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Speakers: Cees 't Hart, Chief Executive Officer
Christopher Warmoth, Senior Vice President

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Operator: Hello and welcome to today's Carlsberg Q3 2015 Report Call. Throughout this all participants will be in listen-only mode, and after there will be a question and answer session. Just to remind you this call is being recorded. Today I'm pleased to present Cees 't Hart, President and CEO. Please begin, sir.

Cees 't Hart: Thank you very much. Good morning everybody and welcome to Carlsberg's nine months 2015 Results Conference Call. My name is Cees 't Hart, and I have with me Senior Vice President for Asia, Chris Warmoth, who is heading up Funding the Journey, Head of Finance, Jan Thieme Rasmussen, who is currently interim CFO until we find Jørn's replacement, and Vice President of Investor Relations, Peter Kondrup.

Today I will go through the Q3 and nine months' performance. The headline is that we in Q3 delivered solid performance with 9% organic operating profit growth. However, before I go into the details we would like to make a few comments on the quite substantial initiatives we have taken to prepare Carlsberg for the future.

Please turn to slide 3. We have to take stock of Carlsberg's performance in our Group. The financial performance of the Group has not been satisfactory in recent years. Earnings have at best been flat, and if we don't take the necessary measures, there's a risk that this flat performance will continue based on trends we see in our markets for the next years. Although we are getting closer to the inflection point when Asian will become much bigger than Eastern Europe, we will take a more disciplined approach to cost, complexity, structures, and commercial activities to ensure that we have a long-term sustainable business model. We are in the process of reviewing our strategy, but we must bring the company into a positive cycle and create funding for the strategy and start growing profits again. Consequently, we have unified under one overall programme all existing as well as new profitability improvement initiatives, named *Funding the Journey*.

We estimate that the total net benefits for Funding the Journey will amount to DKK 1.5 to 2 billion compared to 2015, with full year impact in 2018. Part of the benefits will help us improving profits and thereby bring us out of the current vicious circle whereby we do a lot of activities but don't see bottom-line growth. The other part of the benefits will be reinvested in the business. The size of the reinvestment will depend on the decisions made in our strategy review but could be activities such as further brand support, improvement of in-market execution, development of new activities or capabilities, and so on.

The strategy review is ongoing and on-track. It is a co-creative process with the top 60 leaders in the Group, and I am very pleased with the dedication of the management team and the progress so far. It will be a seven-year strategy which will set the future direction of the Group. As mentioned at previous occasions, we'll be ready to communicate and implement the strategy which we have named SAIL2022 by the end of the first quarter of 2016. To set expectations, it will be rather an evolution than a re-evolution of the Carlsberg Group building on our core strengths. I will now leave the floor to Chris who will explain in more detail what Funding the Journey is about. Chris, over to you.

Christopher Warmoth: Thanks Cees. Slide 4 please. The actions within *Funding the Journey* can be divided into four groupings: value management, supply chain efficiency, operating expense efficiency, and right-sizing of businesses. Many of the projects within these groupings are not new and have been underway for a while. What is different is the way we've structured the implementation and follow up with the various projects with the objective of ensuring that we fully realise the identified savings.

Within value management, we're looking to the optimal balance of volume, market share, and profits. And in some cases this will mean a shift towards value over volume. Some of this has already been done. But we believe that by sharpening our focus and rigorously implementing the right sales tools and metrics, we can achieve a more profitable mix of brands, channels, pack sizes, and promotional activities.

Within supply chain efficiency, we'll leverage more fully the central supply chain organisation we've established to drive incremental savings. And in Western Europe, BSP1 will be an important enabler for this. We see opportunities across all areas of the supply chain, procurement, production, and warehousing, and logistics. We're also looking to make our business less complex by simplifying our portfolio with the aim to achieve a more profitable mix.

For operating expense efficiency, this is a continuation of the work we started at the beginning of the year, targeting duplicative processes and other inefficiencies with within white collar functions. We already made significant reductions before the summer including a programme to reduce headcount in our central organisations. The work has continued since then. By the end of the programme in 2016, we expect to have reduced white collar headcount by about 2,000 people, and we're already over two-thirds of the way to the target.

We're also in the process of further outsourcing various services. At the end of October, we announced that nearly 400 employees in our shared services centres in Poland and China are being transferred to an external provider with the intention to outsource additional work in the coming year or two. We're also targeting to reduce all other SG&A costs by implementing our operating cost management approach, sometimes known as ZBB. This has been fully implemented in Asia, and the rollout is now underway in the rest of the company.

The fourth grouping is right-sizing of businesses. And I'll discuss that now in more detail.

So please turn to slide 5. On right-sizing of businesses, we have run evaluations recognising that market reality in some cases has changed versus previous expectation. And based on an updated assessment of anticipated future earnings of our businesses and brands, we've come to the conclusion that impairments and operational interventions are unavoidable.

First Russia, here the larger than expected 2015 market decline driven in particular by the worsening macroeconomic situation and weaker consumer sentiment has led us to reassess future projections. We do expect our Russian business to remain nicely profitable and to secure a majority of the local profit pool. We have, however, concluded that the very challenging market conditions are likely to persist, and that consequently, the beer category will continue to decline. As a result, we have to adjust the book value of certain brands and find ways to further restructure our operation to reflect the new reality. Total projected impairment of the Russian business is DKK 5 billion.

Second China. We acquired the so-called Eastern Asset in China at the same time we acquired Chongqing Brewery Company or CBC. We already knew that Eastern Assets was a tough business and not profitable, and the number of actions have been taken to turn the business around. However, in light of the current beer market decline in China and the intensified competition on the east coast, we now realise that we will not be able to achieve our original plan for Eastern Assets making an impairment necessary. Then on our broader Chinese business, we see an opportunity to continue to optimise our brewery footprint. Finally, our local Chinese brands that are part of CBC have underperformed expectations due to the higher than expected growth on Tuborg, which is up 60% this year in China. The consequence of all this is the need to plan for a restructuring including an impairment of tangible and intangible assets with a projected total amount of DKK 4 billion.

Third is the UK where our financial performance has worsened in the past two years, and the recent delisting at a major customer has further added to the challenges. We have therefore decided to restructure the business with the aim to reduce capacity and costs.

Finally, in other markets we're assessing whether we can provide an even better alignment of our production and logistics capacity with market requirements. This would see us reducing excess capacity in breweries and possibly include some brewery closures. And finally, as part of our focus on maximising return on invested capital, we will also, as appropriate, look to release the capital employed by often small less core assets.

Total impairments and restructuring costs will amount to approximately DKK 10 billion of which less than 10% will be cash costs. Approximately 8.5 billion will be taken in 2015 of which DKK 7.6 billion fell into Q3. Less than 3% of the 2015 charges will be cash. The remaining impairments and restructuring costs will be taken during 2016 and 2017. These impairments will of course improve ROIC. But we would like to stress that this was not our motivator. The purpose has solely been to restructure and adjust certain key businesses to reflect our best projections of the future. We intend to further improve ROIC by a strong focus on profit and optimise utilisation of our assets across the Group.

Slide 6. This shows an overview of the major elements to Funding the Journey, and the timelines for the various activities. As you can see some already started earlier this year, and some are currently being initiated. All should be fully up and running by early 2016. The earnings impact from Funding the Journey will be modest in 2016 with a larger impact in 2017, and full impact will be in 2018. Back to you Cees.

Cees 't Hart: Thank you very much. Slide 7 about the outlook. Based on the Group's solid Q3 and October performance, and an expected Q4 that will decline year-on-year, we maintained underlying outlook for the year. Let me give a few extra comments on the expected Q4 performance as well as a reclassification of one-off income in Q4 and restructuring costs that will be included in operating profit. Q4 in Asia and Eastern Europe will be impacted negatively by different phasing of sales and marketing expenses as well as certain other cost items versus last year.

It means that despite of the strong Q3 performance in both regions, you should anticipate organic operating profit to decline in those two regions. In addition, we have decided to reclassify the income from the termination of the Staropramen UK agreement, which will be booked in Q4. We had expected it to be booked in operating profit, and consequently it was included in the operating profit outlook. We will move that income into special items together with the other one-offs related to the UK business. In addition, as part of Funding the Journey, there will be a restructuring cost charged against operating profit in Q4. Based on this we now expect organic operating profit to decline by high single-digit percentages. But the key message is underlying, the business is performing as expected, but due to the changing in accounting treatment of the termination fee, and some above-the-line restructuring cost in Q4, the earnings outlook is revised.

A couple of other assumptions worth mentioning are the following. We now assume a negative translation impact on operating profit DKK -200 million compared to the previous assumption of DKK -300 million. The underlying tax rate is expected to be around 28% in line with previous expectations. Other assumptions are unchanged, including that the supervisory board is expected to be able to propose to the AGM in March that dividend per share is kept unchanged compared to 2014.

Please turn to slide 9 for a few financial highlights for Q3 and the nine months. Q3 showed very solid performance with 3% organic net revenue growth despite 3% lower volumes. Price/mix was up 4%. Asia continued to deliver a very strong set of results, and also Eastern Europe showed strong operating profit in Q3. Consequently, organic operating profit growth was 9%, and despite the currency headwind, reported operating profit grew 2%, and likewise adjusted net results grew by 2%. So all in all, a solid quarter.

For the nine months, organic beer volumes declined by 4% while net revenue increased by 1%, both organically and in reported terms. Price/mix was +4% with particularly strong improvement in Eastern Europe. Organic operating profit declined by 3%. The strong result in Asia was more than offset by the continued weakness in Eastern Europe and the weaker than expected performance this year in Western Europe year-to-date. Free cash flow was strong at DKK 5.6 million, which was an increase of DKK 2.6 billion compared to last year.

Slide 10 please. Here an overview of net revenue. Organic development in Western and Eastern Europe was slightly negative while Asia continued its positive momentum. The negative impact from currencies of 1% was offset by the impact from acquisitions.

Slide 11 please. Here an overview of the development of operating profit. Organic operating profit was DKK 7.2 billion. The Asian region continued its strong progression. This was, however, offset by lower profits in Eastern and Western Europe. We'll go into more details per region shortly.

The lower unallocated costs were mainly due to different phasing between quarters versus last year. The currency impact of DDK -140 million was positively impacted by stronger Asian, Swiss, and UK currencies, and negatively impacted by mainly the weaker Eastern European currency. The negative net acquisition impact is mainly related to the consolidation of the loss making Eastern Asset that was consolidated from November 2014. All in all, the reported operating profit was DDK 7 billion, a decline of 5% versus 2014. Q3 dynamics were significantly more positive, driven by around 20% organic operating profit growth in Eastern Europe and Asia.

Slide 12. On the individual P&L items, COGS per hectolitre was up organically 3% due to the negative transaction impact from hard currency denominated input costs in Eastern Europe. However, the positive price/mix meant that we were able to offset the higher COGS, and gross profit per hectolitre was up 5% organically. Operating expenses were up 3% organically and in reported terms. The main driver of the organic increase was higher sales and marketing investments in many markets. This was a result of our decision at the beginning of the year to slightly increase these investments to support our brands and new product launches. Special items were severely impacted by the asset review and impairment tests done during the third quarter. Including impairment and restructuring charges related to Funding the

Journey, special items were DDK 8 billion. Net financials were DDK -1.137 billion, which was an increase of 124 million. The increase was only due to other financial items which were negatively impacted by foreign exchange adjustments. Net interests were down 10% or 88 million, reflecting lower average funding costs. Adjusted net profit was 3.9 billion. The 11% decline versus last year was a result of the lower operating profit, and the higher other financial items. For Q3, adjusted net results grew by 2%.

Slide 13 please. Free cash flow showed significant improvement this year reaching 5.6 billion versus 2.6 billion in 2014. The improvement was mainly driven by improved working capital and lower CAPEX.

The change in trade working capital was up by 565 million versus down by 427 million last year. The trade working capital to net revenue ratio declined further reaching an all-time low of -4.4%. This compares versus -3.6% at the end of last year. The change in other working capital amounted to 786 million, and was among other things, positively impacted by VAT payables. As communicated at the beginning of the year, CAPEX will be significantly lower this year versus last year. Net CAPEX was 2.6 billion, down 790 million compared to the same period last year. As said earlier, we still expect that CAPEX will be around DKK 4 billion for the year, which means there will be a quite significant cash use in Q4 on CAPEX. Net paid interests were slightly down reflecting the lower average funding costs, which to some extent were offset by settlement of financial instruments.

Slide 14 please. Net interest bearing debt and of September was down 3.8 billion compared to year-end 2014. Net interest bearing debt to EBITDA was 2.6 times on a rolling 12-months basis. Reducing this ratio further has been and will continue to be a key focus area. The ambition is still a leverage of maximum of 2.5 by the end of the year. 96% of the gross financial debt is long term and of the net financial debt 85%. The specification of the movements in net interest bearing debt is shown in note 6 of the release.

Turning to slide 15, acknowledging that we are not delivering satisfactory returns, the Group-wide focus on ROIC is important, and we will continue to take the necessary actions to ensure that it will improve in the coming years, and it will be part of SAIL2022. The rolling 12-months numbers at the end of September are shown on the slide. They reflect the continuous difficult trading requirement in Eastern Europe and lower operating profit in Western Europe. In Asia, the main reason for the slight decline is a consolidation of Eastern Assets and currency impact.

As I have a bit of rusty voice and prefer to save my voice for the Q&A, I'll now hand over to Chris for the review of the regions. Chris.

Christopher Warmoth: Slide 17 and Western Europe. Q3 in Western Europe showed an improvement compared to the disappointing Q2. We estimate that the market was flat to year-to-date nine months, but up around 3% in Q3 cycling easy comparables. We continue to improve our overall share with good performance in several important markets. Our volumes year-to-date were flat with positive volume growth in Q3 of 2%, mainly due to easier previous year comparables. Price/mix year-to-date was also flat despite the challenging price environment and the negative customer and channel mix. So with volumes and price/mix flat year-to-date, organic net revenue was also flat, but was up 2% in Q3. Operating margin declined a 110 basis points year-to-date due to challenging market, higher sales and marketing investments, and lack the anticipated savings this year.

Slide 18 please, and a look at key businesses in Western Europe. The Nordic markets were negatively impacted by very poor weather this summer, and declined 2%. Our volumes declined 1% as we gained share in all four markets achieving more than a 1 percentage point improvement in Denmark, Norway, and Finland. This is mainly driven by sales execution and good performance of our products in the speciality segment.

Our French volumes grew by 7%. We improved our market share thanks to the strong performance of Kronenbourg 1664, Grimbergen, Skøll Tuborg with innovations supporting the market share gain. In addition, the launch of the non-alcoholic Tourtel Twist brand has so far been successful. In Poland, we continued our positive trend on volume and value market share. The Kasztelan brand delivered good performance, and Somersby achieved strong growth of 29%. However, price/mix in the market deteriorated due to increased competition and negative channel mix.

In Switzerland, the market was flat with the stronger Swiss franc leading to a change in consumer dynamics and resulting in growth of the imported beer categories. We held market share and Somersby, which was launched last year, has delivered positive performance. Our UK business remains challenging, and our volumes declined by 5% in the market that declined by an estimated 1%. Business results were negatively impacted by the loss of a few customer contracts. Earlier in the year, we began revitalising the Carlsberg brand behind the communication platform of ‘Probably the best’ and ‘If Carlsberg did’, and this has helped improve brand image and visibility.

Slide 19 please and Eastern Europe. In Eastern Europe, our regional market share declined slightly negatively impacted by Russia, but with strong ship performance in Ukraine and Kazakhstan. Year-to-date beer volumes in the region declined organically by 16%, reflecting declines in Russia and Ukraine but growth in Kazakhstan.

Year-to-date price/mix was +14%, the result of significant price increases in most markets in the region. Mix itself was flat. As a result, organic net revenue year-to-date was also flat though +6% in Q3. Reported net revenue, however, with the currency impact was down 25%. Organic operating profit was down 14% impacted by higher cost of sales and higher selling and marketing expenses. Reported operating profit declined 32% with the negative currency impact of 18%. Organic data per hectolitre indicates the positive impact of pricing. Year-to-date gross profit per hectolitre grew organically by 13% and by 19% in Q3 despite the negative volume. Operating profit per hectolitre also improved positively, growing 2% organically with a 36% improvement in Q3, though Q3 performance was helped by easy comparables versus last year.

Slide 20. The macro environment and consumer sentiment in Russia continues to be very challenging and as the result, the Russian market declined by approximately 10% for the first nine months. And in Q3, although we were cycling easy comparables due to last year's destocking, our beer volumes remained under pressure due to the overall market decline, market share loss, and the need for distributors to further reduce inventories because of the continued shift from traditional to modern trade. In value terms, the market was up by a low single-digit percentage as a result of the several price increases. Our market share was 35.1% for the nine months, more than a 100 basis point decline. Our volume share loss was primarily due to our price leadership during the summer. Our value share developed more favourably. As said earlier, we do expect the market to remain difficult, and 2016 will likely be a challenging year due to the macro economy, the tax increase of 2 roubles, PET sales restrictions and the implementation of the alcohol register system, EGAIS.

In Ukraine, the steep decline of the market continued in the third quarter as the economy remains in deep recession. We gained market share as a result of the activation of the Lvivske brand, and the launch of line extensions of local premium beer. Finally, the Kazak market showed positive growth, and we gained market share. The share improvement was driven by the relaunch of the local power brand Irbis and by packaging innovations.

Slide 20, please, and Asia. In Asia, on overall market growth, all markets grew with the exception of China that slowed considerably. We gained share in most markets, and our volumes grew organically by 3% and 10% including Eastern Assets in China. The Tuborg and Carlsberg brands delivered strong performance with Tuborg growing 54% and Carlsberg 2% in its premium market. We also continued to regularly upgrade our range of local power brands.

Asian net revenue grew organically by 6% driven by volume growth and positive price/mix of 2%. In reported terms, net revenue grew 28% due to the positive currency impact and to Eastern Assets. Organic operating profit in Asia grew 16% year-to-date and 20% in Q3, driven by top-line growth and by tight cost control. The Asian businesses have been piloting a new operating cost management framework, and it has delivered positive results. The profit growth was achieved despite tough comparables, as last year in Q2 we booked an income from a terminated license agreement. Operating margin increased by 160 basis points organically though which dropped to 20 basis points in reported terms as a result of the consolidation of Eastern Assets.

So in summary, the Asian business continued its strong performance, and will this year for the first time generate somewhat larger proportion of the Group's earnings than Eastern Europe.

Slide 22 and some market specific highlights in Asia. In Indochina, we delivered 2% volume growth year-to-date, mainly driven by the strong growth of the Angkor brand in Cambodia and solid performance in Laos due to a good Pi Mai festival. Our volumes in Vietnam declined slightly due to July flooding in the northern parts of the country. Our Chinese volumes year-to-date declined by 1% organically in a market declining by an estimated 5%. The overall volume decline was predominantly in the mainstream segment, while the international premium category showed solid growth. And for Carlsberg, both Tuborg and 1664 delivered very strong growth rates. Volumes grew particularly well in Xinjiang and in Chongqing, while our businesses in the eastern provinces declined.

Indian business year-to-date grew 41% organically in a market growing by an estimated 3%. The business also delivered a significant earnings improvement, and, for the first time, achieved a positive EBIT contribution driven by a combination of volume growth and tight cost control. Tuborg grew 47%. And our total market share was around 15%, the highest level ever, and in Q3 Tuborg maintained its position from Q2 as the second largest brand in India. In May, we opened our new brewery in Myanmar, introducing a local brand, Yoma, and Tuborg. In Nepal, our business recovered after the earthquake in Q2, and has delivered good results on top-line and earnings. That was all on the regions, and I'll now hand over to Cees for some closing remarks.

Cees 't Hart: Thank you Chris. That was all from us today. To summarise, we delivered a solid performance in Q3 with 9% organic operating profit growth. We are launching Funding to Journey where the key elements are: We are unifying under one overall programme all existing and new profit improvement initiatives. We restructure parts of our business in order to reflect the market reality, and the total benefits will be 1.5 to DDK 2 billion, of which part will improve profits and part will be reinvested. Finally, we changed outlook for the year due to one-offs, underlying business is performing as expected. And now we're ready to take your questions.

Operator: Thank you. Ladies and Gentlemen, if you haven't already, and you want to ask a question could you please press 0 and then 1 on your phone keypad now. And if you wish to retract that question, you can just press 0 and then 2 to cancel. And there will be a brief pause while questions are being registered. Our first question is from the line of Søren Samsøe at SEB. Please go ahead with your question, sir, your line is open.

Søren Samsøe: Yes, good morning gentlemen Søren Samsøe at SEB. Firstly, a question regarding the new Funding the Journey programme, just if you want to, if you could maybe elaborate a little bit of the path you expect there from the ongoing BSP1 programme. Do you still see the same, you can say, upside from that as communicated by the former management, is that in those I'm going to say 1.5 to 2 billion that you have communicated? And then secondly, if you could just update in – you had some problems with the BSP1 programme in Q2. Is that continuing into Q3 or is that sort of now developing better? And also if you could say if you're increasing your marketing cost further in Q3 as we saw you did in Q2? Thank you.

Cees 't Hart: Okay. Thank you very much for your question. Maybe the second one that you would like to repeat but let me start with the BSP1. BSP we see as an enabler for the programme we call Funding the Journey. We might have a different view on all the savings that were anticipated earlier. But clearly it's an enabler for us to drive Funding the Journey. Can you repeat your question on the margins?

Søren Samsøe: Yes, it was just regarding that you said in Q2 that there was problems with the BSP1 programme. It was not going according to plan. Just wondering if you had seen a better development in Q3, if that's, if any improvements has been done there. And then the last one was on marketing cost. How much you have increased it in Q3 basically.

Cees 't Hart: Okay. With regard to the BSP in Q2, I think the open answer is that we did not see that many savings coming through in Q3. I said earlier, we think that the BSP is an enabler, and not so much that it will give us that many savings, and obviously, for that reason we didn't see that coming in the Q3. However, again it's an important enabler, and we're going to use that for the promised savings and benefits.

With regard to the marketing costs in Q3, there we basically increased our cost in parts of Europe, and especially in Asia. I don't know the number by heart at this moment of time with regard to the details. So we will tell you later the detail.

Søren Samsøe: Okay and then final question regarding return on invested capital. Carlsberg started in the beginning of the year to focus more on that, but has not said so much about it since then. How much will that be a focus for you going forward?

Cees 't Hart: With SAIL2022, we'll – let's say renew our key performance indicators, and for sure ROIC will be part of that. So we will, let's say, improve to focus on that one.

Operator: Okay. We'll now go to the line of Trevor Stirling at Bernstein. Please go ahead. Your line is open.

Trevor Stirling: Good morning Cees and Christopher. Two questions from my side. It's a bit more technical. In the key – the guidance for the full year and the organic – decline in organic operating profit includes, I think you're saying, restructuring charge. If you didn't have the restructuring charge what it would be in the organic profit improvement? And the second question is in Russia, you saw a significant margin expansion in the quarter. But you also had easy comps from the write-off of the obsolete stock. If you didn't have that write-off what would have been the margin expansion in the quarter?

Cees 't Hart: Okay. Trevor, good morning. Thank you. With regard to Q4, it's a bit technical if you like. Staropramen was known from the beginning of the year that it was part of our let's say guidance. It was indeed in the guidance in Q2 as well. And when it was standalone it was above EBIT. But once we get into restructuring accounting experts advice us to take this as special items. So, and in addition I think we want to improve as well the transparency. There is a 100 million isolated to production lines restructuring being taken in Q4 as well. So the two parts, Staropramen and the 100 million on the production line write-off.

Then with regard to the obsolete, the margins were indeed pretty strong. That has to do with – in a comparison versus last year but as well in the quarter as such, that has to do with price increases which we have taken before the season, and by that the price/mix have been pretty positive. What we see is that we have a higher price premium in the market than some of our competitors, and that means that we lost some volume and market share.

Trevor Stirling: Thank you very much, Cees.

Operator: We now go on to the line of Jonas Guldborg Hansen of Carnegie. Please go ahead. Your line is open.

Jonas Guldborg Hansen: Yeah, good morning. I have a couple of questions here. Firstly, with regards to the expected benefits of 1.5 to 2 billion from Funding the Journey, from which starting point is this to be measured? Does it include these 300 to 350 million less of cost from this SAP implementation? And what about does it include lower depreciation and amortisation, or should we rather measure it from an EBITDA level? And then my second question is on Russia. And you announced that your are doing further restructuring at your production network here. Will this mean further closing of breweries? What should we expect here?

Cees 't Hart: Thank you for your question. With regard to the base 2015 will be the base for 1.5 to 2 billion benefits. And that includes, and I think you should take that one the EBIT and that includes as well some of, if you like, savings on depreciation after the restructuring. With regard to closures in Russia, I think one of our competitive advantages is that we have a very good network across the country. You know how huge that country is. So we are looking more at the downsizing parts of the factories rather than closing factories. We have maybe one or two factories, which basically, we could take out of the network. We are studying that. But the incoming position at this moment of time is that we mainly look at reducing a number of lines in different factories.

Jonas Guldborg Hansen: Okay, maybe just a follow-up also on Russia. You had made three price increases at the first half. Have you done any in Q3?

Cees 't Hart: No, not in Q3.

Jonas Guldborg Hansen: Thank you very much.

Operator: We're now over to the line of Hans Gregersen of Nordea. Please go ahead with your question. Your line is open.

Hans Gregersen: Good morning. Three questions please. A general comment from you, Cees. If you look at your brand portfolio, what state would you see it being in, and how has the trend in your view been performing over the last couple of years? That's the first question. Second question, if you look on the FIT programme which was announced a year or so back, was sort of indicating that should drive a 1 percentage point market share gain in the coming years. Does that still stand as a target and how far have you progressed, and then finally on your cost reduction targets. How much is incremental and what is the geographical distribution, and what impact will it be on changed accounting principles? Thank you.

Cees 't Hart: Thanks Hans. With regard to brand portfolio, as you know we have a huge brand portfolio with very strong brands. And the underlying trend is that we have, if you like winners and some of the brands are a bit less strong. To talk about winners, Tuborg in Asia is doing a fantastic job. Both in China as you heard from Chris, but as well in India with 41% of growth, and there's mainly Tuborg. Somersby is another winner at this moment of time in the portfolio, and we have some nice local ones as well like Tourtel. If you talk about the less strong brands, that's more than depending a bit on the region or country. And as you know Carlsberg in the UK is not a very strong brand. And as we speak we'll announce in UK as well some changes there. So it's a broad portfolio with strong brands, but some things to repair as well.

Hans Gregersen: But do you see a strong need for massive reinvestments into the brand portfolio? Is it specific country problem so is more generic issues you are looking at?

Cees 't Hart: I think it's fair to say that over the time we have taken maybe a bit of our eye from market to marketing investment. I'm not saying it's massive, but when we talk about the DDK 1.5 to 2 billion as benefits, part of that we will for sure allocate to support our brands in the future. Then, the second one was about the 1% share. Basically, what we have is and what we had, if you like, is a very much a focus on market share development maybe sometimes on the cost of the margin development. And what we want in the future is to focus on the golden triangle, that's the margin, the market share, and EBIT. So I'm talking about gross margin market share and EBIT. And as, if you like, to the Group new guidance, we have indeed been successful at market share. But again you're seeing the development of our margins. We want to balance that a bit more in the future. We have gained to your question.

Then in terms of the cost reduction incremental, what we want to close is all the different programmes that we had in the past and that has not led to clarity in the company as it is. So we said we made one programme, and at the end of the day it's all about improving our underlying EBIT generation by which we're able to pull back some towards investment in the brands and some towards our shareholders.

So we're now going to split these savings again. We're talking about by the way benefits rather than only savings. So we look as well in value management of our portfolio.

Operator: Okay. We'll move over to the line of Jamie Norman at Société Générale. Please go ahead. Your line is open.

Jamie Norman: Yes, good morning. Firstly, I wanted to ask about your thoughts on the fighting between the discounters and the broad-based retailers. I'm thinking in particular of the UK and France. Clearly that's been a very challenging backdrop. Do you expect that to be incrementally more challenging looking out to 2016 or is that sort of in the base so to speak? And secondly, in markets where there's some GDP growth and stronger consumer spending on the back of lower fuel prices among others, do you see any recovery in the on-trade which has been under pressure for so long?

Cees 't Hart: Thank you. With regard to the fight between discounter and retailer have, in a previous job as well, I've seen that in many, many countries. It's difficult to predict what will happen. Country-by-country, the dynamics are different. Obviously, for the UK it’s a relatively new phenomenon over the last few years. And we're one of the brands that are in the discounters, and we – as I said earlier we are looking in especially in the UK to move much more to value rather than volume. And obviously then we'll reassess as well our strategy with regard to – in both kind of channels, we would like to offer our products.

It is in the base because it's if you like normal business, but as you pointed out it is a dynamic in the market which we need to monitor carefully. With regard to the GDP growth recovery on-trade, we don’t see any, any change in the trends. A lot has to do, as you know with the weather. The weather in our region has not been fantastic this summer even not in Q3 in parts of Nordic. The answer is we do not see that back but maybe it's a bit too early as well at the moment that we get a good spring and a good summer. We might see more in this.

Jamie Norman: Thank you.

Operator: We're now over to the line of Tristan van Strien at Deutsche Bank. Please go ahead. Your line is open.

Tristan van Strien: Good morning Cees. Three questions, if I may. The first one is really on the UK and Tesco, and what led to that delisting over the situation there and do you see any what's the timeframe of getting back into that customer? The second question is on Russia. Can you just remind us what proportion of your portfolio is above 1.5 litre PET and what impact that will have on your next year and the year beyond on just EBITs and margin as the industry does that voluntary ban on that? And then the last one on India, some very strong growth there. Can you just give a bit of colour on the states where that is happening and also in terms of whether that growth is actually profitable at this point? Thank you.

Cees 't Hart: Thank you, Tristan. Good morning. Tesco, I think it's a consequence that we have been delisted is a consequence of having focused too much on volume by that we're in channels like the discounters, but as well in other channels where we use promotions. And that has led to the deterioration of the brand values, and that was one of the reasons that Tesco at a certain moment delisted us. I think it's too optimistic to say that we will come back in 12 months there. We first need to prove ourselves, and that is one of the reason that we move now to more value orientation rather than volume orientation.

So it's clear that our brand is under pressure there. We have changed the management. We are announcing today the measures there. And these measures will help us to move from a focus on volume towards focus on value. With regard to PET, I think it's something like 45% of the portfolio in beer is in PET, and something like 45% is above 1.5 litres. Our portfolio above 1.5 litres is 20%. And obviously it is difficult to predict what will happen in the Russian market at the moment that there is the ban. At this moment of time, we have a kind of guidance or an agreed position that we will move out of one half litre plus ourselves by 1st July. What it will have as an impact on volume is difficult to say. You could argue that the price per litre will improve because the consumers that want to still to drink beer go to more profitable parts like other bottles, smaller bottles, and things. So the price/value or the price/volume relation could change by this, but it could have an impact on the volume especially in the beginning.

With regards to the Indian states, we sell in many states and we're seeing growth broadly. The main changes there where we have our breweries, and then we talk about West Bengal and Maharashtra. I hope that I pronounced it well. The profitability is different by state. But we focus of course on the development of our profit, and that has changed this year significantly. And this is the first year that we see India in above zero, so above breakeven. So we are progressing well there.

Tristan van Strien: Okay. Thank you very much. Very insightful. Good luck on the new programme.

Cees 't Hart: Thank you.

Operator: We're now over the line of Chris Pitcher, Redburn Partners. Please go ahead.

Chris Pitcher: Thank you very much. A few follow-ups, and apologies if I missed it. Obviously there's been other announcements during the call. I mean the follow-up to Trevor's question earlier, did you actually quantify the margin benefit from the obsolete stocks in Russia in the quarter? And then secondly on the cost saving programmes guidance, the 1.5 to 2 billion. I think you alluded to it, but how much of this is ahead of your previous expectations because what we have here is a formalisation of cost saving targets. And I'm wondering how much of this is sort of incremental to the old business? And then third question on the whole returns of the business, will management remuneration be based on a sort of pre-goodwill return on invested capital because obviously with the write-downs we're seeing right now that's helping to get your return on invested capital up in the short term. Thank you.

Cees 't Hart: Yeah, thank you very much. I look at my colleague from Finance with regard to the margin benefit of the obsolete stock. We don't have that and we don’t give there too many details on. By the way on the obsolete stocks, the problem of obsolete stocks is declining a bit. We're having a more clear policy on stocks in Russia. As you know we have been, let's say, punished at a certain moment by having overstocked in the market, maybe, here and there at a certain moment, and by that we got some obsolete stocks. The kind of number of days we have articulated towards the local management, and that's what we could draw by the end of the month.

So where we see however a bit of a change is that the traditional trade is going down rapidly. And by that we still see some stocks into the trade because this channels loose share and by that over time cannot sell all the stocks, and the stocks are creeping up. So that's still something we have on our radar.

Chris Pitcher: Could I just follow up on that because obviously at the second quarter results, we had the impact from destocking and we were reassured that that was now largely done. But judging by the commentary and the results today, the stocking issue is still very real, and it sounds like from your comments just then that there is still risk of further destocking. Can you give us an idea of how much of a drag this will be on the business and for how long it will continue?

Cees 't Hart: No, maybe then I've not been clear enough. I think we have it under control. The only point I want to make is that the underlying dynamics of the business is that there is a channel shift from traditional trade towards modern trade, and that obviously will have some operational issues. But as we speak then we looked at even yesterday, our Russian business has a good control and handle on the stocks.

Chris Pitcher: Okay, thank you.

Cees 't Hart: With regard to your question, Chris, on the 1.5 to 2 billion whether it's incremental and so on. Well in the past, you have heard many figures and these are mainly gross, even talk about net. So we changed, if you like, the clarity on that one because gross can have all kind of let's say reductions because of inflation and other things. So we talk about a programme which should deliver us DKK 1.5 to 2 billion net benefits. And with regard to goodwill remuneration, obviously, we're not going to remunerate on things that are too easy. So we will exclude goodwill from that.

Chris Pitcher: Thank you.

Operator: We're now over to the line of Stephanie D'Ath of Bank of America Merrill Lynch. Please go ahead Stephanie. Your line is now open.

Stephanie D'Ath: Yes. Hi. Could you please give us a bit more insight on the new interim CEO in the UK and the changes you are implementing there? Second question relates to the implication. Would there be any on the credit rating from the DKK 10 billion write-off and were there any inventory write-downs in Q3? And then finally, just coming back on your full-year guidance being unchanged despite the strong build in Q3, does that imply Q4 only negative due to the UK, or would there be any other factors? Thank you.

Cees 't Hart: Thank you very much. With regard to the interim CEO, the UK has not performed well over the last 18 to 24 months. I think it was clear that we needed to intervene there. At the moment you intervene, sometimes it's needed to have a new leadership as well. An interim CEO was available at short term. And he comes in with quite a lot of different credentials. He has worked in the UK for BAT. He has worked for Heineken in the past, and for Dow Egberts. And we are happy to have him onboard for as long as we need. That's because we are looking now for a new CEO in UK.

The programme as such that we will announce has lot to do with adjusting our volume or our production base to the new volume circumstance in the UK after the delistings at some customers, but as well are we going to review our commercial strategy. By that, we will restructure parts of the business, but we will as well build new capabilities in UK, in order to really extract more value in the future. With regard to the 10 billion, there is – you know, I look at my finance colleague.

Jan Thieme Rasmussen: There's no unusual on material write-down on inventory there.

Cees 't Hart: Okay. With regard to Q4, as said earlier in Russia and Asia because of especially marketing and sales support, we see some shifts from Q3 to Q4, and it makes to think that Q4 despite a very solid Q3. We think that Q4 will be a bit lower, but it has to do with a shift per quarter from the support levels.

Stephanie D'Ath: Okay. And so just coming back on management, could you please give us an update on new CFO and coming back on the cost saving programme of 1.5 to 2 billion. You only mentioned cash costs below 1 billion. How does that reconcile with the cash versus the cost saves of 1.5 to 2 versus below 1 billion cash savings whereas because obviously there are the 2,000 job cuts, but is a big part of that also lower depreciation because of the lower PPE given the write-downs?

Cees 't Hart: Okay. I'll hand over that to my finance colleague in a minute. With regard to the new CFO, we are in a search. We are interviewing the candidates almost as we speak, and I hope to announce that as soon as possible of course. You know, this kind of processes will take some time. People who are in their current job, so I expect that we have by 1st May or 1st June a new CFO. I think that's the most realistic timetable. With regard to your other question?

Jan Thieme Rasmussen: On the 10 billion restructuring and impairments that we're looking at in this budget here, of which the main part is taken now in Q3. We announced that less than 10% will be cash of that. That's the one thing. And looking at the 1.5 to 2 billion is the benefits from the Fund the Journey. That will be more or less cash all of that.

Stephanie D'Ath: Thank you.

Operator: We're now over to the line of Frans Hoyer at Jyske Bank. Please go ahead. Your line is open.

Frans Hoyer: Yes. Good morning. Well you mentioned that it's still not quite clear how you intend to deploy the 1.5 to 2.0 billion benefits. Some of it will go to the bottom line. Some of it will be ploughed back into the operation by way of marketing investment. Could you give me an idea of, let's say, you wanted to increase your marketing investment by 10% how much of the saving would that take care of?

Cees 't Hart: Your line, just for a moment, broke down for a moment. But let me try to cut your question, and maybe you want to have more details. When I say still not clear, it sounds maybe as if you don't have a clue. The thing is more that we are in the process of SAIL2022. That's our strategic process. We do it again with the top 60. And maybe good to know for the audience is that we finish it by December with the top 60. Then we move to the supervisory board mid-February and we will announce before the end of Q1.

It would be probably strange at this moment to already say what kind of level of investments will go to some of the projects which we will identify in SAIL2022 whilst at this point in time we're still in preparation of the strategy and our new priorities. So we will review that at the moment that we have SAIL2022 ready. But obviously it's clear that we understand that there needs to be a balance between the investments for the future and the attractiveness of our company, we need it.

Frans Hoyer: I was just – I hope you can hear me now. But I was just wondering as a theoretical question how much would a 10% increase in your marketing investment be in money terms?

Cees 't Hart: I don’t think that we disclose it at this moment of time.

Frans Hoyer: Okay. Just to have one more question regarding we've been talking a lot in Carlsberg about the optimal brewery network structure in Western Europe. I think we are just over 20 breweries at the moment. Do you have any thoughts on that and how much scope for integration or consolidation of the network that you can imagine in Western Europe?

Cees 't Hart: Yes, as you can imagine that this is one of the questions when you're new and you come in. And I must say that it feels that optimal is always a difficult word of course. But it seems that we have the right network at this moment of time for the volume development we have. Let's say if you look at the total network at the moment that you move your or shift your volume from country-to-country you can gain tremendous logistical cost. And so I'm convinced that this moment of time, this volume development we have that this is the network we need to have in terms of breweries.

In optimising some of the assets per factory then we talk – that's, I think, something which in spite of the programme which Chris was alluding to some minutes ago. So it's optimising that more in terms of the assets per factory and per brewery than in terms of closure of breweries.

Frans Hoyer: Okay, thanks very much.

Cees 't Hart: Coming up now the final question. Is it possible?

Operator: Yes of course. The final question is from the line of Tobias Bjorklund of Danske Bank. Please go ahead. Your line is open.

Tobias Bjorklund: Thank you and good morning. So, a question about China. You posted 1% volume decline in the Chinese market versus the 5% market decline. I think that's nine-month numbers. But I wonder about the market development in your relevant regions that's in western China. And then as a follow-up on that, you talk about optimising your Chinese footprint. When you say this, what do you think about here, if you could shed some light on that? Thank you.

Cees 't Hart: Thank you Tobias. The western part of China is slightly better than the eastern part, but still down. What we see there is that our Tuborg brand is growing very fast. We're still gaining market share so that's good news. We see as well a bigger difference between the east and the west. In the east, we have tried to make all the good out of the Eastern Assets. What we see there is a steep decline of the market. A huge overcapacity, we see products of, what is it, 650 ml beer for thirty US dollar cents, that's almost not paying for the raw material, and very strong brands. Whilst in the east we have not started yet with Tuborg. So that's the reason why we have decided to move out of the east to concentrate ourselves on the west.

And with regard to the brewery footprint, we have some small breweries that we can close. They can be sourced from the bigger one. There are one or two isolated in the east, and we will review the situation of these in the coming 12 months.

Tobias Bjorklund: All right, thank you.

Cees 't Hart: Thank you, Tobias.

Operator: As that was the final question we have time for. Cees 't Hart, can I please pass the call back to you for any final thoughts and to close.

Cees 't Hart: Well first of all thank you very much for calling in this morning. Many of you I'll see in the coming days either in Denmark, London or the US. I'm looking forward to the conversations. I wish you for now a very good continuation of the day. Thank you.

Operator: This now concludes today's call. Thank you all very much for attending. You may now disconnect your lines.