack of optimism or not optimizing the balance sheet properly. Is there a level in which you would be uncomfortable? Thank you very much.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you very much, Laurence. And so let me take those two. You asked specifically around more color around China. So if I look at what we've seen in the last quarter and what we're seeing into Q4, I wouldn't in terms of started to categorize different Tier 1 cities versus each other et cetera, I think that becomes Tier 1 versus Tier 2 versus Tier 3. I mean, that's starts getting relatively detailed from our perspective.

What I can say is that when I look across the data across the big city strategy we have, we have as you know still a relatively low share across those big cities. And therefore, it's less about the consumer, it's less about the economic environment in that big city. It's more around our go-to-market, how we are working with our distribution, with our sales force, how we are – what portfolio we're entering, the breadth and the depth of the portfolio we're entering that specific city with and of course the overall go-to-market strategy around that. That's what I'm much more focused on, that we stay analytical, that we are very focused on constantly being driven by the data, when we approach the big cities.

Given our size, there is no excuse for us not to be able to drive growth in any given environment, given our still relatively low market share in the cities that we are in. So of course, there is an overall undercurrent of the Chinese macro, but it doesn't remove the opportunity for us to grow. You asked – you mentioned the September-October comments, and we don't like to be specific on months. We don't generally talk about performance in a given month in the next quarter.

But what I can say, of course, October had golden week, which is important in the overall context. And if we look at – I will of course not give you our performance numbers over golden week. But if you look at the public statistics, domestic travel was strong, which is helpful for our business, actually the domestic travel looks to be actually even above the 2019 levels or pre-COVID levels. And given our overall footprint that does of course help us, given that we are well-situated in tourist destinations as well.

So overall, consumer spending seems to have been good over golden week. And therefore, we can also say that we continue to see a good development, but we cannot comment on Q4 trading as you know, CBC is a listed company. So I can echo some of that positive sentiment without being too specific. Then on the balance sheet, we do have a target, which is net debt to EBITDA below 2 times. At least that's what I've learned and what I can see in the papers in front of me. So apologies if we haven't been clear enough towards you around that.

But there is a target as part of our capital structure policy that we maintain net debt to EBITDA below 2 times. I'm not going to venture into at this stage talking about whether that's the right number. I think that's a completely ... I think that – we are in a good position with the current leverage level. I think below 2 is a sensible leverage, but it's not a statement around where you should expect to see our capital structure over the next 10 years. So I've inherited, I think a prudent and a good capital allocation policy, and I intend to stick to that.

<Q – Laurence Whyatt – Barclays Capital Securities Ltd.>: Thanks so much. And just on that balance sheet point, is there a level which you think could be too low? So if you go below 1 times, for example, do you think that just be too far.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Of course, there is a level that's too low. I think also that has to be seen in the context as to why we go below that level. I think you know from us that we are shareholder focused, that's why we're doing the buyback. And of course, there is a level where we need to look at whether we need to up distributions. If we let our capital structure deviate significantly from our policy, it is, of course, because there is a reason. As Ulrica has said, there is one specific situation around India and Nepal that you're aware of and that could be a reason to let our leverage fall in the short-term to be able to accommodate that. But no, of course, we are not suddenly going to be a net cash company. I can assure you that. But I'm not going to give you one specific number.

<Q – Laurence Whyatt – Barclays Capital Securities Ltd.>: Understood. Thanks very much for the color.

Operator: Thank you. The next question is from Chris Pitcher of Redburn Atlantic. Please go ahead.

<Q – Chris Pitcher – Redburn (Europe) Ltd.>: Good morning all. A couple of questions for me, please. First of all, following-up on the India and Nepal comment, can you say that the change in executive has had any impacts on the development of those negotiations? Obviously, you're pushing out any expected decision into next year. And can you say whether this is impacting on the operating performance, particularly the ability to put new capital into the business? Is the reason why CapEx has been phased predominantly in India an capacity issue?

And then secondly, just on the commercial investment you mentioned, part of it was marketing, part of it was perhaps sales how much of the DKK 200 million should we be annualizing into next year in terms of new head count and how much of it is more of a bit of a marketing boost at the end of the year? Thanks very much.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you very much, Chris. Why don't I speak to the commercial and then Ulrica can talk to India and Nepal. Just on the commercial, so you shouldn't be annualizing the DKK 200 million. It's a boost to our investment, which of course, will carry a bit of head count, but it's not mainly head count related. It is a number of other initiatives, both on the marketing and on the sales sides that will not carry the significant new head count. So, I think that's the precise answer to that. Obviously, Ulrica on India and Nepal.

<A – Ulrica Fearn – Carlsberg A/S>: Yeah. And the situation there, we are continuing to move forward. As we have said before, there's no change to that. We're in the place where, as you're aware, we could see to the point of the option valuation and the parties have agreed to refer the issue to arbitration and that's

where we are at the moment. We've also said that the alternative solution would be to negotiate a deal and work through that in another way. And that's also a route that one could take, but there's no change to our approach in that and we continue our path forward.

<Q – Chris Pitcher – Redburn (Europe) Ltd.>: And specifically on the CapEx, is that an Indian phasing because the volumes been very strong, are you able to expand capacity to keep up with demand?

<A – Ulrica Fearn – Carlsberg A/S>: From an India point of view, we are, there's no change in plans, there is – it's a shift in phasing all and then it's not specifically focused on any region or any particular specific project. It's just the phasing between the two years and we're just coming to the end of the year and I'm being a bit more precise as to where we will land.

<Q – Chris Pitcher – Redburn (Europe) Ltd.>: Thank you.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: All right. I think we need to ask for the last question, please.

Operator: Yeah. The next question is from André Thormann of Danske Bank. Please go ahead.

<Q – André Thormann – Danske Bank A/S>: Yes. Thanks for taking my question. The first one is just on the European consumer, just to be sure here, are there any new markets where you see a weakening compared to Q2? And did I hear right that Poland was actually doing a bit better? That's the first one. The second one is, in terms of the investments you're doing in Vietnam. Do you have any new views in light of the continued issues over there and also the weak Chinese macro asset?

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you, André. So let me take those. In terms of new markets as such, I think we are going to find some points of specific markets. We're not seeing a deterioration across markets in Europe. What we're seeing is that we are seeing a slightly weaker European consumer across the board, and that is – it's not driven by one specific market, that is significantly coming of the volume. It is very much driven by just a small weakening across the board, driven by the inflationary impact in those markets.

You mentioned Poland specifically. You are right. We're seeing an improvement there as we narrow some of the price points. And we're also seeing that we're getting good traction also on the premium side of things in Poland. So you are right there's an improvement on a relative basis there. Still a tough market, the market is down high single digit year-to-date. So it's not an easy market to navigate in. But there is a ray of sunshine there.

And then on Vietnam, yes, I can guarantee you that the focus and the excitement around Vietnam and the growth opportunities we have there and the investments we're doing there is unabated. It's correct that we are seeing some short-term cyclicity in that market. It doesn't change anything from us. We see significant opportunity in Vietnam. We are up year-to-date on volumes in the market that is down significantly. So, we are continuing to take share. And there is no change to our plans there. We don't expect this macro downturn in Vietnam to be a multi-year structural issue. It is a very quick cyclicity and a reaction to especially the Chinese consumer. And as that stabilizes, we also expect Vietnam to stabilize. We have a lot of internal momentum in Vietnam that is not dependent on whether the market is growing or not.

Jacob Aarup-Andersen, Chief Executive Officer, Carlsberg A/S

I think we'll leave it there. I just want to thank you for listening in and thank you for all your questions. We are looking forward to meeting many of you over the next couple of days. And we have a phenomenal IR team, and they are eagerly waiting by the phone, if you have any clarifications, you want to follow-up on. So, have a nice day and thank you very much.

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