Brewers' profits lose their fizz

Heineken and Carlsberg, two of the world's largest brewers, have reported falling profits after beer sales in western Europe fell flat.

Dutch firm Heineken saw its annual profits drop 33% and warned that earnings in 2005 may also slide. Danish brewer Carlsberg suffered a 3% fall in profits due to waning demand and increased marketing costs. Both are looking to Russia and China to provide future growth as western European markets are largely mature.

Heineken's net income fell to 537m euros ($701m; £371m) during 2004, from 798m euro a year ago. It blamed weak demand in western Europe and currency losses. It had warned in September that the weakening US dollar, which has cut the value of foreign sales, would knock 125m euros off its operating profits. Despite the dip in profits, Heineken's sales have been improving and total revenue for the year was 10bn euros, up 8.1% from 9.26bn euros in 2003. Heineken said it now plans to invest 100m euros in "aggressive" and "high-impact" marketing in Europe and the US in 2005. Heineken, which also owns the Amstel and Murphy's stout brands, said it would also seek to cut costs. This may involve closing down breweries.

Heineken increased its dividend payment by 25% to 40 euro cents, but warned that the continued impact of a weaker dollar and an increased marketing spend may lead to a drop in 2005 net profit.

Carlsberg, the world's fifth-largest brewer, saw annual pre-tax profits fall to 3.4bn Danish kroner (456m euros). Its beer sales have been affected by the sluggish European economy and by the banning of smoking in pubs in several European countries. Nevertheless, total sales increased 4% to 36bn kroner, thanks to strong sales of Carlsberg lager in Russia and Poland. Carlsberg is more optimistic than Heineken about 2005, projecting a 15% rise in net profits for the year. However, it also plans to cut 200 jobs in Sweden, where sales have been hit by demand for cheap, imported brands. "We remain cautious about the medium-to-long term outlook for revenue growth across western Europe for a host of economic, social and structural reasons," investment bank Merrill Lynch said of Carlsberg.