Carlsberg Conference Call
Carlsberg A/S
CEO Jørgen Buhl Rasmussen
CFO Jørn P Jensen
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Operator: *Welcome to the Carlsberg 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: Thank you, and good morning to everybody and welcome to our Full Year 2010 Results Conference Call. My name is Jørgen Buhl Rasmussen, and I have with me our CFO Jørn P. Jensen, also our Senior Vice President Eastern Europe Anton Artemiev, and then Vice President of Investor Relations Peter Kondrup.

Let me start with a few headlines for 2010, which we believe was another year of strong performance for the Group. We balanced profitable market share growth with our continuous focused efficiency agenda, and we are improving overall market share trend in a large part of our businesses, and we see clear signs of market recovery in Eastern Europe, including Russia. And then we have achieved significant margin improvements through efficiency initiatives and lower input costs. After the strong 2010 performance, we believe we are on track to meet our medium-term margin targets that we announced in February 2010, and overall we still see substantial opportunities to improve the profitability of the Group and reducing the profitability gap to other best in class FMCG companies. For 2011, the Group is well prepared and the organisation is well equipped to benefit from the market opportunities and also mitigate the challenges that we see in some of our markets.

I will now give you a summary of our performance and then go through the regions and, as always, Jørn will then walk you through the numbers and our 2011 outlook, and then after that we're happy to take your questions.

To slide three please. All in all financial performance for the Group was strong on the back of the impact from a significant Russian excise duty that extraordinarily impacted the Russian beer market in 2010. Operating profit improved, net profit improved strongly, and we managed to keep free cash flow at a high level. In line with our ambitions and driven by focused efforts and investments, the Group grew market share in a large part of the businesses. Importantly, the volume growth of the Carlsberg brand was 3%, well ahead of the overall market development, driven by successful activation during the summer and related to football in a World Cup year. Adjusted for the Russian destocking, organic beer volumes grew by 1%. Beer volumes in Northern & Western Europe were flat while we continue to see strong growth in Asia. Operating profit grew by 9% to 10.25 billion, with a 8% organic growth adjusted for the Russian destocking impact. Strong growth in Northern & Western Europe and Asia was offset by Eastern Europe, which was impacted by the Russian tax increase. The Group reported a 130 basis points operating margin improvements, with strong improvement in Northern & Western Europe and Asia, while margins in Eastern Europe declined slightly as expected. Reported net result grew strongly by 49% to 5.4 billion. The focus on improving cash flow across the Group continued and despite acquisitions in Asia, the free cash flow remained strong. Consequently, we were able to continue the deleveraging of the Group.

And now to slide four. Following the economic crisis is 2009, we have intensified the focus on driving profitable market share growth across all three regions. To drive and support volume and value market share growth, we increased investments behind our brands and activities. We also increased spend behind innovations and accelerated the number of product introductions. These efforts, together with value and channel management, have been and will continue to be an important driver. Brands and marketing investments increased by double-digit percentages. The operating margin improved to 17.1% with an organic gross margin improvement of 205 basis points due to production efficiencies and favourable hedges and input costs. The tight focus on driving efficiencies across all regions and functions continues. For 2010, substantial savings in most parts of the business were once again achieved. Excluding marketing investments, which were up double digit percentages, operating expenses declined by 2% organically. Part of the savings has been synergies from the S&N acquisitions that were fully realised during 2010 and approximately six months ahead of plan.

And to slide five please. In February 2010, we updated our midterm financial targets for the Group and the three regions. With the performance in 2010, we believe we are well on track to meet the targets. In Northern & Western Europe, we still plan to improve further through profitable market share growth, efficiencies, and therefore an improved business model. In Eastern Europe, we are within the range. But while we'll seek to improve the actual profit per hl in 2011, margins will decline due to the higher input costs. In Asia, we're also within the range, but, as mentioned earlier, margins will be more variable in the region as brands and sales investments will vary between years.

And slide six, and a few comments on current market trends and the expected 2011 dynamics. We have seen generally improving market trends across our regions during 2010. In Northern & Western Europe, beer markets declined by an estimated 2-to-3% for 2010. While this is an improving trend compared to the approximately 5% decline in 2009, consumer dynamics remain challenging in a number of markets in the region. The Eastern European markets are benefiting from better macroeconomics and improved consumer sentiment. After two challenging years in Russia, the beer market improved during second half 2010. Based on the many positive signs we see in the Russian economy and among Russian consumers, we believe the Russian market in 2011 will return to growth. The Asian markets continued the strong growth trend in 2010, and we believe this will continue into 2011. For 2011, we have set the Group a very ambitious target of growing market share in at least two-third of our businesses. It is an ambitious target, but with the commercial activities and sales execution tools we plan to rollout in all regions in 2011, we believe this is achievable. As always, this will be a balanced approach where we will balance volume and value share and profitability. Our ambitions of driving profitable market share growth will continue to be balanced with our efficiency agenda. The ongoing efficiency initiatives have become an integrated part of how we manage the Group. We will continue to execute on existing projects and develop new projects globally and locally to take the Group further towards best in class FMCG practices in terms of business models and how we run the business, while still acknowledging that our category and many of our brands are more locally connected than many other fast growing consumer goods categories. Based on this, we believe the Group in 2011 will be able to grow revenue, operating profit, and net results once again. This will be done despite the high input costs that in particular will impact the Eastern European business.

Slide seven. Adjusted for the Russian destocking, which impacted by an estimated 1.5 million hl, pro rata beer volumes grew by 1% to 140 million hl. The strong volume growth continued in Asia. Northern & Western Europe was flat, while volumes declined in Eastern Europe due to the extraordinary circumstances in 2010 from the excise tax increase. Adjusting for the stocking up effect in Q4 2009, organic beer volume growth was flat in quarter four.

And slide eight. Organic net revenue declined by 3%. Although positive pricing was achieved in most markets, organic revenue per hl declined. This is mainly driven by a negative country mix and a negative channel mix. Organic operating profit growth was plus 8% adjusted for the Russian destocking. As expected, Q4 operating profit declined substantially in Eastern Europe due to tough comparisons, higher marketing investments, and the rising input costs. Operating profit growth remains strong in Northern & Western Europe and Asia in the quarter as well.

And now let's turn to the regions and begin with Northern & Western Europe on slide 10. Northern & Western European organic net revenue declined by 1%. The decline was driven by lower non-beer volumes and a negative country mix and channel mix, while net revenue for beer increased by 1%. Operating profit growth remains strong at 17% organic growth, despite the significant increase in marketing investments. Operating expenses, excluding marketing investments, declined organically by 4% due to efficiency improvements locally and across the region.

Slide 11. For the Northern & Western European markets, we saw an improving trend for the year compared to the weak 2009. Nevertheless, the markets in the region remain challenging with an estimated overall market decline of 2-to-3%. For the Group and also for this region, we ended the year with a clear target of driving profitable market share growth. Consequently, marketing investments were increased organically by double-digit percentages to support key brands, activities, and product launches, all differentiated by a market depending on strategic priorities. In addition, a significant number of activations took place throughout the year, for instance, in connection with the World Cup and in relation to music, summer, and other innovative events. Beer volumes in Northern & Western Europe were flat organically, and the Group gained approximately half a percent market share point in the region and therefore managed to improve the recent years' trend of flat market share. Q4 volume declined by 2%, influenced by a cold and snowy winter. We continue to see significant variations between markets in this region. There was a small positive pricing in most markets, but a slightly negative mix due to a changed country mix and the ongoing channel shift from on-trade to off-trade. To support price and mix, our value management and trade marketing efforts continue to be an important lever and an integrated part of the way we do business. Operating profit margin improved by 250 basis points to 14.1%, and we believe we are on well track to meet our medium-term targets for the region. This improvement in 2010 was driven by the ongoing efficiency initiatives and lower COGS.

Slide 12, and a few headlines from markets in this region. The U.K. continued the strong trends and grew both volume and value market share in both on-trade and off-trade in all four quarters of the year. The volume market share is 15.4%, an increase of 110 basis points. Furthermore, the Carlsberg brand family became the largest brand in the U.K. off-trade and profitability improved due to volume growth, positive pricing, and efficiency improvements. In France, we have during the recent 18 months managed to stabilise the declining trend of the two core brands, Kronenbourg and 1664. In 2010, the total French market share declined only slightly. Profitability improved significantly due to positive price/mix, synergies, and efficiencies. Poland benefited from widened distribution, strong performance of the Harnas brand, and product launches. Our market share grew by 230 basis points to now 13.8%. In a Danish market that declined by around 6%, without adjusting for the Danish border trade, we gained around 50 basis points market share. The total business was impacted negatively by an excise tax increase on cider. We also improved market share in all markets in Southeast Europe and in Norway, while we lost some share in Sweden and Finland. Lastly, we started to see a recovery in the Baltic markets that suffered significantly during 2009 and the beginning of 2010.

Slide 13 and Eastern Europe. 2010 was an extraordinary year in Eastern Europe due to the significant Russian excise duty increase in January 2010, which impacted overall market dynamics and our shipments. Firstly, we had low shipments in Q1 2010 due to destocking. Secondly, consumer prices were increased by an average of 25% in Russia, which impacted overall market development negatively and our market share development as we led the substantial price increases throughout the year. Organic net revenue declined by 11%; but with positive currency impact, reported net revenue declined by 2% and organic operating profit declined by 3% adjusted for the Russia destocking and 5% in recorded terms.

Slide 14 please. Throughout the year, we saw improving market trends in all markets in this region. Driven mainly by improved macroeconomic conditions, the markets are recovering after the challenging 2009 where markets were impacted by the economic crises. In the second half of 2010, all markets in the region grew. Organic volume development, i.e., our shipments for the region declined by 3% adjusted for the Russian destocking impact. Beer volumes in all markets outside Russia grew for the year. Also in this region, we continue to invest significantly behind our brands and marketing activities. Marketing investments increased by double digit percentages to support our brands, significant number of innovations, and new products. As mentioned, revenue declined for the year driven by the Russian market. Organic revenue growth outside Russia was 20% with growth again in all markets. Organic operating profit declined by 3% adjusted for the Russian destocking impact. Markets outside of Russia in the region delivered a strong 65% organic operating profit growth driven by volume growth, positive price/mix, lower COGS, and efficiency improvements. Operating margins declined by 70 basis points for the year. Margins fluctuated more than usual during the year. The region reported strong year-over-year improvement for the first three quarters due to efficiency improvements and lower COGS. In Q4, margins declined substantially due to tough comparison with Q4 2009, which was positively impacted by stocking and also by the higher marketing investment and the rising input costs in Q4 this year.

And now we turn to slide 15 and some additional comments on Russia. 2010 was an extraordinary year in Russia. Driven by the 200% excise duty increase, we had to increase consumer prices by an average of 25%. These substantial price increases impacted overall market development and led to lower consumption and an estimated 4% market decline. The decline was, however, lower than we expected at the beginning of the year. Market conditions improved during the year as the Russian economy strengthened faster than anticipated, leading to more positive consumer dynamics and then a favourable weather impacted positively. In addition to these extraordinary pricing and market dynamics, the destocking in Q1 2010 impacted shipment development. Profitable market share growth is a key element in how we do business throughout the Group. That was also the case in Russia in 2010 where we balanced our ambitions of continuously strengthening our market positions without compromising profitability. As the market leader in Russia, we had to take the lead on price increases and, with the exception of one competitor, we were leading on prices throughout most of the year. This impacted negatively our market share development for the year. Our Russian in market-sales or consumer off-take was minus 4% for 2010 but plus 2% for quarter four. We have now delivered growing in-market-sales for the recent two quarters. Shipments or our sales to distributors were minus 13%, impacted by the destocking in Q1. Likewise, year-over-year growth for Q4 shipments were impacted by the stocking up in Q4 last year. According to Nielsen, our 2010 Russian market share was flat at 39.7%, despite the price leadership we showed throughout the year. For Q4, our market share improved by 40 basis points, driven by the commercial activities that we were initiating in Q3 and also executing in Q4, and please note that the external market data provider Nielsen recently decided to exclude alcoholic malt-based cocktails from the beer universe giving a more correct picture of the beer market dynamics and also bringing the audit more in line with our previous provider, Business Analytica. Historical numbers have been restated by Nielsen accordingly.

Slide 16, and a look at the trend line of our Russian market share development which confirms the strong and growing long-term trend line for our market share performance in Russia. 2010 per capita consumption was 66 litres, somewhat below pre-crisis levels, and this resetting of the base driven by the crisis supports the growth opportunities from 2011 and onwards. In addition, our Russian business came through the challenge in 2009 and 2010 with a substantial uplift in profitability, giving us comfort in the strength of our Russian business and the opportunities we have in that market.

Slide 17, please. The Ukrainian markets also recovered during 2010. The market grew by approximately 5%, following a 7% decline in 2009. Driven by very strong execution in the marketplace, we gained 150 basis points market share to 28.6%. The Lvivske and Baltika brands performed particularly well. Within the growing kvass category, our Kvass Taras brand became market leader in 2010. Driven by a 7% volume growth and positive price/mix and despite higher marketing investment, operating profit grew around 40% in Ukraine. Also, all other markets in the region recovered primarily driven by improved macroeconomics, and we saw a double-digit volume growth in Kazakhstan, Uzbekistan, Belarus, and Azerbaijan. Several products and innovations were launched driving a very positive price and mix and also supporting a very strong profit improvement.

Now Slide 18 and Asia. The Asian business continued the very strong growth performance. Organic revenue growth was 17% driven by volume growth and positive price/mix despite negative country mix. The region delivered growth across all markets in the region. Organic operating profits grew strongly by 39%.

Slide 19. The Asian business continues its very strong performance. The strong financial performance was a combination of market growth, market share gains, positive price/mix, lower input cost, and efficiency improvements. Organic beer volume growth was 14% with double-digit volume growth in all markets, but with particularly strong performance in Indochina, China, and India. The growth was driven by market growth combined with market share gains across the majority of our markets. A high-level of innovations, product launches, and activities across all our markets supported market share performance. The Chinese business delivered 10% organic volume growth in a market growing by 4%. Growth was driven by both the international premium category and local Western Chinese brands. Several of the local Chinese brands were re-launched with the objective to premiumise in small steps and strengthen consumer appeal. This led to a 5% positive price/mix in China. In Indochina, volumes grew organically by 22% due to market growth and share gains. This reflected a number of product launches that have been done to strengthen the local product portfolios. The premiumisation efforts across the region, product launches, line extensions, and re-launches combined with price increases drove a positive price/mix of 4% for the region despite a negative country mix. Organic operating profit growth was very strong at 39% due to volume growth, price/mix improvements, lower COGS, and efficiency improvements across all markets. We continue to see very interesting growth opportunities in Asia and remain very committed to continue investments in this region. In 2010, we expanded capacity by building two new breweries, one in Vietnam and one in India. Moreover, we increased our ownership in a few businesses, two in China and one in the Nepal.

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

Jørn P. Jensen: Thank you, Jørgen, and now please turn to slide 21. As just said, the full-year results were strong, delivering operating profit growth of 9% to 10.25 billion despite net revenue increasing by 1% and marketing investments growing double digit. Asia was a very strong contributor to operating profit growth, along with Northern & Western Europe. The importance of Asia for the business as a whole is increasing and the region accounted for approximately 10% of operating profit in 2010 compared to 7% in 2009. The operating profit growth of 9% was achieved even though operating profit in Eastern Europe declined by 5% as a result of the impact from the Russian excise duty increase. Operating margin improved by 130 basis points to 13.1%, putting us well on track to meet our medium-term Group target of 20%. In this connection, I'd like to just highlight that relative margins may fluctuate between years, depending on a number of factors being external. such as input costs and internal such as mix. Net profit increased by 49% to 5.4 billion. Free cash flow was 5.2 billion, and this number includes financial investments, i.e. acquisitions of 2.7 billion primarily in Asia. Deleveraging continues and the net debt at the end of the year was 32.7 billion, equivalent to a net debt to EBITDA ratio of 2.3. Based on the strong results, Carlsberg proposes a dividend increase of 43% to DKK 5.00 per share.

Slide 22, and the income statement. The forex impact on net revenue more than offset the negative organic development and the impact of net disposals leading to reported net revenue growth of 672 million. Despite the organic revenue decline of 3%, in total all due to Eastern Europe from the significant duty increase, organic growth profit was up 1% or 292 million. The positive development is due to lower input costs and efficiency improvements and for Asia, the additional benefit from volume growth and higher sales prices per hl. Organic total opex, including brand marketing, increased 510 million. We have increased our total marketing investments by double-digit percentages. Other operating expenses declined by 2% due to the ongoing efficiency improvements across the Group. Other income net was up 303 million organically, reflecting the sale of a branch from the French business and some real estate disposals. So all in all, reported operating profit was 10.25 billion with a positive organic development of 85 million. Around 70% of the positive forex impact of 755 million relate to the recovery of Eastern European currencies. Operating profit was, however, impacted by an estimated 300 million from destocking in Russia. Adjusting for this, i.e., subtracting 300 million from the 2009 result and adding 300 to the 2010 result, the underlying organic growth was an estimated 8%.

Now to Slide 23. Special items was minus 249 million. This number includes non-cash, non-taxable income of 598 million related to a new IFRS accounting treatment of step acquisitions which has been applied to the Wusu acquisition in Xinjang in Q1 and the Gorkha, Nepal acquisition in Q4. On the other hand, special items are negatively impacted by 300 million non-cash, tax deductible impairment on some Eastern European brands and include impairment of 289 million related to the disposed Dresden Brewery in Germany and the Swiss brewery Fribourg which will be closed in 2011. Financial costs net declined 835 million compared to last year. The reduction is partly explained by lower net average debt and partly by much lower other financial items as hard currency borrowings in Eastern Europe has been reduced and as 2009 was impacted by losses on debt denominated in hard currencies in Eastern Europe. The tax rate was 26%, excluding the non-taxable income of 598 million in special items. So all in all, net profit was 5.4 billion, up 49%.

Slide 24, please, and a few words on the statement of financial position. Total assets were up 9.7 billion since end of 2009. The increase mainly relates to currency adjustments and the acquisition of additional shares in Wusu and Gorkha breweries. Total equity was 69.6 billion, positively impacted by net profit and the currency adjustments of foreign entities and negatively impacted by distribution of dividends. Net interest bearing debt amounted to 32.7 billion, which is a reduction of almost 3 billion since the beginning of 2010 and 11.5 billion since beginning of 2009. Net interest bearing debt to EBITDA was at year-end at 2.3 times. Continued deleveraging of the Group has been a very high priority during the recent years, and this will continue to be high on the agenda across the Group.

Now cash flow on Slide 25. The sum of the first three lines, EBITDA, including other non-cash items adds up to an improvement of 1.3 billion. The focus on lower average working capital throughout the year also impacted year-end with a positive change in net working capital of 716 million. Our strong focus on working capital has been and will continue to be to reduce the average working capital during the year in order to achieve a greater positive impact on average net interest bearing debt, i.e., we want an effect on both net profits and net debt. At the end of 2010, average trade working capital to net revenue was 2.6% compared to 5.6% a year ago. All in all, cash flow from operations was 11 billion.

And Slide 26, please. Capex was 3.6 billion, index 90 to depreciation. Capex in 2010 included capacity expansion projects in Asia, as well as in the UK prior to the closure of the brewery in Leeds in 2011. 2.7 billion were invested in acquisitions, mainly in Asia, and here including Chongqing and Wusu in China and Gorkha in Nepal. Finally, there's a positive net cash flow from real estate activities of 409 million, primarily related to the disposal of one building in the Tuborg side in Denmark. All in all, free cash flow was 5.2 billion in a year where we spent around 2.7 billion for all acquisitions.

Slide 27, please. During 2010, we used the opportunity to refinance a large part of our debt, especially some of the S&N acquisition facilities. In total, we raised 2.75 billion euros in a combination of bank facilities and by issuing new bonds. The refinancing was done at attractive conditions. Following this, we have no re-financing need for a number of years.

And now finally to Slide 29 and the outlook. For 2011, we expect slightly declining markets in Northern & Western Europe, a 2-to-4% market growth in Russia and continued market growth in key markets in Asia. Due to the higher input costs, in especially Eastern Europe for 2011, we expect a mid-single digit increase in cost of sales per hl for the Group with large variations between product category, regions, and markets. By far, most of our needs for raw materials and packaging have been hedged or contracted for 2011. The impact from increased input costs will be mitigated by higher sales prices in all regions. In Eastern Europe, the increased input costs will impact more than the Group average and the operating profit margin in percentage terms for the region will be impacted negatively for 2011. Our marketing investments will be slightly higher versus 2010 as a percentage of sales to support our extensive commercial agenda for 2011. Based on these assumptions, we believe the Group should be able to gain market share in two-thirds of our businesses. Furthermore, we expect a high single-digit percentage operating growth on a base of 10.25 billion and a net result growth of more than 20%. The base for the 20% growth is the 5.351 million net profit for 2010, adjusted for the 598 million non-cash, non-taxable income related to step-wise acquisitions in China and Napel.

And now I'll turn back to Jørgen for final comments.

Jorgen B. Rasmussen: Thanks, Jørn. This was our last slide for today. But just to summarise on the back of 2010 - firstly, we are very pleased with the performance for the year on the back of the very extraordinary year in our largest market, Russia. Secondly, we succeeded in driving profitable market share growth in many of our markets and at the same time balancing this with our efficiency agenda. This is now an important part of how we do business in Carlsberg. And thirdly, we have been initiating several organisational changes throughout the Group that will move Carlsberg further towards a modern, fast-moving consumer goods company but at the same time acknowledge that many of our brands have very strong local roots. Finally, we will face rising input cost in 2011. We are mitigating the impact through pricing, and believe we are able to deliver high single-digit operating profit growth in 2011 despite headwind from input costs which show the momentum and the strength of the Carlsberg Group, our brands, and our people.

And with this, we are 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 may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star then one on your touchtone phone.*

Søren Samsøe from Danske Markets is online with a question.

Søren Samsøe: Yes, good morning, gentlemen. **First of all a question - - two questions regarding Eastern Europe. First, what assumptions do you have for mix in Eastern Europe? I assume the increase in A&P will cause the mix to come up. And also, what do you assume regarding capacity utilisation in Eastern Europe; how much will that go up in 2011? Then I had a question regarding working capital, you managed actually to increase it in 2010 despite your expectations of zero impact on working capital. What should we assume for 2011? And then finally, if you could give us an all-in interest rate for 2011 as well.** Thank you.

Anton Artemiev: Yes, good morning. Thanks for the questions. Regarding mix in Eastern Europe, for a series of reasons, we believe that the mix has a fair chance to improve next year, though maybe not very significantly. And the reason why is that the macro economy continues to develop strongly in Russia and therefore people will spend more and spend more on the branded beers than the cheaper ones. And of course, we also believe that our mix will improve better than the market because we, as mentioned, will support our premium and mainstream brands more than anything else.

On capacity utilisation, yes, as we mentioned, we expect market to grow between 2 and 4% and we will also expect to grow our own market share. That means that we will improve our capacity utilisation. But having said that, I will still mention that we have some years without need for investment into capacity in Russia.

Jørn P. Jensen: And then, Søren, the question on working capital, yes, we will - as I also said before - we will continue to work on working capital. As we have it, there's still much more to do in that area. When it comes to our focus, and it is not to kind of focus on what the number will be the last day of the year versus the same day the year before, it is to get this average reduction in net working capital. So I guess if just forecasting for kind of the cash flow statement reasons, I assume, like I guess you did for 2010, a kind of a big zero, and I think that is fine, but we will definitely reduce our average trade working capital also in 2011.

And when it comes to the interest rates, as for '10, I think it would be fair to assume a 6% all-in, and that is slightly less than of course six when it comes to the interests and then assume a little loss on other financial items, then you will probably get to kind of around 6% all-in for 2011 as well.

Søren Samsøe: Okay. **And then just one final question. I just was curious why you changed the way you do guidance from earlier an absolute number on the EBIT to**

now a growth number. Is there any a big thoughts behind those or just this is a better way to do it?

Jørgen B. Rasmussen: It's called innovation.

Søren Samsøe: Fantastic.

Operator: Trevor Stirling from Sanford C. Bernstein is online with a question.

Trevor Stirling: Good morning, Gentlemen. Three questions please. The first question relating to Q4 in Eastern Europe, margins fell from 27% to 14%. Based on what you've given in the release, am I right in thinking that's about 3% operating leverage, 5% price/mix, and 5% relating to A&P and raw materials?

Jørgen B. Rasmussen: Maybe I can have a go at that one because if you look at quarter four in Eastern Europe, part of the explanation being a significant part would be the stocking of last year in quarter four; whereas you know, we said we had the benefit of 300 million on the bottom line from stocking up.

Trevor Stirling: Yep.

Jørgen B. Rasmussen: And then you had two other elements being the increasing input costs, which we start seeing an impact from in quarter four, and then also we increased our marketing investment in quarter four compared to the same period earlier. So of the total about 600 million we are down in Eastern Europe versus quarter four last year, 300 would be from stocking up, and the other 300 is probably - indicative numbers: one-third could be marketing investment, two-thirds would be the COGS side and also the lack of pricing we were getting compared to the same period last year as we increased pricing early in the quarter last year.

Trevor Stirling: Okay.

Anton Artemiev: So if you remember, we increased prices last year since the beginning of November and this year price increase happened in December.

Trevor Stirling: I understand.

Trevor Stirling: Okay, that's very helpful. **Second question then relates to the outlook for 2011. You're saying that you expect that operating margins will decline in Eastern Europe. Is that more to do because of a slow recovery of raw material - - pressure from raw materials or that you're thinking maybe in 2012 raw materials might drop so it actually - - even by the end of the year, you would expect not to have had that full recovery of the raw material increase?**

Jørn P. Jensen: It is simply explained by the single fact that raw materials are up, especially grains are significantly more up in Russia than anywhere else, i.e., we have and we know we will have higher prices on grains in general up and until the coming harvest just post summer, so that is what will of course reduce the margin this year in Russia/Eastern Europe.

Trevor Stirling: Okay. **And final question, gents, could you give us an estimate for what the benefit was from the heat wave in Russia? What percentage of market growth would be coming from the heat wave benefit?**

Anton Artemiev: Of course, you know that this is not rocket science; therefore, there is no exact numbers. What we can estimate is for the quarter three where the hit was the highest, the volumes for the quarter could have been around 5% higher than normal. But of course, the impact on an annual basis, as you understand, is visibly lower.

Trevor Stirling: I understand that. Thank you very much indeed.

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

Hans Gregersen: Good morning. **If you look on your guidance for 2011, could you try to pinpoint some of the key risk factors you build into your budget assumptions? That's the first question. Secondly, if you look on the grain inputs in Russia for 2011, we will have the harvest results in let's say during quarter three and you have produced a significant proportion of the sales volume in quarter three already. When will lower grain price actually start really to benefit you in Russia? And then thirdly, on pricing in Russia, could you clarify what you've implemented in price increases since quarter three results announcement and what you've done so far this year and also try to break down the price/mix effect of minus 2% for 2010?** Thank you.

Jørgen B. Rasmussen: If I start with the key risk factors for 2011, I don't think there's any kind of major risk factors not being part of let's say our guidance. We do generally see improved environments but, as we also say, still challenging; certainly if you talk Northern/Western Europe. But in the two other regions, there's clearly a lot of momentum in terms of macro economies and also consumer sentiment, so that's a very positive indicator for '11, and we don't see a risk for that suddenly changing to a significant degree. On the input cost side, we have very good visibility and we know our assumptions more or less for the full year. So risk factors, as we see them, are minor and also, as you would expect, a lot of our pricing discussions are taking place or has taken place, so I don't see any big risk factors apart from the world suddenly completely changing, which none of us can foresee. But I think we are feeling very comfortable about assumptions for 2011.

Jørn P. Jensen: When it comes to grains in Russia, then, yes, you're right that when the harvest is done, then most of the season is gone anyway, which also means that it's only very limited, very limited positive effect that we expect to get from that this year. So that will more be kind of a discussion for 2012.

Anton Artemiev: And on pricing in Russia, we have increased prices in beginning of December close to on average 4%, and we would not like to comment on pricing in 2011. Thanks.

Hans Gregersen: Thank you.

Operator: Edward Mundy from Nomura is online with a question.

Edward Mundy: Good morning, gentlemen. **Three questions, if I may. First question, again on the EBIT guidance for 2011, could you confirm what currency assumptions**

you're using there, in particular around the rouble/euro? Secondly, on market share gains in Eastern Europe, what gives you so much confidence that you're going to get market share in Russia for 2011? And thirdly on market share gains in total, I think the guidance says for market share gains in two-thirds of your business, I think in your earlier comments it's at least two-thirds of your business. Could you just clarify that please.

Jørn P. Jensen: Ed, so the first question 40.25.

Edward Mundy: Thank you.

Jørn P. Jensen: Second question...

Anton Artemiev: Okay, market share 2011, yes, you can of course look back at 2010 and see that we reflect on the market share, but again it's been a very extraordinary year. And normally when one has to take price leadership who's the market leader, has difficult to grow market share. I think that this a strong achievement that we manage to have the market share lead.

And looking forward, we are increasing our brand and marketing investment so that we will continue our long-term trend for growing market share. I know you may of course understand that we want to be very specific, but we want to grow market share in both modern trade and in traditional trade channel.

Jørgen B. Rasmussen: And just to add to this one because we would normally expect to take leadership on price increases in markets where we are a strong market leader, the kind of extraordinary circumstances in 2010 was the fact it was such a big increase and we had to take so many, so it was throughout the year we had to lead. In normal years, you do it maybe two or three times. So that's the big difference between '10 and a more normal year like '11.

On the other point about growing market share in markets we present in two thirds of our business, as we say, it's a pretty ambitious target, but also we believe we will deliver on it, and it's driven by what we plan on some of our key brands, our local brands, our international brands that we have some big things happening in '11. Secondly, it's also based on the innovation agenda where we have more products rolling out in more markets that's really driving our strong belief in share gains. Plus, what we keep talking about, value management and channel management also help us to drive growth in different channels and different markets.

Edward Mundy: Thank you, gentlemen.

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

Casper Blom: Thank you. **First of all, a question regarding Northern & Western Europe. Could you comment perhaps on what price increases are needed to make up for the higher raw material costs that you see in this region? And secondly, if you could in some way comment on the ongoing bill presented to the Duma in Russia regarding alcohol regulation.** Thank you.

Jørgen B. Rasmussen: On Northern/Western Europe, we're talking about kind of low end single digit price increases to cover the input costs. But apart from that, I don't want to say more and comment more on our pricing strategy in the market or in the regions.

Anton Artemiev: Yep, as you know, this new proposal on how to regulate alcohol market and beer in particular is in the Duma, I have to say that the version, which is finally submitted by government for discussions in Duma, is relatively good for the industry. We'll see what the final outcome is. The first reading is tomorrow, 22nd of February. The next one may happen, we don't know exactly, but it may be within a month or so. So it still takes some time, so we don't want to influence the process and comment on specific initiatives. But of course in our outlook, we have included our best knowledge. By now we have in our estimates what would happen with this law and what is the final outcome for the industry.

Casper Blom: Thanks.

Operator: Paul Hofman from Credit Agricole Cheuvreux is online with a question.

Paul Hofman: Yes, hi. Good morning. This is Paul Hofman, Cheuvreux. **I have some questions please. First on your guidance, we have to exclude these one-off income of nearly 600 million, but what you can tell about other exceptional items that was also an impairment of 300 million. I assume it will not be repeated of course. Or put differently, what kind of an amount of net/net of special items can we expect for next year? Will it be more in line - - in the range of last year's number? Also on non-allocated items, there was an increase of around 200 million due to higher market spending. Given your plans is this end level 2010 also the level we should expect for next year? And finally, did I hear it correctly that you expect mid single digits up in terms of input costs per hl.** Thank you.

Jørn P. Jensen: Well, if you take the items as such, then I guess EBIT is covered. We talked about financial items a little earlier, special items around what you would normally assume going into the year, so around 200/250, say 225 as an expense, 26% tax rate as we had this year, and then minority interest ballpark number 700, then you would get to this slightly more than 20% or more than 20% on net profit.

Non-allocated costs, due to also that, as Jørgen said before, many, many, many commercial activities also in 2011 at a relatively high level also taking the long-term trend into account, so it will be slightly lower but not a lot lower than 2010. But that's not the number you should kind of assume will be the long-term number for non-allocated costs.

Jørgen B. Rasmussen: And on the input cost, yes, we are saying for the Group about mid single digit increase in input costs, but higher for Eastern Europe than for average Group. I should clarify, it's COGS. It's not just input costs, but total COGS.

Paul Hofman: That's clear. Thank you.

Operator: Andrew Holland from Evolution Securities is online with a question.

Andrew Holland: **Yes, just further clarification on your guidance. You've talked a little bit about the special items there, but I am struggling to get to the sort of 20%**

increase versus - - the net level versus the 10% increase at the EBIT level. And as I look at the consensus forecast at the moment, it's close to 6.2 billion at the net level, the implied net profit implied by your guidance is more like 5.7 billion, so there's quite a big gap there between what appears to be the consensus number and what appears to be your guidance. Can you help me with that at all please?

Jørn P. Jensen: Yeah, well not with the consensus number, but with the guidance. So if you... I don't know what you assume on EBIT, but if you assume what we have now said and then use this all-in interest, which is both for interest and other financial items, of around six, special items of say this, as we talked about before, 225 or so, a tax rate of 26, and minority interest - - a minority charge of 700, then I think you will get to a number which I agree to is less than 6.3, but also being a little more than 20% growth.

Andrew Holland: Okay, I'll have to try and work on that one. Thank you.

Operator: Matthew Jordan from Matrix is online with a question.

Matthew Jordan: Yes, good morning, gentlemen. **A couple quick questions please. Firstly, you talked about going for market share growth in two-thirds of the region. Could you just sort of comment on your approach to volume versus the price/mix part of the equation? And if I look back to the sort of pre crisis time, you were getting sort of in 2008, for example, a 4 or 5% price/mix growth at Group level. You've given us some comments on the individual regions in the last hour, but I just wondered if you could give us a sort of holistic view for the group whether you think 4 or 5% price/mix growth is likely this year and how that weighs up versus the volume target.**

Jørgen B. Rasmussen: I think when we talk about market share and growing market share in two-third of our businesses, as you say, it's really with a balanced approach to volume and value market share. So we're not going for volume market share alone, it has to be balanced. So only if you get the value share increase, we'll go for volume share increase. And I know some time what's being talked about out there in terms of U.K. that we are aggressive on volume pricing, I can tell you if you look at Nielsen data in U.K., we're going up in value share as much as we are in volume share, and that is our approach to how we do business.

Jørn P. Jensen: Maybe just to add one thing. It is, at least as I have it, it is a bit dangerous to focus on especially price and mix on Group level because with, for instance, Asia growing as much as Asia is growing, there will be a negative regional/negative country mix in the Group numbers, for instance on price, which is actually not a bad thing. It's just because we're growing so much as we are in Asia, but it's just a bit dangerous just to focus on the Group averages versus the regional averages.

Matthew Jordan: Okay. That's very helpful. **The other question I had was on your medium-term margin targets. Obviously you've given us some fairly clear steers on Eastern Europe margins for 2011, but leaving that sort of one-year aside, the three- to five-year target for Eastern Europe looks fairly unambitious. Why would we not expect to see that being a bit higher?**

Jørn P. Jensen: I think in general as we are stating for all our mid-term targets, we will when we are what we ourselves call "well into and comfortable with the mid-term target ranges and we are achieving those," then we will eventually get back to you, and that goes for Eastern Europe as well.

Anton Artemiev: One effect may help you to comprehend this story is the country mix. The Russian has the highest level of consumption and therefore it still has a lot of potential, but other markets in Eastern Europe has even more potential and that means that they will grow faster and the margins at the moment are lower in those countries than in Russia, which helps explain.

Matthew Jordan: Okay, that's very helpful. Thanks.

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

Jonathan Fell: Good morning. **Couple things. First of all, if I look at your target of getting market share growth in two-thirds of your business, I think you probably have to hit share growth in Russia to achieve that, which would then imply you're getting share growth in half or less of your other markets. Are there particular markets where you would expect to be ceding market share in 2011 for various reasons? And second question just regards to the dividends, there has been quite a big increase in the dividend rate, but not much of an increase at all in the payout ratio. Did the Board consider revising its dividend policy at all? And can you just remind us what it actually is at the moment?**

Jørgen B. Rasmussen: On the market share, yes, we are assuming to grow market share in Russia, and we're not assuming as such to suddenly have more decline elsewhere. So if we talk Northern & Western Europe, we would assume a performance in market share in line with what we have in 2010, so growing slightly market share in that region as well. But overall, if you set a target like two-third of your business, that's a very strong target. And if you look at benchmark with any FMCG company, this is probably top end of any target that we're seeing from any of those companies. So to set even higher targets here, I think it may be too ambitious, but we are comfortable we will deliver on this target.

Jørn P. Jensen: When it comes to dividend, yes, then you're right in basically what you just stated. The dividend policy is now DKK 5 per share. There's not a formalised external communicated dividend policy. So we for now, or the Board for now considers this yield of slightly less than one or around one that these DKK 5 per share to be at the right level.

Jonathan Fell: Thank you.

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

Adam Spielman: Hello. Thank you very much. **A quick question, please, about pricing in Russia and market share. Last year, as you said several times, you had to lead prices up because of a tax increase and that made it very hard to grow market share. But this year, as you've also said, input costs are going up, and presumably you also as market leader have to take pricing to offset that, and presumably also as market leader you really have to lead on it. And therefore, I'm wondering what is exactly - - why are you so confident**

given that that you can grow market share better in 2011 than you have in 2010? Thank you.

Anton Artemiev: Without specifying our pricing intentions, I had to say that price increases, which will be needed to cover for input cost growth, are significantly lower than the ones needed to cover excise increase of 200%. The cost of the barley, which is the main component of the raw materials and which is growing fastest, that is only around 3% of the revenue. So in that sense, once again, very substantial increases in price for barley would be compensated for by much, much lower than 25% increase, which was what we needed to cover excise. So we are not facing dramatic price increases in 2011. They still might be significant, but not nearly as the ones in 2010. So 2010 has been an extraordinary year and we, as a market leader, we're responsible also for the health - - healthiness of the market.

Adam Spielman: **Can I ask you perhaps another way of approaching the same question is: Have you actually taken already enough pricing to offset the increase in the barley prices which, as you say, you know very much in advance what the impact will be for the full year?**

Anton Artemiev: I think you can include many factors into consideration, including inflation, some other practice and what you compensate for is you can argue. But once again, we have pricing plans in place. We have those plans specified by segments and by branch. But I'm sorry, I'm not going into details of those.

Adam Spielman: Fair enough. Thank you very much.

Operator: Frans Høyer from ABG Sundal Collier is online with a question.

Frans Høyer: Good morning. **Could you give us... I mean you mentioned that your hedges of malt and various input costs have - - are pretty much or almost covered for 2011 and you said that this is - - the increases are covered in terms - - or you expect to offset these increases with higher selling prices. Can you give us an idea of just how aggressive or ambitious is that assumption that you can actually offset these cost increases through selling prices?**

Jørgen B. Rasmussen: We believe it's a very realistic assumption. And as you will expect, we are well into many of those discussions in a lot of our markets, so realistic assumption.

Frans Høyer: Okay. **Also, regarding Russia, you assume a 2-to-4% market growth rate for 2011 in your guidance. Could you give us an idea of the market growth rates in Q4, for instance? What… I mean I'm not talking shipments here, but consumption growth.**

Anton Artemiev: In Q4, it was minus 1%, minus 1% in Q4 and plus 1% that goes for the second half of the year.

Frans Høyer: All right.

Anton Artemiev: So if you remember in the Q3, we had plus 2% market growth, minus one in the Q4 and for the second half it was plus one.

Frans Høyer: Okay. **Now also in your presentation you mentioned that the EBIT margin in Eastern Europe will be going down in 2011. Could you give us an idea of where we might… I mean what is it you are actually suggesting here?**

Jørn P. Jensen: Well we're basically two things. First of all, reminding you guys about what happens in years where you have these increases, significant increase at least in input costs that the relative margin normally goes down in spite of you being able to cover for all of that increase through higher sales prices. So it's more or less, remember that the relative margin will be impacted.

Frans Høyer: Yeah.

Jørn P. Jensen: It's not the same as suggesting that the absolute margin per hl will be impacted negatively, and then it's definitely still so that we are within the medium-term target range for Eastern Europe also for 2011.

Frans Høyer: **Yeah, but that's a very wide range of 26-to-29%. I mean where… Are we actually approaching the bottom end of that range, or how would you - - if you were going to narrow down that language a bit?**

Jørn P. Jensen: We will not kind of for 2011 change the language, so it's lower than 2010.

Frans Høyer: All right.

Jørn P. Jensen: But within the range.

Frans Høyer: Okay. **Then finally a question on market share in Russia, and sort of side stepping the issue of change definitions and so on, you did see an increase in the market share towards the latter part of the year, but it does look to me like the performance has fallen somewhat short of what you were hoping for earlier in the year. And I sort of ask what's happening in… I mean the key driver here, as far as I understood, was that Carlsberg's portfolio of top brands within each category was going to be a powerful driver of market share, especially in the modern retail trade. And I wanted to try and understand what has actually happened in that particular aspect of developments in Russia, towards the end of the year. What's happening there, and how should we look at this?**

Jørgen B. Rasmussen: I will start and then Anton can add. To us nothing has changed. We still have the same very strong brand portfolio, the same very strong sales machine. But it's back to the point again when you talk about very, very significant price increases of on average 25% leading basically throughout the year and having to take five/six/seven times price increases during the year, it does impact your market share performance. And coming out of the year with a flat market share in Russia, I think it's pretty much in line with what we indicated half way through the year, so I don't see any change in terms of performance and what we have in Russia and how to think about the future when we talk market share in Russia.

Anton Artemiev: Once again, to remind you, we have had this kind of a bottom in the market share development in the very beginning of the year in Q1 since that we have recovered market share and been able to keep it flat compared to last year. So all in all in a year of price leadership, as we mentioned, with one exception, we think it is strong result and that keeps us confident for the trends going forward. Once again, it's not the one month or even one quarter numbers which we suggest you to consider, it's a long-term trend and that trend will continue.

Frans Høyer: **But would you not agree that it's a shortfall relative to what you had hoped for, and - - or could you tell us what sort of ambitions you have on the market share for - - or by the end of 2011?**

Jørgen B. Rasmussen: But as we have said all along, and I will go back to even 2006 here, we have said as a trend, we will keep growing market share some quarters up/some quarters down a little. But as a trend, we will keep growing market share, and that we believe will continue and having flat share in such an extraordinary year like 2010, we believe it's pretty good. We have grown share in traditional trade being a big part of the market, lost a little in modern trade where you can say it's easier sometimes to implement maybe market share movement in the short-term by having campaigns. We're overall very pleased about what we have seen on average for a difficult challenging year in 2010.

Frans Høyer: Okay, thank you very much.

Jørgen B. Rasmussen: I think we have time for two more questions and then we have to close the call.

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

Hans Gregersen: **Yes, just one follow-up. Going back to Russia, the 2% mix price decline you saw in 2010, could you try to separate that by the pricing factor and the mixing factor, and also could you clarify if I heard correctly that you said the barley cost only accounted 3% of revenues in Russia?** Thank you.

Anton Artemiev: So price and mix, in those percentages, a little more of a mix than anything else but...

And the second, sorry, question?

Hans Gregersen: **Did you... Was it correctly that you stated that barley only accounted for 3% of revenues in Russia?**

Anton Artemiev: Roughly, I mean it of course changes from year-to-year, but roughly you can say so.

Hans Gregersen: Thank you.

Jørgen B. Rasmussen: One more question.

Operator: Andrew Holland from Evolution Securities is online with a question.

Andrew Holland: **Yes, just a very brief one. Can you give us a figure for your normalised net profit in the year just gone or, put another way, what was the tax effect on the special items? It would just be very useful for comparison purposes if we had the normalised net profit number.**

Jørn P. Jensen: I don't have it here. So Peter will get back to you on that.

Andrew Holland: Okay thank you.

Jørgen B. Rasmussen: Thank you.

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