Interim Results - 9 Month Ended 30th September 2012
Carlsberg A/S
CEO Jørgen Buhl Rasmussen
CFO Jørn P Jensen
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Operator: *Welcome to the Interim Results - Nine Month Ended 30th September 2012 Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.*

I will now turn the call over to your host, CEO Jørgen Buhl Rasmussen. Sir, you may begin.

Jørgen B. Rasmussen: Good morning, everybody, and welcome to our Nine Months 2012 Results Conference Call. My name is Jørgen Buhl Rasmussen, and I have with me our CFO Jørn P. Jensen and Vice President of Investor Relations Peter Kondrup.

The headlines for the nine months are: We continue to improve market share across all regions and our Russian market share improved by approximately hundred basis points compared to both Q2 this year and Q3 last year and Q3 operating profit and adjusted net results grew, mainly due to revenue growth and lower sales and marketing investments. Nine months operating profit and adjusted net profit declined due to destocking in Russia, bad weather in Western Europe in Q2 and July, and phasing of sales and marketing investments. And then Q3 performance was in line with our expectations, and we keep our 2012 earnings guidance unchanged.

After a summary of our performance for the nine months, I will go through the regions and after that Jørn will walk you through numbers and our outlook and thereafter we're happy to take your questions.

Please turn to slide 3. Total market development was mixed between regions. I will go into more details when discussing the different regions. We have continued the recent years' efforts and investments in the commercial area to drive both value and volume share in all our markets. This was successfully executed. And for the nine months, as well as in Q3, we saw improved market share across all three regions. In addition, it is very satisfying to see that our efforts in Russia are starting to pay off as Q3 market share grew sequentially and also grew year-on-year. Important commercial activities driving share and value growth included further development and rollout of value management tools, increased channel marketing efforts, portfolio optimisations, product launches, and revitalisation of existing brands, and the activity level was in particular high for the first six months. Our international premium brands have performed very well for the nine months. The Carlsberg brand grew 9% in its premium markets supported by the successful activation of EURO 2012, which delivered strong impact and visibility of the brand. The Tuborg brand grew 6% for the nine months and 12% for Q3 due to the rejuvenation of the brand early in the year with a new campaign which included a new tagline, new visual identity, and new communication. The rollout has so far happened in many markets such as China, India, and Russia, and all with very good results. We also continued the rollout of

1664, Grimbergen, and Somersby in new markets. All three brands are strong additions to our local portfolios. Grimbergen and Somersby have so far been launched in 10 and nine new markets, respectively, during 2012. Somersby grew more than 80% and Grimbergen more than 60% for the nine months. We continued to invest in and drive our local power brands. It is a core part of our strategy to balance focus and investment between international premium brands and local power brands. As some of the important commercial activities for the year took place before the summer, our sales and marketing investments are phased differently versus last year. Sales and marketing investments for the year will remain at last year's level, but with a higher spend in the first half due to timing of some of the major activities such as the EURO and the Tuborg launches.

And now slide 4 please. Group organic beer volumes were flat for the nine months as well as Q3. Adjusting for the Russian destocking of an estimated 1.3m hectolitre in Q1, Group volumes grew organically by approximately 1% for the nine months driven by market share growth and Asian market growth. Western Europe grew slightly for the nine months. Eastern European volumes declined modestly adjusted for Russian destocking, and Asia continues its strong performance.

And slide 5. Organic net revenue growth was plus 2%, supported by positive price/mix for beer of 2%. In Q3, organic revenue growth was higher at 4% and a strong price/mix of beer of 4%. In Q3, the Group delivered 5% organic operating profit growth, mainly due to sales growth and the anticipated different phasing of sales and marketing investments compared to last year. Nine months operating profit declined 4% with a 9% organic decline. The decline was due to expected higher input costs, Russian destocking in Q1, poor weather in Western Europe, and then different phasing of sales and marketing investments compared to last year. The acquisition impact on net revenue and operating profit related to our Asian acquisitions, especially last year's increased shareholding in Laos. The positive foreign exchange impact related to Asian and Eastern European currencies mainly from Russia, Ukraine, and China.

And now turn to slide 7 please and a few comments on our regions. Western European beer markets declined by an estimated 2-3% for the nine months, excluding Poland. The market development was mixed, ranging from a solid 6% market growth in Poland to double digit decline in some of the smaller Southern European markets. Overall, the region was impacted negatively by poor weather conditions in Q2 and July. Despite the challenging market environment, we managed to grow our Western European business and with a 1% organic beer volume growth, we outperformed the markets and strengthened our market share across the region. In total, we estimate that our overall Western European market share grew by approximately 50bp. This very strong performance was driven by recent years’ ongoing, very focused commercial agenda, including development and rollout of value management tools combined with a balanced focus on an investment behind our international premium brands and our local power brands. In addition, the excellent execution of EURO 2012 supported the good performance of the Carlsberg brand as well as our local brands. The Polish business was the main contributor, delivering almost 15% volume growth. This strong performance was supported by an excellent execution of the EURO 2012, a successful launch of Somersby, and a solid performance by both the Carlsberg brand and our regional brands. Our Polish volume share grew by a hundred basis points to 17.5% with an even higher value share growth. Our UK volume declined 3% in a market declining 4%. The poor weather more than offset the Jubilee and the EURO Championship. Mainly driven by good performance in on-trade, our market share improved by 40bp to 15.7%. The French market declined around 2%. Our premium brands continue to grow, while the Kronenbourg brand maintained its share in the mainstream category. However, as consumers continue to trade up, the mainstream category is in decline bringing down our total market share in France. In the Nordics, we delivered very solid market share performance in markets such as Finland and Sweden. In Sweden, we achieved a good performance in the off-trade channel driven by our local power brands and Somersby, while in Finland we managed a positive result thanks to improved category management and retailers having a more balanced split between brands and private label promotions in off-trade. Organic net revenue for the region was flat. We implemented price increases in most markets in the region and will continue to do so. However for the nine months, we continue to see a significant negative country mix as Poland being a lower price market grew while markets such as the Nordics declined. In addition, the channel shift from on-trade to off-trade continues; hence, average price/mix was flat for the nine month but plus 2% in Q3 due to less negative impact from country mix in Q3. Operating profit declined organically by 5%, impacted by higher input costs and a negative weather impact. We maintain our strict cost management and continue our efficiency improvements. As a result, Q3 operating profit grew by 1%. Operating margin declined 80bp for the nine months for the same reasons as well as negative country mix due to the growth in Poland. Q3 operating margin declined mainly due to country mix.

And now to slide 8 and Eastern Europe. The Eastern European beer markets grew slightly for the nine months. Our organic beer volumes declined by an estimated 1% adjusted for the destocking of 1.3m hectolitre of beer in Russia in Q1 and the suspended production in Uzbekistan. The Ukrainian market grew by an estimated 1% for the nine months despite being impacted by the macro economy and poor weather. We continued to gain share in Ukraine, mainly due to the strong performance of the Lvivske brand and our Baltika brands. Our market share improved by 60bp to 29.5%. Organic net revenue for the region was flat with a 4% growth in Q3. We continued to deliver a very solid price/mix improvement of 7%, and we will continue to increase prices across all our Eastern European markets. In addition, we had a positive mix in Russia and Ukraine due to positive brand and packaging mix. Organic operating profit grew 17% for Q3, but declined by 13% for the nine months. The nine months profit decline can be explained by the different phasing of sales and marketing investments, especially in first half, higher logistic costs, destocking in Q1, and the suspended production in Uzbekistan. Due to higher revenue per hectolitre, we mitigated the higher input cost and grew gross profit per hectolitre by approximately 7%. Operating profit grew 290bp for Q3, but declined 260bp year-to-date. The change in operating profit and margin development has been as planned and primarily driven by different phasing of sales and marketing investments between quarters versus last year.

And now turn to slide 9 please and some additional comments on Russia. The Russian beer market grew modestly for the nine months, but declined by 2-3% in Q3. In the first six months, the Russian market benefited from pre-election income increases. The market decline in Q3 is expected to be a temporary reaction as the positive benefits of the pre-election income increases in the first half is levelling off and due to the short-term transitional disruption following the closures of non-stationary kiosks and pavilions ahead of the restrictions coming into effect in January. Based on the market development after the nine months, we keep our view of a flattish Russian market for the year. Our in-market sales or consumer off-take grew by 1% for the nine months as well as Q3. Our shipments or sale-to-distributors were flat when adjusting for the 1.3m hectolitre destocking in Q1. During 2011 and 2012, we have implemented many changes and initiatives throughout our commercial organisation and within the general leadership of the Russian organisation. Of particular importance are portfolio optimisation by type of outlets, including complexity reduction, channel marketing, value management, structural and people changes. The market share data for Q3 is again an indication that these initiatives are starting to bear fruit. Our market share continued the positive trend from Q4 last year and increased to 38.9% in Q3 corresponding to a 100bp improvement to Q2 and 110 basis point improvement compared to same quarter last year. The improvement is broad-based as we are gaining in both modern trade and traditional trade as well as in all price segments versus Q2, except the premium segment where our market share is flat. Our value share grew in line with volume share. We achieved a 5% positive price/mix in the market. The positive pricing was driven by price increases in November 2011, March, May, and August, which more than offset the 2 rouble duty increase in January and then we announced another price increase of close to 3% in October.

And now slide 10 and Asia. The Asian market growth continued and all our Asian markets grew for the nine months. Our strong market share momentum continued, and we gained share in most markets across the region. The share gains were driven by innovations, revitalisation of local brands, and rollout of our international premium portfolio. The Tuborg brand did particularly well with almost 60% growth following the launch in China and rejuvenation in India. Activation of the Carlsberg brand was focused around the Chinese New Year and EURO 2012 and both events helped the brand to grow at high single digit. Finally, we continue to rollout our international brands, including Grimbergen, Somersby, and 1664 Blanc in new markets. Generally, Q3 performance was in line with year-to-date. We delivered 10% organic beer volume growth in the region with all Asian markets contributing to this growth. We saw particularly strong growth in markets such as India, Cambodia, Vietnam, Laos, and Nepal. Our Chinese volume growth was 5% or 8% including acquisitions, and we continued to gain market share in China driven by our international brand portfolio. Organic revenue grew 19% driven by volume growth and our premiumisation efforts both from the very solid growth of our international brands, but also the continued efforts to premiumise our local brands. The region continued to deliver very solid profit growth. Organic operating profit grew by 10% and almost 30% including acquisitions and currency impact. On top of the strong organic growth, we continued to expand our Asian business through structural changes. Earlier in the year, we signed an agreement to establish a new brewery in the Yunnan province in China and we have recently acquired a brewery in India, which will be our sixth brewery in the country.

And with this, I would like to hand over to Jørn, who will now walk us through the financials.

Jørn P. Jensen: Thank you, Jørgen, and please turn to slide 12. With revenue growth of 8% for Q3 and 5% for the nine months, the Group delivered solid revenue performance despite the challenges from difficult consumer dynamics, bad weather in Western Europe, and the destocking impact from Russia in Q1. Our sustained ability to grow volume per hectolitre continues to impact positively the revenue line. With significant variations between markets and regions, the value management efforts are also helping us to offset the impact from higher input costs. Consequently, the positive price/mix has more than offset the higher cost of sales and we grew gross profit per hectolitre as well as reported gross profit for the nine months. Although we saw an improvement in Q3, nine months operating profit declined due to destocking impact, poor weather in Western Europe in Q2 and July, and higher sales and marketing investments in the first half. Cash flow was very strong with solid contribution from improved trade working capital. In addition, free cash flow was also positively impacted by the sale of the Copenhagen brewery site in Q2. Adjusted net result, or clean EPS, declined 3% for the nine month whilst growing 7% in Q3. We continue with a very strong focus on earnings and cash flow in all business units. Our efficiency agenda throughout the business continues while being balanced with continued investments in our brands and the future growth of our business.

And now to slide 13 and the income statement. As you can see in the table, organic net revenue was up 2% or 1.1bn. Jørgen has been through the net revenue development, so I will move on to gross profit. The mid-single digit increase in COGS per hectolitre this year has been as expected. The poor harvest in Eastern Europe in 2011 was the key contributor to this development. We have succeeded in offsetting this increase through price increases, a better mix, and the continuous efficiency improvements leading to organic gross profit being up 1%. It has, however, also resulted in a decline in the organic gross profit margin of 90bp. Organic total opex, including brands marketing, was up organically by 828m. Opex per quarter this year is impacted by a very different phasing of sales and marketing investments versus last year, with big events such as EURO 2012 and the relaunch and geographic expansion of the Tuborg brand taking place in the first half. Opex was also impacted by higher logistics costs, mainly in Eastern Europe. Increasing efficiency throughout the business is and will remain a key priority and many bigger initiatives are currently being developed and implemented, such as the integration of supply chain in Western Europe in conjunction with BSP. Other income net was at last year's level. So all in all, operating profit was 7.6bn with an organic decline of 718m. Of this, around 500m can be explained by the destocking in Q1 and the phasing of sales and marketing investments. In Q3, operating profit was up 167m with significant contribution from Eastern Europe and Asia.

And now to slide 14. Special items were +1.4bn. They were positively impacted by 1.7bn from the sale of the brewery site in Copenhagen in Q2 and negatively impacted by 200m from the dismantling of the Vena brewery in Russia, which has not been used for brewing in recent years. Generally, special items relate to the many restructuring initiatives in the business. Net financials were down 208m compared to last year. Interest charges were down 128m as a result of lower average funding costs. Other financial items were minus 136m, which was 80m less than last year and related to currency movements and fair value adjustments. So all in all, net profit was 5.4bn, up 181m from last year. Adjusted net profit, i.e., adjusted for special items net of tax, was 4.3bn against 4.4bn last year.

And now to cash flow on slide 15. The sum of the first three lines, EBITDA including other non-cash items, adds up to 10.9bn. This is a decline of a 98m and is explained by the lower operating profit. Trade working capital was impacted by normal seasonality. Nevertheless, change in trade working capital was plus 291m, a significant improvement versus last year. At the end of Q3, average trade working capital to net revenue was 1.3% compared to 1.9% in last year. This reflects our continued focus on reducing average trade working capital and was mainly due to improved trade payables. All in all, cash flow from operations was 6.7bn, an improvement of 1.2bn versus last year.

And slide 16. Capex was more or less at the same level as last year and was again driven by investments in sales as well as capacity expansion in Asia to drive the future growth of the Group. Net acquisitions amounted to -203m and were mainly related to acquisitions of associates, including the joint venture in Chongqing in China. The very positive cash flow from real estate was the proceeds from the sale of the brewery site in Copenhagen, which had a positive cash flow effect of 1.9bn. So all in all, free cash flow was 5.1bn, up 2.6bn from last year. Net interest-bearing debt at the end of the Q3 was 31.8bn. Net interest-bearing debt increased by 3.3bn from purchases of non-controlling interests mainly related to Baltika.

And finally on slide 18 and our outlook for the full year. As said, the Group performance in Q3 was as planned and in line with our expectations. For Q4, we expect continued difficult consumer environment in Western Europe, good Eastern European performance, and continued strong performance in Asia. More specifically on Q4 as such. As you will understand, we implicitly expect the earnings growth in Q4 to be somewhat higher than in the first nine month. It is basically all about Eastern Europe. Apart from the phasing of sales and marketing investments that we have talked about throughout the year, it is primarily due to two factors. Our market share in Q4 last year in Russia was around 37%. In Q3 this year, it was around 39%, so the incremental volume in spite of a flattish market will be more than what you have seen previously this year. We expect the stocking by distributors to be at the same level as last year. Secondly, the effect from already increased prices, the latest one being in the beginning of October, will affect Q4 positively, so the top line improvement through volume and price will in total be quite positive in Q4 versus same quarter last year. Based on this and a continued focused cost control, we keep our earnings outlook unchanged for the year. Operating profit is expected to be at last year's level and adjusted net profit is expected to be slightly higher than last year. As it is Company policy, we will give 2013 guidance in February when we report full year numbers. As a result of this and due to commercial considerations, we will, for instance, at this point in time not discuss outlook on 2013 input costs.

And Jørgen.

Jørgen B. Rasmussen: Thank you, Jørn, and that was all for today. And to summarise the Group's nine months performance, first of all, we gained market shares across all our three regions and with a solid price/mix across markets, our sustained value management efforts are paying off and we are seeing clear signs that we are on the right track in Russia and then our Asian businesses continued the growth trend and we are putting significant efforts into Asia to continue that trend.

And now we're happy to take your questions.

Operator: *Thank you. We will now begin the question-and-answer session. If you have a question, please press star then one on your touchtone phone. If you wish to be removed from the queue, please press the hash key or the pound sign. If you are using a speakerphone, you might need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star and then one on your touchtone phone.*

Ian Shackleton from Nomura is online with a question.

Ian Shackleton: Yes, good morning. **Three quick questions on Russia. You're reporting 2% increase in Russian shipments in the quarter, yet Eastern Europe as a whole is a minus two. Perhaps you can just give us the reconciling items on Ukraine and Uzbekistan. Secondly, market share of 110 bps in the quarter in Russia, I just wonder how much of that is due to the Holsten brand coming in. And the final question is around mix. I think slide 24 still seemed to show discount sector being about 47% of the industry, which is flat with Q3 last year, but perhaps you can just comment about overall mix within the industry and whether it is overall moving positive.**

Jørgen B. Rasmussen: Thanks, Ian. To your first question about the shipment developments, I mean one factor here is clearly Uzbekistan where we have no volume, but also Q3 shipment in Ukraine is not positive based on total market developed, not based on our performance, and then Kazakhstan would be slightly down. That is kind of explaining the shipment trends.

The market share, it is very little impact from Holsten. Holsten would be very minor to the overall market share. You're talking about probably 0.3% maximum of the annual benefit would be Holsten brand. It lost momentum and that is what we're trying to rebuild in the Holsten brand. Before we took it over, it lost momentum because of the pricing policy on the brand.

And then to your question about mix, we are still seeing positive mix and you can see that from our numbers on price/mix combined are positive and mix itself is positive in terms of trading up between segments. It is not significant, but you see at the other end some trading up, but also within each segment we see the average price point in general, if anything, is going up slightly, so we do see positive mix driven by brand trading up and also from packaging.

Ian Shackleton: **Just going back on the shipment question there. I mean that sort of minus 4% difference, is it right to think about half of that being Uzbekistan and half Ukraine? Is that roughly how it would split?**

Jørn P. Jensen: Ian, it is slightly more Ukraine than Uzbekistan.

Ian Shackleton: Okay, thanks very much indeed.

Operator: *Søren Samsøe from SEB is online with a question.*

Søren Samsøe: Yes, good morning, gentlemen. **First a couple of questions on Russia. As far as I can see, year-over-year, you will have a quite strong market share increase in Q4 and on top of that, it looks your price/mix is developing**

nicely in Russia and you could also see a better input cost effect in Q4 and also perhaps okay volumes. Well as far as I can see, you will have a margin increase of 4/500 bps in Q4, is that far off or is that a good ballpark figure or am I way off?

Jørn P. Jensen: When it comes to volumes, yes, they will be positive, as I said, and prices as well. Input costs will not be better in Q4 than what you have seen throughout the year. So, yes, you will see I guess you could say a significant top line improvement coming from volumes and from prices versus previous quarters this year in the fourth quarter and that of course has been part of the plan all along, but that is definitely - - that is for sure a difference in Q4 for Eastern Europe versus previous quarters.

Søren Samsøe: Okay. **And then, you had a weak market in Russia in Q3 and you're not really mentioning any effect from the marketing ban. Are you not seeing any effect at all or is it just too early to say anything about that?**

Jørgen B. Rasmussen: I think it is too early to judge, but as far as we can we see there is very limited impact from the marketing ban. It is probably more this kind of reaction to in the first half, they had some extra income in terms of some parts of the population based on what was happening before the election and there is a negative response to not getting that any more after the election and then secondly the closure of kiosks and non-stationary pavilions also had some impact. We don't think so far the media or marketing ban has significant impact, but it is still very early to judge.

Søren Samsøe: Okay. **And then on Western Europe, your margin was down 40 bps in Q3. If you could say if marketing cost was down year-over-year and if you adjust for development in marketing cost, what is the development in the margin?**

Jørn P. Jensen: We haven't done that adjustment, but of course it is as Jørgen also said before, it is several things. It is of course the simple fact that, as you know, input costs in general are up versus last year, which you have also seen in previous quarters, and then we do still have, but to a lesser extent, the negative country mix within the region with Poland being a lower price and lower margin country versus the rest of the region growing and the other markets volume-wise is slightly down. So it is more kind of mathematically coming from negative country mix and input costs up than anything else.

Søren Samsøe: **But is it correct to assume that marketing costs are down year-over-year?**

For the Group in the third quarter?

Søren Samsøe: No, Western Europe.

Jørn P. Jensen: That was flattish.

Jørgen B. Rasmussen: Flat for the nine months.

Soren Samsoe: Okay. **And then finally just, I know you qre not commenting on input costs for next year, but just if you could tell us how much of the barley supply are you in control of yourself and how much are you buying in the market?**

Jørn P. Jensen: We have in general quite good visibility on our input costs for next year. That goes for malt, so it is not so different when it comes to what we know versus previous years. As you know, the certainty on volumes and prices in general looking a year-out is far bigger in Western Europe and in Asia than it is in Eastern Europe. As we discussed also last time, we are getting more and more certainty in general on our hedges for Eastern Europe, but I promise you that we will discuss this - - all of this in far more detail in February.

Søren Samsøe: **But have you been hedging earlier this year than normal?**

Jørn P. Jensen: We are hedging when we think it is prudent to hedge through our beer.

Søren Samsøe: Okay, thank you.

Operator: Hans Gregersen from Nordea is online with a question.

Hans Gregersen: Good morning. A couple of questions. **First of all, China, we've seen a relatively major slowdown in growth rates during Q3, if you could comment on that please. In terms of Russia, on your slide number 23, there is some relatively large movements in market shares between the various players you have mentioned, if you could give some comments to that. Regarding Q4, in terms of malt costs for Russia, can you confirm if there has been any improvement in the malt quality in this year harvest when we look at Q4? That was basically it.** Thank you.

Jørgen B. Rasmussen: Hans, to your first point about China and growth rates, I don't think we can say we're seeing a significant change to growth rate in China. As always in a market like China, you see ups and downs between quarters and also impacted by what would be happening in terms of climate, et cetera. But, yes, a little less growth, but still a nicely growing market China and every year we do see quite big variance by quarter and remember our business is to a great extent in Western China where still you see more healthy growth than on average for China and also more long-term opportunity based on much lower consumption.

On Russia and market share and what we see with competition, again I don't want to comment too much on competition as such. But clearly if you look at trend, and you can see that from the slide we attached, that Efes being now combined with SABMiller, they are losing share and maybe that is a sign of also them still working on combining their businesses and have some challenges and then also ABI has lost some share in the same period and, as we have said many times in the last quarters, we do see also ABI being more balanced on volume/value than in the past, so making sure they also have a profitable business.

Jørn P. Jensen: And Hans, then to your third question, which I assume is more a '13 question than a Q4 question. I said before, we will - - we will get back on all this in February.

Hans Gregersen: Okay. **Then one final thing on Western Europe, there is rumoured a significant increase in the excise duty for France. Without looking at 2013 directly in terms of numbers, could you give your thoughts about how that would impact the overall mix on a market level?**

Jørgen B. Rasmussen: First of all, you're right, I mean there is certainly discussion going on in France and also a concrete proposal going through a process right now on a big increase in France. Let's see what it is going to be. There is clearly dialogue going on in France. Will it be 160% or less? Time will show, and until we know, we won't comment on what will be the impact. But, yes, it will be bad news. It will be a negative for the market development. We're talking about on average if you stay at the 160% having to put through price increases up around 15% in average, so will be negative for market development. I think it is too early to make any specific comments on mix because also that depend on strategy in terms of how you implement price increase. But I would say in general, as always, we believe consumers would have to pay for duty increases.

Hans Gregersen: **Could I just briefly ask you, Jørgen, Heineken has mentioned an average 20% increase on a market level, you only said 15, is that just uncertainty or calculation as far as any structural difference in view?**

Jørgen B. Rasmussen: I don't know. I know we got to 15, I don't know how Heineken got to 20, but if I look at portfolio and market mix, it looks to us like 15% if we put through the full impact of the duty increase assuming it is 160%.

Hans Gregersen: Thank you.

Operator: Casper Blom from Handelsbanken Capital is online with a question.

Casper Blom: Thank you, guys. Just three questions please. **First of all regarding your deal in Baltika, are you far ahead now to give any more quantitative estimate on potential synergies from owning 100% of the Company? Secondly, with regards to France, also it has been a somewhat challenging market with the trends we have seen away from mainstream. Are you going to implement any major changes now that it will be Tolstrup heading up the Western European region? And finally regarding Somersby, we have seen an entry into rather new markets from your side, are we going to expect that to be in a type of export business together with partners or is there any chance that you might go into actually invade these countries also?**

Jørn P. Jensen: So the first question on Baltika, well the short answer is no. The - - a little longer answer is that, as you know, it is basically for two reasons. One is that it is immediately EPS accretive. So just as a pure financial transaction, it makes sense as such and then it is about also in the mid-term, which is some years out, to have significantly more flexibility in the whole supply chain in Europe as such, but it is way too early to talk about kind of synergies and those kind of things.

Jørgen B. Rasmussen: And to your point about France, first of all bear in mind, we're still very pleased about the financial performance of our French business since we took it over. Where we have been fighting a little harder would be on the market share development and, you're right, it is driven by the mainstream segment getting smaller and smaller and we are always looking at what we can do better and differently. But don't assume because we get someone like Tolstrup coming in instead of Friis heading up France, suddenly we will see a change in strategy. Strategy is not developed just by a person.

And to Somersby, yes, we are rolling out Somersby with success in a lot of markets and doing very well and we plan to continue to do so. If we don't have presence in terms of our own business, maybe sometime through our export business, depends.

Casper Blom: Okay, thank you.

Operator: Samar Chand from Barclays is online with a question.

Samar Chand: Thank you. Thank you very much. Good morning, gentlemen. **I'm just wondering if you could tell us what the Northwest European margin would've been if you excluded the negative country mix impact from Poland. Just trying to understand what the underlying margin rate is. Secondly, just an update on the kiosk ban in Russia, have you seen the level of conversions continuing in Q3? And also perhaps an update on what you expect January next year in terms of the kiosk, are you still assuming that a large part of those volumes actually get transported into other retail outlets? And then just lastly, just an update on what you expect the full year funding cost to be.** Thank you.

Jørn P. Jensen: On the first one, actually I don't have that calculation in front of me, so Peter can get back to you on that specific number.

Samar Chand: Great. Thank you.

Jørn P. Jensen: But of course in general, our margins are not positively in Europe, but negatively of course this year, everything else being equal, being impacted by the very poor weather we had in Q2 and July and the resulting negative operation leverage coming from that.

Samar Chand: Okay.

Jørgen B. Rasmussen: On the kiosk ban, yes, we are seeing the kind of change to the universe continuing into Q3. I would say it started kind of late Q2 and continuing into Q3, and kiosks and some pavilions closing down. Our view hasn't really changed in terms of what will be the outcome where some parts will make themselves stationary, and that we're seeing are stationary already, whether it is pavilions and kiosks, or the most significant part will move to other channels: supermarkets, smaller grocery outlets. There will be some short-term disruption as we have said along, but medium-term, long-term will not change the category dynamics. But we are seeing this kind of closing down continuing and will continue we believe also into quarter four and probably the early part of next year. It won't all be done by 1st of January 2013.

Jørn P. Jensen: And on the third question, if you just take interests, then it is around 5%. If you take financial items all in, then a good guess would be 5.5%, so slightly down from previous years where it has been around 6%.

Samar Chand: Great. Very clear. Thank you for that.

Operator: Jon Fell from Deutsche Bank is online with a question.

Jonathan Fell: Hi there. A couple of things. **It looks like the Russian market share numbers have been restated again. Are there any big changes that we should be aware of in terms of how those numbers are now calculated? And then**

secondly, just wanted to clarify the timing of the Baltika minority buyout, does that mean the whole transaction completed now and we should have no large minority charge for Baltika in our fourth quarter 2012 numbers?

Jørgen B. Rasmussen: Yes, if you take market share, we covered all that at our Capital Market Day and the details, and it is all linked to Nielsen changing their universe and they do that once a year typically. So we also clarified at the Capital Market Day how it would impact also historic data, so we're kind of repeating what you saw at the Capital Market Day. So the restating happens and is valid from Q3 numbers onwards.

Jonathan Fell: Okay, thanks.

Jørn P. Jensen: And to the Baltika buyout, so, no, it is not completed yet. We still hope that it will be completed no later than end of this year, so kind of the regulatory or the authorities are currently going through this squeeze out process, them handling the process as such. When it comes the consolidation effect, then we are actually consolidating all of Baltika all the way down, including, i.e., no minorities as per September 1st, i.e., for all of Q4 and the reason for that is actually that the remaining few shareholders in Baltika in principal have a put option on us on their shares, so it is of course giving, versus previously, a small positive impact on minority interests in the fourth quarter.

Jonathan Fell: Okay.

Jørgen B. Rasmussen: Can I just mention to the first question again? So, yes, the actual number has changed a little, but the trend in the old universe and the new universe is exactly the same in terms of growth and growing share trend.

Jonathan Fell: Sure. Thank you very much.

Operator: *Michael Rasmussen from ABG is online with a question.*

Michael Rasmussen: Yes, good morning, everybody. A couple of follow-up questions. **First of all on Russia, not asking about input costs, but asking about the effect from the limitations on the usage of non-malts in beer production. As I understand it, that starts from 1st of January 2013. My second question being on your market shares in Russia. So it seems like this positive trend has continued after the marketing ban, should we expect kind of a similar sequential improvement in the next couple of quarters and finally can you explain why your premium share is not going up?**

Jørn P. Jensen: If you take the first question, I guess you allude to kind of current Russian law saying that as of 1st of January, it will have to be 80% malt versus previously no law so to speak on that. It is still the case as per today that that is the law in Russia from 1st of January. I don't know if you noticed the other day that there were some speculation in Russian newspapers, apparently a quote from a Russian minister, stating that that might not be the case at the end of the day. We don't know yet. So again, we will talk about crops and those kind of things in February. It will be far more clear how the situation will be.

Jørgen B. Rasmussen: To your questions about market shares, you're right, we have been on a growing trend now for some quarters and we expect this trend to continue but it is not saying every quarter, every month will be up. You will have some quarters being slightly down, some being more up. You have to look at a trend line and that is what we talk about when we talk trend. So there will be quarters depending on activity from us and competition where we maybe not up or more up, so it is trend line and more medium-term, long-term trend line that we believe. And we have also talked and discussed in the past about being number one, having the strongest brands being the brands with the longest kind of history in Russia, it should benefit number one with a marketing ban. We should come out stronger after a marketing ban. It is harder for those with less well known brands longer-term in a dark market environment.

And then your second question was about... What was that again? Premium beer, why we're not getting share in premium? First of all, we are gaining share in four segments out of five segments, so one where we are flat, we're not gaining. We cannot gain everywhere all the time every quarter and I don't see it being as such a big issue. There is probably a little in this about Baltika 7 was strong in kiosks and that is in the premium segment, but still it is flat market share versus Q2.

Michael Rasmussen: All right, thank you very much.

Operator: Adam Spielman from Citi is online with a question.

Adam Spielman: Hello. I've got two - - actually three questions please. **Firstly, talking about 4Q, in the past you said that 4Q uses in previous years a considerable amount of malt harvested that year, and I was just wondering if you could confirm in Eastern Europe where that is true for 4Q '12. Secondly, also in Russia, I was wondering recently, let's talk about the kiosk ban, now wondering whether your view of the impact of the ban on kiosks is affected by the fact that tobacco is also no longer going to be able to be sold from kiosks and whether that will basically accelerate the decline and perhaps cause some of the ones that you might have thought would become stationary actually to close down? And then the third question is about Western Europe. There was a line in the press release that talked about new cost savings and I was just wondering if you could give us an update on your cost savings programme, whether anything has changed or accelerated in the quarter, particularly given I guess the rather poor top line performance in Western Europe in 2012.**

Jørn P. Jensen: Adam, to the first question, yes, then we are of course always in Q4, normally in Q4 using some of the malt being recently harvested, but that actually does not say anything about the prices, if that is basically what you're looking for, and I assume it is. So when it comes to the prices, we will then be paying, for instance, the newly harvested malt in principle for next year. But even if we use some of it for this year, then maybe those were actually priced at a much, much earlier time. So you cannot really use that to kind of say anything about how prices will be for us for next year or that we will come back on in February.

Adam Spielman: Okay, thank you.

Jørgen B. Rasmussen: Adam, to your second point about kiosk and Russia and tobacco situation, overall we don't see that changing the whole scenario a lot, and I think there is still more to be discussed and decided upon in terms of tobacco. But at the end, I don't know exactly where tobacco can be sold if pavilion turn themselves into being stationary, they serve foods. To me it is not completely clear if they can sell tobacco or not sell tobacco. But at the end, when we talk about also those who cannot stay as kiosk either or look for opening up new stores, it is often smaller grocery outlets where the volume is moved to an outlet being open nearby selling some type of food items, some beer, et cetera, and then part of the volume move into already existing outlets and then I would assume also in what is being discussed with tobacco, probably some of the outlets today, pavilions and kiosks, will change themselves into some type of permanent outlet that can probably sell tobacco, but as I have it it is not yet completely verified how that law will take place and be implemented, if implemented.

Jørn P. Jensen: And when it comes to cost savings in Europe or Western Europe, no, there is nothing new-new, so to speak. There is nothing that you don't know and that we haven't discussed previously. As you know, there are three big programmes running in Europe at the moment and programmes that have been implemented at the moment that will definitely contribute quite a lot in the coming years. It will take a few years before we really start to see the effect, so it is a pretty busy agenda on getting our efficiency up or our cost down in Western Europe in general. But there is no new news so to speak.

Adam Spielman: Thank you.

Operator: *Jean-Marc Chow from Bernstein is online with a question.*
Andrew Holland Société Générale is online with a question.

Andrew Holland: Yes, hopefully you can hear me. Two questions, if I may. **Firstly, can you give us an update on the proposed PET ban in Russia? I gather there was news out on Friday about that. And the second one is: You talked about how the advertising ban has not yet so far impacted the market, you don't think. It is clearly though impacting your Russian profitability, but you've also said in the past that sort of net/net you will find new places to spend your advertising budget and you don't expect a sort of permanent benefit as it were to the margin. Is that still your view, please?**

Jørgen B. Rasmussen: Yes, Andrew, and to PET, I think as I've said all along, we would be surprised if this ban was put in place and implemented and certainly what came out last week in terms of, as Jørn referred to early, from a minister about now the latest technical draft from the Russian side seems to have now excluded beer from the PET ban. It is I think supporting what we have been saying, but again let's get final law in place and also the alignment across the customs union. But I think it is supporting what we've been saying all along, it is unlikely and certainly a good indication and positive news.

On the advertising ban, what we have said all along, yes, we will probably spend the money differently. So the spend in marketing and brand marketing as a percent of net sales will stay pretty much flat, maybe slightly down, but pretty much flat compared to the past because we will spend the money differently, more in-store activity and in other kind of places, so will not change.

And to your first point about what you said about advertising ban has negatively impacted our profitability, I don't know exactly what you mean by that because it is not as such the advertising ban negatively impacting profit this year.

Andrew Holland: Sorry.

Jørgen B. Rasmussen: Our spend was early this year, not least driven by the EURO, and that took our spend up in the first half, a little because of advertising ban in the first half, but also very much impacted by the EURO.

Andrew Holland: Okay.

Jørgen B. Rasmussen: That was your question wasn't it?

Andrew Holland: Yeah, I think so. **And basically it is just this big swing in your margin in the first half versus the second half, which happens to coincide with the advertising ban coming in half way through the year and I'm trying to work out when we're going to get a margin back to a sort of normalised level in Russia.**

Jørn P. Jensen: Yeah, but if you look at the first six months, then don't forget the significant impact in the first quarter from the destocking, right, leading to significant negative leverage in the first quarter versus quarter one last year.

Andrew Holland: Okay, thank you.

Jørn P. Jensen: It is far more about that than it is about phasing of sales marketing if you only look at the margin.

Jørgen B. Rasmussen: But also the phasing of sales marketing was as much driven by the EURO as the sales marketing ban for sure or the market advertising ban.

Andrew Holland: Right. Okay, thank you.

Operator: Tobias Bjorklund from Danske is online with question.

Tobias Bjorklund: Yes, good morning, gentlemen. I have a couple of questions. **First of all, the cider business is doing very well. Could you give some flavour to what your plans are and your expectations to the cider business and if you're planning any further rollouts in other countries? Second question is if you see a positive revenue growth in France despite falling volume market share in the flat volume market. And the third question I have is price increases and it relates to Russia. You raised prices in March, May, August, and also in October and my question is: Are you driving this development in the Russian market or are you following others? How are competitors acting? Those were my questions.** Thank you.

Jørgen B. Rasmussen: If I take the first question on cider first, yes, cider is a very successful business for us, not least the Somersby brand and the whole positioning of the Somersby brand. We have talked about how many markets now we have our Somersby brand in. I think we have a successful formula and also as a category, it is getting appealing and growing in many markets, so we do see a lot of opportunity for our Somersby brand and maybe some additions medium-term, long-term in the business and intend to roll out and support this business. It is an opportunity on top of our core beer and it ties into the whole innovation agenda. So when I talk about innovation and we need to get new consumers into our business, cider is part of that, but there will be more products, other products also appealing to new types of consumers maybe not being too keen on the kind of standard beer we normally talk about.

If I take then price increase and come to France last, the price increase in Russia in general, I would say, "Yes, we are leading and we would expect often to lead." We're the market leader on pricing. If you compare to what is happening in general in the markets, it is certainly a better pricing environment than what we saw about a year ago, so a little less aggressive in general and I would say in general most seem to be going up more or less in line with us maybe still except one.

Jørn P. Jensen: And, Tobias, to France, then the volume impact on top line is of course negative due to the market being slightly down. And then a very positive mix improvement, which again is due to basically the mainstream is down, but premium segments are up, so net/net/net a flat top line in spite of volumes being down a little bit.

Tobias Bjorklund: Okay. And just one follow-up. **How much is cider? I'm not sure if you disclose that, but how much is cider making up of total sales? You said a minor part.**

Jørn P. Jensen: It is minor. It is definitely minor.

Jørgen B. Rasmussen: It is minor, but getting more and more important and not insignificant in some markets.

Tobias Bjorklund: Okay, thank you.

Operator: Chris Pitcher from Redburn is online with a question.

Chris Pitcher: Thank you. My question was asked.

Jørgen B. Rasmussen: Okay. I suggest we take two more questions and then we will finish the call.

Operator: Oh okay. Dirk Van Vlaanderen from Jefferies is online with a question.

Dirk Van Vlaanderen: Morning, gentlemen. Thanks for taking my question. **Just I guess one housekeeping question, just what currency rate are you expecting EUR/RUB in your guidance - - in your unchanged guidance currently? I think it was 40.5 at the half year, just wondering what your view is on that now. And then secondly on your agreement with the Singha Corporation, just wondering when that comes into effect and when we can start to see that come into the numbers and maybe more specifically where in the numbers we should see it come in. Is it going to be in the consolidated numbers or is it going to be in the JV's line?** Thanks.

Jørn P. Jensen: You basically answered the first question yourself, so unchanged also means unchanged currency assumption, so 40.5 as three month ago.

Jørgen B. Rasmussen: The Singha Corporation is basically starting up now and you can say in terms of execution and getting the benefits, it would come into effect I would say next year. Thailand is a market where we have already some volume, but we see significant uplift. Will it have very significant impact in the early stage on the Carlsberg Group performance? Probably not, but still a very, very positive step for us in Thailand and I think also for Singha beer in terms of what we can do to that brand in that portfolio.

Jørn P. Jensen: And then to the last part of that question, yes, it will be one line consolidated and, i.e., not fully consolidated.

Dirk Van Vlaanderen: Thanks. That is very clear.

Jørgen B. Rasmussen: The last question please, if we have more.

Operator: David Belaunde from Morgan Stanley is online with a question.

David Belaunde: Yes, hello. Just one question. **Regarding the comment you made earlier, and you've made this comment before about how the dark market is probably going to favour the players with a more established presence and bigger brands. My only concern about that though is that if I look at the market share development over the past few quarters, I notice that the small players, these others line in the Nielsen data have increased their market share pretty dramatically in the last quarter, which was actually a dark market quarter as far as I understand. and year-over-year they're up about 220bp. Something like that. So I'm just wondering what is the discrepancy there and what exactly is driving the growth of that segment of the market, particularly now in Q3 where there isn't any advertising? So what are the other drivers and what are the dangers from the point of view?**

Jørgen B. Rasmussen: If you take the other line and depending on which slide you look at, but if it is the other line including Mospivo, et cetera, then you hava one being of some significance doing very well also on branded products. The rest would be a lot of small regional players having the strength based on they come from a local area, local region, and it is driven by distribution, not at all advertising and therefore you don't really see a change. Again, we don't see this being a long-term trend where they keep gaining and gaining because still, I think there are some quality challenges for some of those regional brands, and they're not always sold on price. But following a crisis with wider distribution being local, they gain some momentum. We don't see this being necessarily a long-term trend, but they will have a fair share of the market like you are seen many other places with regional brands, local brands.

David Belaunde: Okay, thanks.

Jørgen B. Rasmussen: I would say thank you to everyone for calling in and listening, and I'm sure we will meet many of you the coming days. Thank you.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.