

SCA Q3 Report
Thursday, 18th October 2012
10:00 Hrs CET time
Chaired by Jan Johansson

Joséphine Edwall

Hello and welcome to SCA's Third Quarter Report press conference. My name is Joséphine Edwall. I'm Head of Communications for SCA, and today our CEO, Jan Johansson will go through the highlights from the report. After that, we will have a Q&A session, where also our CFO, Lennart Persson will join the stage. So, over to you, Jan.

Jan Johansson

Thank you very much. Good morning ladies and gentlemen. We are very much still in just transition process in SCA, after the divestment of packaging, and the acquisition of Georgia-Pacific, and this is, of course, also reflected in the report. As an example, we have restated the packaging operation, so we can compare year-on-year. We have not restated the Australian business, which is then, of course, need to be dealt with in the reporting. The integration so far of the Georgia-Pacific acquisition has gone according to plan. The business is in line what we assumed in the acquisition assumption or a little bit better. We have not yet seen any of the synergies from that acquisition in the P&L, because we are just in the beginning of the integration phase of G-P. And if we start to look at the environment we are in, we are not very much helped by the market development or the economic development in the world, as you all know. In Europe, for example, the expectation this year is the decline of the economy of some 0.2%, in the euro area with some 0.5%, and the consensus for next year is a moderate growth 0.2% in the EU area and 0.5 in Europe in total. And that is something we, of course, need to adapt to, and manage in our businesses.

Having said that, we still see a very good growth in emerging markets, both in Tissue and Personal Care, and we also see some growth in Europe in some of our categories, and I will get back to that. The sales and result is, of course, impacted by G-P, and I will comment on that when it's relevant. The business area within SCA today that are impacted by the situation is, of course, our Forest operation, and I will get a little bit deeper into that when we come into for is what is happening and what we assume will continue. Looking at the summary of the result, we do have like-for-like a growth of some 16%. We had a negative currency impact on sales of about 1 billion, Q3 to Q3, and of course, that is mostly then the translation part, when we translate everything to SEK. The major transaction impact of the currency is, of course, in the Forest operations. Tissue acquisition positively impacting; G-P has an impact of some 10% Q3 to Q3 of the sales increase of 16%. We do have higher volumes excluding the G-P acquisition also. We have higher prices and as I said, a very strong growth in our emerging markets. Forest, from a market perspective, volume is down. We have not lost volume, but we have seen price decreases in our portfolio. We also have a nice improvement of our result, and of that 20% increase, G-P is about 9%.

An important aspect of coping with the situation we see in Europe is, of course, efficiency productivity, and if we look at the current cost saving programme we have in the company, we have annualised reach so far 427 million, but in the Q3 result, 100 million is impacting that, and the year-to-date we have an impact of some 250 million SEK from the cost saving programme. Looking at it from a different perspective and once again 1 billion impact of currency, we are for the first time now above 10% in a long time in EBIT margins; I think last time was 2007. We have, after all the transactions we have made this year, we are still on a gearing debt-to-equity ratio of 0.59; so, still a reasonably strong balance sheet in the company and we also see a positive improvement of our cash flow, which of course is one of our priorities in SCA today. Looking Q3 to Q2, we have sales growth of some 13%; we have a negative currency impact of 900 million SEK translation, most of that Q3 to Q2. Of the growth, G-P is about 11%. We also have an improvement of profitability in all our categories in hygiene, both in Personal Care and Tissue, and if we look at the Tissue improvement of 28%, G-P is about 17% of that. And as you know, we had G-P in from the 20th July, which means it was not a complete quarter.

Coming into Personal Care, we have a good growth in incontinence care. In Europe, year-to-date, we had a growth of 4%; Q3 to Q3 we had a growth of 3% in Europe. Overall, a 9% growth and of that, 6 is acquired, and that is our Chinese acquisition and our Brazilian acquisition that has a positive impact on the sales. Baby increase in sales is mainly from Europe, and that is after the restructuring of the baby business in Europe, where we were able to win substantially volumes in new contracts. But, we also have a 9% impact from acquisitions in the baby growth. Feminine is 100% organic growth, and it's mainly coming from emerging markets. Also, the increase in the result of 23% is, of course, higher volume; it's also cost saving. Of the cost saving I previously mentioned, about 55% is coming from Personal Care. So, we have sort of a higher level of saving in Personal Care today than we have in Tissue. And we have a reasonable margin of a little bit more than 30% overall in the Personal Care business today. Coming into our Tissue operations, the growth in consumer tissue, Q3 to Q3, is mainly from acquisition, almost 100% is coming from acquisition, and then I'm including both G-P and PISA. As you know, we also acquired 50% of PISA, so now we have 100% ownership of that. If you look at the Tissue increase, some 18% is coming from acquisition; the remaining is organic growth. And emerging markets, the growth of 20%, 7% is coming from acquisition. So still a very, very good organic growth in our emerging markets.

Looking at the EBIT increase, of course acquisition, higher prices. We have improved mix in the system, but we also have lower raw material costs. Cost saving here of the figure mentioned, is about 30% is coming into Tissue and the remaining 15% is coming into our Forest operation. Then looking at Forest, we are kind of a perfect storm in our Forest operations, where you have a structure change at the same time as you have the economic development in Europe. News volumes is down 10% year-to-date; magazine paper is down 6% year-to-date and on top of that we also have the stronger Swedish currency, of course, hitting the Forest operation. Looking at Kraftliner here, we do have a much stronger position from a market perspective in Kraftliner. The inventory is actually down 23%, compared to last year. We have seen price increases during the quarter. We will continue to increase prices, where the next price increase will be about €50, of which 15, we have received already in September. But, we feel quite confident that we will be able to achieve the remaining price increases. We also had some extra costs during Q3. We had a repair stop in Obbola that had an impact of 35 million SEK. We also had a repair stop in

Östrand with an impact of some 25 million SEK. In Q4, we will have a repair stop in Munksund where we'll also have a 35 million impact on the result.

The negative currency impact is as much as 200 million SEK, and here we are talking about the transaction and not the translation, so it's real money in currency impact. Looking at the market situation here, we don't see any possibility to increase any prices for the rest of the year, and that goes for everything except, as I said, Kraftliner. The market is still very weak in our sawmills, even though we have a good volume. But, of course, impacted by the construction industry that is weakening, but also we do see some negative impact on the home care business, which normally is quite untouched by the krona situation, but now it's so severe in some countries the people are actually buying less, even, to repair their houses. The pulp situation, the pulp price is sliding up. Looking at the short fibre, it's higher than we saw last year, about 40% higher, but long fibre is about 8% lower than we saw last year. But, there is a lot of resistance in the market for increasing prices, for obvious reasons, because there is no growth there, and we do see a lot of new products coming in, in particular, in the short fibre side in Latin America. So, I don't expect any major changes in the pulp prices. But, there will be some price increases. And as we always say in SCA, the best situation for us is actually high pulp prices, but stable. Then we manage very good. It's more difficult to take the swings in short terms in pulp prices. So, positive on Kraftliner, but no major positive impact in the rest of the operation in Forest.

So, looking at a summary of this: strong hygiene business, continued growth in that business. There will not be any major price increases for the rest of the year, because there is no fundamental for that. We generated strong cash flow. Efficiency programme is starting to deliver and of course then we have a major impact once we get into the synergy case of G-P, and we use these few months to the end of the year to really dig into the different processes and where we should start so we can speed it up after the year end. We have also divested Aylesford, our 50% ownership, and as you saw from the report, we had a write-down of 850 million SEK, of which 140 is impacting the cash. So now we have, mainly after the investment in Ortviken, we have our old machine from 1952 that is producing news, and we have been quite clear that that will also be closed down in due time. We have also, as you may have seen, been included in Dow Jones Sustainability Index and maybe the most positive thing, at least from my point of view, is that we do see a lot of new innovations coming out on the market in all our categories, and that is, of course, the future and the future margin drivers for us, to really get out the new things on the market, whether it's a big innovation or a small innovation, they are as important. And the improvement we have seen in margins in hygiene now is, of course, very positive, but it's not the level we are satisfied with and, of course, we would like to improve that going forward. But, we need to do that, mainly short-term, I think, by reducing our own costs and working with the productivity and efficiency within the hygiene business.

So, with that then, ladies and gentlemen, Josephine, do you want to join me?

Joséphine Edwall

Yes.

Jan Johansson

Lennart.

Joséphine Edwall

Good. Lennart. Let's open up then for the Q&A session. Let's start over there.

Questions and Answers

Lars Kjellberg

() – Credit Suisse

Could you please go through, it can be sort of margin progression in Personal Care and Tissue, sort of a bridge from Q2 to Q3 with regards to, you know, your own cost savings, raw material cost savings? And also, if you can try to clarify the actual organic growth, like-for-like in the Tissue business, excluding all effect from divestitures, etc., and acquisitions of course.

Jan Johansson

Well, when it comes to the organic growth, I think you can get that from the figures I gave you what was coming from G-P, because G-P is the main thing. The smaller acquisition in Latin America doesn't impact it very much, in overview it's still in transition into the company. But, coming into the bridge, maybe Lennart you'll have that? Without giving too many details?

Lennart Persson

Yes, exactly. I mean, you will find that also on our website. So, we have, I mean, when it comes to Tissue, we have some smaller... going from Quarter Two to Quarter Three? Yes, we have some 3% coming from raw material, and then it is as Jan said, the acquisitions of course, so on the other line we had 29%, but very much of that is coming from the acquisition side. But, we have also a positive cost saving, as Jan talked about, out from the 100 we saw in addition during the third quarter. Yes, I think that's what we can... we have seen higher energy costs in the third quarter and so, I mean, that's roughly, then it is small plus or minus volumes, price, etc., in the Tissue.

And cost.

In Personal Care, it is the same, some 4% coming from raw material and from cost saving; on the other line we have 4%, and half of that is from the cost saving.

So if we may come back just to the organic growth in Tissue, that really means that, you know, its price is slightly up to actually have volume contraction ex the acquisitions then. Is that the way to interpret that? If you get 100% from Georgia-Pacific?

Jan Johansson

The 100% was consumer tissue, not all the tissue, not away from home.

Lennart Persson

Of the division, we have -2% on organic volumes, so to say.

Okay, thank you.

Joséphine Edwall

And then we have a question there, yes? Excellent.

Oskar Lindström – Danske Bank

I'd like to continue on this sort of hygiene margin track. Ahead of this report, you've highlighted that the Georgia-Pacific Tissue business had a lower EBIT margin than your own sort of business, and I think you mentioned a level around 8% or that's a level that was discussed. Could you tell us what the EBIT margin level of the acquired Georgia-Pacific Tissue business was during the Third Quarter?

Jan Johansson

It's lower than the SCA margin, but higher than the level you mention. That is as far as I can go.

Okay. And coming also back to this issue of raw material costs, which seem to be one of the main factors excluding the acquisitions for driving this stronger EBIT for the Tissue division during the quarter. To what extent were you able to sort of benefit from sort of very low spot prices on pulp? Is that something that was a bit exceptional during the quarter that you don't expect to see going forward?

No, it's most of the pulp we are buying is on contract, so it's... if any, it's very small – Mats? Very small on spot.

All right, thank you. Moving on to Personal Care, where also raw material costs or lower raw material costs seem to have been an important part behind the sequential EBIT margin improvement. Could you give some more details as to what was behind that, and what the outlook is?

I think in Personal Care, the raw material has significantly lower value than you see in Tissue. And, as you know, we have a four to six-month delay on the price changes in our oil-based materials, and we did see oil prices go down four to six months ago, and then of course, we get the benefit on that. And now we have seen it's coming up during the last maybe two or three months, and that will of course then have an impact in four to six months' time, in Personal Care.

And following up on Personal Care, you now have sort of been in possession of the Everbeauty business for more than a full quarter. Could you tell us a little bit about how that business is developing? It appeared, from the press release, when you acquired it that the margin were very low. Is that something we should expect to continue to be the case?

Well, I think as we said during presenting that acquisition, it's not going to change the margins of SCA in total in a while. I mean, it's quite a minor thing in our portfolio, and we're using the time now to really understand the business, to decide where we should be, where we should not be, how should we integrate it with a current business we have in the area, etc. You can expect that it will be similar for at least a short time period.

Right. On the synergies from the Georgia-Pacific Tissue business, how should we expect those to come in? Sort of front-loaded? Back-end heavy?

Well, I mean, people are always in the front and the plants are always in the end, and I would say – Mats, the bulk of this is coming from the factory side? Two to three years' time we will have the full synergies.

Right. So we really shouldn't expect the bulk of this to come in next year as back-end loaded?

No.

And you talked about the negative FX effects, but if I look at your deviation table, which you published on your website, and the sort of quarter-over-quarter effect seems to have been fairly small.

I think the problem with that is that the currency impact on Forest you will see in the price mix, and not in currency.

Right. So...

So, you'll see it in price and not in currency. And that was quite a substantial part.

Yes. All right. Thank you. Those were all of my questions.

Yes.

Joséphine Edwall

And now we have there.

Mikael Jåfs – Cheuvreux

Mikael Jåfs from Cheuvreux. I'd like to continue a short question on the Personal Care and the super absorbents, given that's one of the largest producers to face production problems. Do you see any effects from that in the short-term?

Yes, there was a very sad explosion in Japan, in Nippon, which is producing 20% of all the global supply of that, and we have, of course, very closely looked into that, but we can't really see that it will have an impact on us since we have a very firm contract with our suppliers.

Okay, and then just a housekeeping question. I noticed there in your intragroup deliveries that they're down quite a lot between Q2 and Q3. Is that just a function of the new structure of SCA?

Interesting question; do you have an answer?

Lennart Persson

I have not, but, I mean, it differs from time to time, but partly it is as you said, due to the change in the structure.

Okay, many thanks.

Joséphine Edwall

Do we have anything here in the middle? No?

Jan Johansson

Yes?

Karri Rinta – Handelsbanken

Thank you. Karri Rinta, Handelsbanken. A question on cash flow. There was quite sizeable working capital released in the third quarter. Was this... typically, you would see that in the fourth quarter. Do we still have working capital to be released in the fourth quarter or was there something that sort of made it happen sooner this year?

I think when we look at the working capital, you may see some deviation from the normal standards, since we're now digging into the G-P acquisition also, and then they had a slightly different view on working capital than we have. So, give us a few quarters and then you will see the sort of normal patterns on working capital.

Okay. Then the comment you made on Ortviken, I believe, in terms of the newsprint machine, and you mentioned in due time it will most likely be closed down. Is that due time influenced by what happens in the market, or is it more your reinvestment need, i.e. when you have to invest you don't do it; you close it down. Or would you do it for sort of market purposes?

It's more an internal process, I would say, than a market process. Since we have now invested in the PM5 in Ortviken to complete the new grade, that it's not really on the market today, then in the certain period we will use the PM2 as a test machine, rather than producing full volumes. I can't give an exact date, but it's not, of course, too far away.

Okay. Then finally, in terms of fourth quarter, you typically would see some seasonality in the fourth quarter that helps the margins, both in Tissue and Personal Care. How should we view that now, in the light of Georgia-Pacific and the very strong margins that we already saw in the third quarter?

Well, as you know, we have different seasonalities in the company. The strongest season in US is normally when they start to eat ice cream, and in Europe, when we get sick and use handkerchiefs. And I don't believe that this is, not will be any different this year than in other years; the only difference may be from the past two or three years is that we have a lot of Red Days in the calendar. It's a bad year for companies. We have 2% less invoicing days in Q4 than in Q3.

All right, thank you.

Joséphine Edwall

Okay. I hear we also have questions from the phone conference, so let's open up for them. Operator, can you help us with the first question, please?

Operator

Certainly. Your first question comes from Peter Testa. Please go ahead, announcing your company name.

Peter Testa – One Investments

Yes, this is Peter Testa from One Investments. I had questions, please. One is just on operating costs. If you look at operating costs, excluding extraordinaries, it's a very muted development year-over-year and sequentially, despite integrating Georgia-Pacific, and I was wondering if you could just help us understand, you know, what you've done at the SG&A level to deliver that result, or what happened? And the second question, please, was just on the material cost side on the hygiene products businesses. I was wondering if you could just help us, give some understanding of what sort of visibility you have of sustaining the benefit you've seen so far going forward, based upon your contract exposure, please?

Jan Johansson

Well, I think the first question is the efficiency programme we are running now is also very much directed to the SG&A and hopefully we'll see a further improvement on that side going forward, since we have still some more savings coming in from the programme we started last year. The second question, Lennart, I'm not sure I understood that; do you?

Lennart Persson

I'm not sure.

Okay, it might make... in fact, sorry, I just have one follow-up on the first question, then I'll re-ask the other one, please. You know, if you look at the... I would have thought there would have been some step-up, because of the integration of Georgia-Pacific in the quarter. I think you talked about cost savings of 100 million in the quarter, which is, you know, compared to the size of the Georgia-Pacific business, in net I would have thought there would have been some increase, and I'm just curious as to whether there's anything else I didn't understand; FX or something else?

Lennart Persson

If you look quarter-by-quarter, it is mainly the impact you are talking about, but if you look compared to last year, it is of course also that last year we had Australia... already in the comparison year we have Australia and New Zealand in the figures as well.

Right. Okay. And the question I was just trying to understand was you've had some substantial benefits on material costs during the, you know, so far this year on the Tissue and the Personal Care businesses. And I was wondering, based upon your contracted position, the degree to which we could, you know, see that going forward, or maybe even try and understand your contracted position versus, you know, fresh contracts you write today? The extent which you have visibility over this benefit going forward, because it has been pretty important.

Jan Johansson

We have some delay of 40 to 45 days to the market price and what we pay to our suppliers, and that is... that's the bulk of the pulp supply we have today.

Okay. Would you expect a sort of run rate of benefits to carry on through the rest of the year into early next year, or is it not so sure? What do you think?

I mean, everything else alike, we see some slight increases in pulp now, but with the contractual situation we have, it is 40 to 45 days before we see that coming into our P&L. Then, of course, looking at the pix prices, etc., it's not the whole truth, because then you, of course, have a lot of rebates in the system also. So, I would... my view is that I don't expect any major change in that side during Q4

Okay. And is the Tissue business ultimately pricing, does it somehow ultimately reflect the material position as well with some sort of timeline on the tissue side?

Well, I mean, depends on the different parts we are in the world, but looking at the results now, even though it's quite a nice improvement on profitability, it's still not enough. So, we will not very easily or gladly give away anything of that margin, if that is an answer to the question.

Yes, it is. Thank you very much.

Joséphine Edwall

Okay, so I suggest we take the second question from the phone conference. So, Operator, please help us?

Operator

The next question comes from Stefan Lycke. Please go ahead, announcing your company name.

Stefan Lycke – Deutsche Bank

Hi guys, Stefan Lycke at Deutsche. I have two quick questions. Firstly, on the A&P spend that was quite volatile between Q1 and Q2, how was it in Q3 versus last year?

Jan Johansson

If I remember rightly, Lennart, it was on a similar level.

Lennart Persson

Yes.

Jan Johansson

Similar level as last year.

Okay, perfect. And my second question is if you've seen any sort of aggressive movements from your competitors on the Tissue side here, in an attempt to grab some shares following your acquisition of Georgia?

Well, one would have expected that maybe during the long time we had to deal with this in the EU, and of course, during the long time the people in G-P knew that they were going to be acquired by us, but we haven't seen anything actually. They've been running the business very well.

Okay, perfect. Many thanks.

Thank you.

Joséphine Edwall

Good, so let's continue with the phone conference. Operator, let's have the third question.

Operator

We have the next question from Linus Larsson. Please go ahead, announcing your company name.

Linus Larsson – SEB Enskilda

Yes, thank you. It's SEB Enskilda, just to follow-up on the A&P question that we just had. Do you have a guidance for the full year how 2012 A&P spend will be compared to 2011, expressed as an absolute number or as a percentage of sales? The way you prefer.

Jan Johansson

Lennart, do you want to deal with...?

Lennart Persson

I think it will be in the same level as last year, plus/minus.

And then you are referring to an absolute number or...?

Absolute number.

And what does that mean for Q4 versus Q3?

Jan Johansson

Yes, it's rather something we don't really want to communicate, because then, of course, we give all the answers to our competitors also. We have quite a big flexibility in this, of course, depending on the needed promotions, depending on how our competitors are acting, so it's not... sometimes it's very reactive, sometimes it's a very planned action. They tend to be more and more reactive, because the mind behaviour in the consumers is changing for more buying in the shop than deciding in their house if they want to buy something.

And what do you sense now among your competitors, if you look at Europe in Personal Care and Tissue? What's your sense of promotional activity among your competitors?

I mean, in the baby business it's always high everywhere. It's always a tough competition, in particular, also since the private label is a very big part of it in Europe. Incontinence, very different, there depending on if it's the health care or the home care or the retail business. But, I mean, the general statement would be that it is always, always tough competition somewhere in our business, all the time.

And on Tissue? Any remarks, comments?

From a European perspective, Tissue is more impacted of the private label movements or the retail movements than the competitors movements.

Is there a downgrading taking place right now in consumer tissue in Europe, and if so, where and how?

I think we're seeing the same behaviour as we saw in 2008 and 2009; not really downgrading but smarter shopping, waiting for promotions, maybe buying bigger packs, etc. And overall, especially in the southern part of Europe, the spending per week is going down from a consumer perspective, but not really in our area, because I mean, these kinds of products, it's very difficult to reduce your spending. Then you need an alternative that ends up maybe more expensive.

Great, and then just also on the cost side, at least sometimes in the past you've had some quite significant energy cost increases in the fourth quarter. Do you have any suggestions as to the cost development for energy in the fourth compared to the third quarter?

Normally you would see an increase in the fourth quarter, due to the weather conditions, and that's what we're assuming also.

How much is hedged, on the gas and electricity side, respectively?

For the fourth quarter?

Yes.

Oh, I don't have a figure for that.

Okay. That will be it then. Thank you.

Thank you.

Joséphine Edwall

And we have another question from the floor, now.

Oskar Lindström – Danske Bank

Oskar Lindström from Danske Bank. The past 12 months really have been very intensive in terms of M&A activity from your side. Will you sort of keep this up going into next year as well? Or was this a bit of an exceptional year in that regards?

I think when it comes to getting the right position in the geography in the world, we will continue to look at acquisitions, but the main focus now will be integration of what we have acquired, taking out the synergies and organic growth.

All right. Thanks.

Joséphine Edwall

Okay, no more questions from the room. I hear there are two more questions from the telephone line. I suggest we take them. So, Operator, you need to help us here.

Operator

Your next question comes from Johan Sjöberg. Please go ahead, announcing your company name.

Johan Sjöberg –Carnegie

Yes, it's Carnegie. Just looking at the Tissue operation, sorry for boring you to death with all these tissue questions here, but if you look at your deviation analysis here, you have other, having post results in the third quarter compared with the second quarter, with 293 million, and just looking at your Q3 results here, G-P reported EBIT of 182, which I guess is part of that, and then my question is what is the other 100 million?

It's a combination of lower A&P, SG&A; you have the cost component into that and some distribution, etc. It's a lot of small things. But, acquisition and cost is the main part of it.

Okay. And also, if you look at these one-offs that you would take going forward, in order to derive the synergies from G-P, €130 million I think you have guided for here, this cost of 115 during the quarter, is that part of that, or does that come on top of everything?

We don't have any G-P in the figures yet.

Okay. So, the €130 million will come in the coming quarters or years here?

It will probably not be anything in Q4. Lennart, will it be in the next year?

Lennart Persson

No, but we'll still have some cost not taken from the October 2011 programme.

Jan Johansson

Yes.

Yes, but just if you look at these costs in order to derive synergies, will they come as of 2013 and onwards, would you say?

Yes.

Okay. And then, yes, also looking at your synergies, when will they start to kick in then?

Well, they will start to kick in at the same time, but as we said, when it comes to the synergies from the operations, from the production, that will take a little bit longer time, and even though costs can come a little bit earlier. But, they will be a little bit later on, so, of course. But, as soon as you have identified and done your negotiation with the unions you have to take on the costs, even though you haven't seen the saving of the costs.

Okay. And also, just looking at European Tissue operations. Now, you have a big bulk of your Tissue operations being in Europe. What would you say is an organic growth rate for Tissue in Europe, long-term, given the population and stuff like that?

The balance, if you look at the market growth or if you look at the ambition we have...

The market growth.

We assume a growth in line with GDP in the Western Europe, but of course, substantially higher in the Eastern Europe and Russia.

Okay. But, then you also... you include both price and volumes here, I guess. But, if you just look at volume growth, what is the volume growth in all that you have for long-term?

I was actually talking about volume.

Okay. All right. Thank you very much.

Thank you.

Joséphine Edwall

And then the last question from the phone conference. Operator?

Operator

The last questions is from Celine Peannuti. Please go ahead, announcing your company name.

Celine Pannuti – JP Morgan

Yes, good morning. It's Celine Pannuti from JP Morgan. I have three questions. First is on the raw material, can you give us a bit of an outlook for where you feel you will be in 2013? And the follow-up question I have on that is that we've seen now, for several quarters, that raw material has been a tailwind for most of your hygiene divisions, and at which point will you need to price this back to your consumer and pricing with a negative, which we have not seen yet? That's my first question. My second question is in August, late August, when you gave your conference call, you guided that raw material will be a headwind for Personal Care in Q3, and it happened to be a tailwind. And you've mentioned that you have four to six months delaying in costing your... you know, in what you see... I'm wondering what is it that happened in September that you didn't know in August? And my third question is on incontinence. Could you, you know, some of other stable companies have seen some pressure in coming from Europe in any kind of products that are sponsored, so to speak, by the governments. Could you give us a bit of your feel of what's going on right now in the institutional business, and whether the cut and the austerity measure we see from most of those governments have started to have an impact on your incontinence business? Thank you.

Jan Johansson

Yes, see if I remember all three. To start with, when it comes to raw material, with the current economic environment almost all over the world, we don't assume any major increases in raw materials for next year. It's more a currency game, actually, than a raw material game, and I'll get back to that. When it comes to raw materials this year, we actually had quite some headwind in the first half of the year, due to the current situation. If I remember rightly, I think we had an increase of 6% in Europe of pulp during the first six months, and that was mainly due to the currency changes. Since we buy... we operate in euro and we buy in dollars, we have not been helped by currency until the third quarter.

Okay.

And looking at the situation, the competitive situation, it's always, of course, depend on the competition, whether or not we need to reduce prices, and the raw materials is one component, but of course, there's lots of other components into that at the same time. But, having said that, I think that you and the market should be aware of that the level we are on in today is not enough. We need to generate a higher margin and a better return on capital employed in our Tissue business, and I think all our competitors are in the same situation. So, it's not as we are doing extremely well... we need to do better. And we of course have to try to let our customers understand that also, even if it's not always easy.

When it comes to the SAP-prices, I can't really remember if we said it would be a headwind in Q3 or not. We saw all prices coming up and of course, at a certain time, the four to six month will hit the raw material prices, and... but I can't really recall that we said that it would all come in in Q3, since we have this delay and the prices actually went down in the beginning of the year, so logically it should not come in, in Q3. If we said that I'm sorry. But that was probably answering some other question. Of course there is a pressure on the healthcare system in Europe in many places, and they all try to cut costs, and I think the best way for any healthcare institution today to cut costs is actually to work with SCA with the knowledge we're having in incontinence. And that is also what we are trying to discuss with all our customers. I mean, the price of a diaper is 3, 4, 5, 6, 7% of the cost of an incontinence patient. And sometimes we are successful; sometimes we are less successful. But, looking at the development so far, we are doing quite well, even in that segment.

Can you share the growth, maybe, in incontinence Europe, institutions versus retail?

The only thing I can share with you just now is the overall growth, and that's 4%, year-to-date in Europe.

Thank you.

Closing Comments

Joséphine Edwall

Okay, so any final questions from the room? There seems to be none. So with this, I think we can conclude today's press conference. Thank you Jan. Thank you Lennart. And thank you all for attending.

Jan Johansson

Thank you very much.