



Final Transcript



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Corporate Participants

Josephine Edwall-Björklund

SCA – Head of Communications

Jan Johansson

SCA – CEO and President

Lennart Persson

SCA - CFO

Presentation

Josephine Edwall

SCA's year-end report for 2013. My name is Josephine Edwall and I'm Head of Communications for SCA and today our CEO and President, Jan Johansson will go through the report and after that Lennart Persson our CFO will join on stage for questions and answers. So with this, I hand over to you Jan.

Jan Johansson

Thank you very much. Let's start with, as we normally do, some macro updates and nothing major has changed. We still see some growth in Europe and North America when it comes to tissue. We still have some good growth in emerging markets. Personal care, stable in the mature markets but continued good growth in emerging markets. And if we look at the trend or tendency in the market we can't see any major change, neither in Europe or US that the market should substantially pick up.

On the other hand we have not really been impacted by the weakened economy that we had for the past four or five years. But there is still a lot of, of course as you know, high unemployment rate in some countries and some countries are doing better than others but mainly due to higher

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export not necessarily stronger internal consumption. So still similar as we've seen for the whole of 2013.

In forest we have continued to see decrease in demand in publication paper in Europe but we do see a stronger market for solid wood and also a good market for kraftliner. If you look at some of the key events during 2013, of course the acquisition of the majority of the tissue company Vinda in China is a very important step for us to get a good position in China. And also the organic growth that we have started in India by launching Libero and Tempo. And all of these investments have an impact on the margin because we need to invest to get the sales. We'll get back to that a little bit when we come into Personal Care.

We also divested Laakirchen during last year. We inaugurated our first wind park together with Statkraft and we continued to be included in some of the major sustainability indexes in the world. Our priorities haven't changed for the last years. We still work very much with efficiency and efficiency includes both capital efficiency and cost efficiency and cash flow efficiency. Innovation is very important; becoming even more important while the competition is increasing. And of course also growth and I will mention a few items on all three of these.

We start with the efficiency programme, so shortly it's running according to plan. We have some achieved cost saving of SEK 390m in the Hygiene business and annualized we are at, in average for Q4, we are up EUR 175m in the EUR 300m programme. Georgia Pacific is also going according to plan and as you know it has taken a bit longer time in France as we also expected but it's running exactly as expected so we'll see the start of the cost saving in France also coming in 2014. And Forest is well in plan maybe even a little ahead of plan. So the savings are there, it's coming in as we expected and as we have communicated.

Innovation drives possible growth and we have launched some 30 new innovations during the year. And we have been quite successful in innovation in Incontinence which, as you know, is our biggest and most important category within Personal Care. We have one very interesting, still very small, of course is the Inco product you see with some strange things on which means that we can communicate and measure the behaviour of the patient without actually having to look at it. There's also, if you have been following the debate in Sweden how we sometimes treat our elderly people with this, is not necessary, we can measure it in distance and we don't have to work in the way that we work today.

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But also a lot of other interesting innovation and the good thing now is that we actually have more in our innovation funnel than we can actually market and that's where we should be. The bottleneck should be in the market and not in the innovation side. That's very good. We also have new innovations in Feminine and in Baby. Sealer which you see there is our Chinese brand, I will come back to that a little bit later because that has quite a big impact on the Baby performance during the year.

We will continue also to develop the important Tork business with new innovative dispensers with patterns and solutions which make this more difficult for our competitors to actually copy what we are doing because we are ahead when it comes to incontinence and we are ahead when it comes to the Tork innovation and of course we want to protect that position.

Growth, we had a sales growth of 10% year-on-year and when we talk of growth I think it's important to once again emphasise that the strategy we have in growth is both organic and acquisition. It's a combination of those so when we acquire it's part of our growth strategy. We had a growth in Personal Care of 10%, in Tissue 13%. And of course Vinda that we have not yet consolidated in full but we have consolidated the balance sheet and I will comment a little bit on that later. That will, next year, of course have an impact on the growth of Tissue.

And India is coming on as expected. We already before had some sales of Tork and Tena into India but we didn't have people on the ground; now we have people on ground which means that we can accelerate the growth even in those categories.

If we summarise the year it is actually the highest yearly result in the history of SCA; it's actually also the highest quarter result in the history of SCA, even if we take away the profit from the forest swaps that we had during Q4. We still have some negative impact of currency. It's impacted the sales with SEK 2.1 billion year-on year but if we exclude that we, as I said, had a sales increase of 10% overall. In Hygiene we have a sales increase of 12%. Forest Products is on zero and we have higher volumes but we still have seen lower prices coming in in publication paper during last year.

The EBIT increase 19%, of course we get the cost savings, we have higher volumes, we have the acquisitions, we have the forest land swaps and I will comment on that a little bit, on the forest because that's also part of our strategy of course to increase the value of the forest. But we also had higher energy prices and some costs and some lower prices. When it comes to cash flow the important thing here is that it's all directed to working capital and it has nothing to do with the

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inventories because the inventories are actually down; it's all payables. And when it's all payables you can relax a little bit because then you know it will correct itself.

A couple of points on this slide, one is of course that if we look at profit before tax we have an improvement of 26% and earnings per share is up to 7.90. But maybe even more important is that we have invested in Vinda, we have consolidated the debt of Vinda in our balance sheet, we still are in a very, very low gearing, debt equity ratio. And if you compare to some of our major international competitors I think we are at a much stronger balance sheet which also indicates that we still can grow by acquisition if you find the right category to acquire.

If we look at Q4 to Q4 weak sales increase and here we see the first impact of our baby situation because Baby is down 5% Q4 to Q4. If you look at other categories we're actually up and you will see that a little bit later. Incontinence, Feminine is doing great. Baby we have a special situation that I will comment.

Forest is also up by 5%. We have an EBIT increase of 31% Q4 to Q4 and now we also see an improvement of operating cash by 11%. And what you can highlight here is maybe the earnings per share because it looks a little bit strange that we have a lower earnings per share but if you remember we had a tax refund last year in Q4 of SEK 1.3 billion and that's actually what is making the difference between Q4 13 and 12, with reduced tax rate in Sweden.

If we look at Q4 to Q3, we always talk about invoicing dates; we had two less invoicing dates Q4 than we had Q3 and of course that impacts the business. But we do have a sales increase of 2% and an EBIT increase of 21%. And if we look at the Personal Care EBIT decrease here of 3%, if we take away Baby we have an 8% increase of EBIT. Baby has a huge impact on this quarter which means that Incontinence, Feminine is doing great. Forest also is increasing quite a lot of course, 118%. We had the gains on the forest swaps; I will show you a little bit later how it looks about that.

Now coming into Personal Care, we have invested heavily in Russia; we have invested heavily in China. We knew even before we entered China that we need to do a major re-launch of the product because the quality was not good enough. It has taken some longer time than we planned, for various reasons, that has impacted the whole year up till and including Q3 last year. And we lost quite substantial volumes during this period. And when we re-launched Sealer with new products we still had too much old products on the shelves which meant that we need to buy back all of that because otherwise you couldn't push the new product. That also had a very

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negative impact because you get a double; you have the cost of introducing a new product and you have the cost of taking back the old product. So that is the impact; that's the major impact on baby for 2013 and Q4.

The positive thing though is if we look at Q3 to Q4 only in China we had a volume growth of more than 60%. So it shows that the new product is lifting. Of course we have to invest behind that to get the new product out on the market but so far it's working according to the plan. We had a similar situation in Russia except that we didn't need to take back the old product but we introduced completely new products on the market and we had to invest heavily behind that to get the market attention. So that's the two single reasons why Personal Care result is down, Russia and China, except that we actually had quite an improvement in Personal Care in the important category of Incontinence and Feminine is still as it did Q3 doing great.

So in my view we have dealt with the situation, at least what we can see from Q4. We have solved it; volume is coming back to China with the growth we see in Q4. But it has a huge impact on the result. If we, as an example, remove Baby China from emerging markets we actually have an increase of 9% and not 1% which means that emerging market is doing well but one category with explanation I just did is impacting that extremely heavily.

If you look at the EBIT results, if we deduct the costs we had to invest behind baby we actually have an improvement of 5% in EBIT in Personal Care. So then you understand the magnitude of the investment we made behind our new products in emerging markets. And of course the theory is that we will be rewarded heavily by this during this year and it will probably come, not maybe in the first quarter but at least after the first quarter. And all the signs we see today is it actually working in our direction.

If we look at Tissue, as you remember we were forced by the EU Commission to divest businesses in UK and in Belgium, in Benelux countries and that of course has an impact when we compare Q4 to Q4. But if you exclude that we have a growth of 1%. And here you can see also that emerging market is doing quite well. But we still have our absolute bulk of the business in Europe and US and that is not growing. We are gaining market share but on a market that in some segments actually is a little bit down but we are gaining market share. But when the market is not growing in the major markets we are in you can't expect that we are growing so much more than the market because taking market share also has a cost behind it.

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And of course with new products we will get attention of the consumers and then we will get some market share without actually having to chase for it and that we've seen during 2013. We see that the concept is working and we are having a different balance, a better balance in the consumer tissue portfolio where we are now getting to 50/50 or even more than 50% branded business in our portfolio and that's of course something we are striving for. We have an EBIT increase like-for-like of 18% if we take the remedies into consideration. And also getting to a decent margin in Tissue is not good enough; we still need to improve it but at least it's getting decent.

Those of you that follow us remember that we are coming from 5-6% margin and now we're up to 13% but we are not happy; we still need to improve it.

Forest, publication paper, all of you that follow that business knows that the consumption is not going up; the structured change is continuing. Demand is going down, still an over-supply even though we see a lot of production being closed, but it is not closed fast enough so we still have a tough situation. Kraftliner increased sales, solids woods increased sales, pulp increased sales, so you can focus the challenge we had to publication paper; the rest is actually doing quite well and going forward it also looks quite well.

An EBIT increase of 188%, then of course we had the forest swap of 455 and for me that's obviously is a task for the forest operations to manage the forest in the best way. And if we can trade land with less growth to land with more growth that's exactly what they expect for that; that's a natural part of their business. And that's exactly what we've been doing during this year and mainly during Q4. And we also get forest that is closer to our industrial parts of the business which means less cost in the system when we operate the forest. So if we deduct, which I don't think we should do, but if you deduct the swaps then they will have gone from 7.9 to 12.6% in margin so still quite substantial improvement.

We have also proposed an increase in dividend by 5.6% up to 4.75 and of course it's up to the AGM to decide that but that's the board's suggestion.

So if we summarise the year we do have higher sales and profits for the Group. We have higher profits in all our business areas even though we had this higher cost on Baby, as I explained. We have higher sales in Personal Care and Tissue. Flattish in Forest. Efficiency programme is going according to plan. Vinda important step into China and of course the ambition we have is to

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combine our Personal Care business with Vinda's tissue business; with their enormous presence that they have in China it will be really good situation for us.

India, it's a long run, we grow organically. We are not buying anything which means that we need to invest. We do it carefully; we don't over-invest. We have a good start, we get the products on the market, we are getting distribution in place, but of course it will take some time before you see some positive impact on the margin on India because we need to reinvest the profits we make in India to continue to grow.

Innovations I talked about that, extremely important. We have put a lot of effort into the innovation process during the past two, three years and now it's working much more efficient and we get much more interesting innovations that we can present to the market. Sustainability, very important when we talk to customers; becoming more and more important also when we talk to consumers. And of course then the dividend increase as I just explained.

So with that, ladies and gentlemen I would like to open the floor for questions.

Questions and Answers

Linus Larsson, SEB

Thank you it's Linus Larsson with SEB and maybe if we could start with the Personal Care business and you did provide a bit of detail on the emerging market situation. If you look at Europe in isolation in personal care can you talk a bit about that? Have you also there seen margins coming under pressure sequentially or year-on-year? And also if you could update us on the competitive situation with Kimberley Clark gradually exiting; to what extent have you been able to draw any positives out of that and what are your other competitors doing in Europe, please?

Jan Johansson

We don't have the same volume problem as we have seen in China, for example, we are not losing any volume we are actually gaining market share in Nordic in the fourth quarter but with fierce competition. So in that aspect we have had to... we have not reduced the price but we

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have had to put a lot of promotion in to keep the market share if we talk about the branded business and in doing that we actually grow the market share. But the aim in the beginning was just to keep it. But it has been enormous competition and not maybe Procter is the toughest now but also private label is trying to get higher market share in the Nordic countries.

As you know we have a substantial market share in the Nordic countries and of course it's tempting to try to get a piece of that. But we are defending it. If you look at retail side, the private label side it's going quite well and we're continuously improving. Kimberley Clark leaving and no entrants in the market of course because they would end up in the same situation as Kimberley Clark so that will be a private label business. And of course we will be trying to get a piece of that private label business. We are not going in with our brands where Kimberley is leaving; we're going in with a private label business.

Linus Larsson, SEB

And it looks as if on a sequential basis in Personal Care price mix was down, something like SEK 49m is that entirely relating to emerging markets or is there something in the price mix, advertising promotion that is also relevant for the European business?

Jan Johansson

It's a negative impact of promotion and some positive impact on mix. So it's heavily promotion, no price decreases, some positive on mix. But it's both in Europe and in emerging markets.

Linus Larsson, SEB

And then maybe finally on seasonality, could you comment upon near term seasonality? You've provided some guidance on that, if I recall correctly when you reported the fourth quarter. Do you want to say something about what's expected from the first quarter in the Hygiene categories?

Jan Johansson

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I mean we will obviously have the similar patterns as you've seen every year but there will be a slight seasonality impact during Q1. I mean, in China you have the Chinese New Year so you will see a similar pattern. But as you remember we have actually reduced it over the years. It used to be in the level of 1 billion, then 500, so we are trying to mitigate it and you don't really know how you succeed with that until you have seen the, sort of, full January in sales.

Lars Kjellberg, Credit Suisse

Lars Kjellberg, Credit Suisse. Coming back to China and Vinda could you comment anything about their Q4 performance? There's obviously at least some debate about new capacity in China and that market being quite competitive. Also when you're talking about moving in with your personal care products in the Vinda system should we expect any meaningful, sort of, marketing and incremental cost as you broaden your footprint in China?

Jan Johansson

I mean the first question I cannot comment on Vinda, I mean, it's a listed company we have to wait until we see their results. When you talk to the Chinese producers and even the government they don't seem to be particularly worried about the capacity question because there will be a lot of closure and the growth is still quite good in this particular segment. I've always said that probably you may see one or two years where you have an overcapacity and then the question is how do you deal with that. So far they are exporting out of China to other places and I guess that's the way it will be dealt with.

Vinda doesn't have any overcapacity; on the contrary they're growing so fast we probably need some more capacity. My estimate is that there will be... I mean if we succeed in combining our businesses, my estimate is that there will be big synergies rather than big costs in doing that.

Lars Kjellberg, Credit Suisse

And I understand they have some own diaper offering in their system what do you do with that?

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Jan Johansson

Very, very small; they have a small, small brand. I mean, that's something we have to discuss.

Lars Kjellberg, Credit Suisse

Just two more questions. Have you noticed any negative impacts of current turbulence in Latin?

Jan Johansson

Sorry, in?

Lars Kjellberg, Credit Suisse

In Latin America, in that exposure, you're not necessarily most exposed into those geographies but there seems to be quite a bit of turbulence. And the final question unrelated to anything Hygiene, you talked about you see good markets for Forest Products; do you want to comment anything about price movements, publication paper and particularly kraftliner?

Jan Johansson

The impact we see is the currency impact because we normally have local production and local sales and consumers still need our products so we don't really see a change in consumer behaviour or any less consumption. But of course the currency movement is hitting us as a translation impact, but otherwise not. And we are not as you know in Venezuela and some other countries. Argentina, of course, we are in and we have a small business in Brazil so it's more the currency movement than actually what is happening from a political point of view.

We had a discussion last year on the publication paper and I think probably I was the one who was most negative on the possibility to increase prices. There will be price increases in news there's no doubt about that. The question is the level of price increases and it will be single digit,

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it will not be double digit increases and it will not be high single digit price increases; but there will be price increases.

In the magazine paper it's too early to say but it is a little bit tougher pressure actually in that area now than even in news. But the other week, or was it this week, we see also production is closing down in LWC. But it is a tough environment, there is an overproduction, there is a change in behaviour from consumers and this will not disappear until we close as much as there is a balance in the market. The market will not pick up again we just have to live with it.

Lars Kjellberg, Credit Suisse

And in kraftliner?

Jan Johansson

Kraftliner is still at a very balanced market and kraftliner as you may know is also quite dependent on the testliner development and we have seen testliner coming up in the past quarter which also gives opportunities to increase kraftliner. But the demand is there it's not a big oversupply. Inventories have been slightly high during Q4 but not in a level that you should be really worried.

Oskar Lindström, Danske Bank

This is Oskar Lindström from Danske Bank, I have a couple of questions and I as well would start off with the Personal Care division. Several of your competitors who have reported already talk about increasing competition in general in hygiene market and in all emerging markets while you seem more to focus on, sort of, specific issues in your own business in Q4 in China and Russia. Should we, sort of, start to pencil in, sort of, increasing competition overall or are these problems that you had in Q4 something that will pass after Q1 as you mentioned?

Jan Johansson

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Maybe they are talking about us, increase in competition, I don't know. I mean, there's always tough competition. We can't say it's increasing; it's always tough. I mean you have the best in the world and you have the good locals everywhere, I mean, it's not a new one coming in. For me it's always tough competition and I haven't seen this increase it's just tough all the time.

Oskar Lindström, Danske Bank

So you're not expecting, for example, increase market investment next year relative to sales?

Jan Johansson

No we are not expecting that.

Oskar Lindström, Danske Bank

The second question is on the Tissue, you had some price increase sequentially in Q3 boosting margins then but the bulk were to come in now in Q4. I didn't really see a mention of it in the, sort of, comments to the Q4 results for the division could you perhaps elaborate a little bit on that; you know, were there price increases on Tissue, sequentially?

Jan Johansson

We had price increases in Europe. At the same time we had some price erosion in the US but when we talked last time we actually talked about Europe that we will increase price. We saw some price erosion in US so that's taking away a little bit of the positive European situation.

Oskar Lindström, Danske Bank

And finally on Forest Products, two questions, first of all the forest land swaps you mentioned something of this being part of your strategy. I sort of understood that this... the forest land

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swaps were more relating to optimising, harvesting situations and, sort of, the age profile of your forest land rather than as a, sort of, strategy to bring out value from the forest lands. Are you going to, you know, going forward continue to be a net seller of forest lands and capitalise on those?

Jan Johansson

No not really, that's what we are doing today either if you look at the cubic metres coming out of the forest which is important, it's not the land. I mean, we capitalize on forest in many ways in my view, one, is of course to produce what we do downstream. Another is the wind power. Third is the bio energy and then fourth if we can swap lands we get land closer to our industrial areas and also place where the forest is growing faster or older than with the swapping.

And the reason we can do this is of course that the government has very ambitious plans of even creating bigger areas in Sweden for reserves, that's the driving force nothing else. And as long as they have this ambition then of course they need land for reserves and we happen to have had land that's been very suitable for reserves. So that's the main driving force. But the result for us is operational better, growing better, higher value.

Oskar Lindström, Danske Bank

We should expect you to have a net positive impact also in 2014 from land swap?

Jan Johansson

Too early to say but we're looking into it all the time. I mean, it's nothing you can predict, it depends on where the government wants to have it. But if there is an opportunity we will certainly grab it.

Oskar Lindström, Danske Bank

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Just a final question on Forest Products, in the Ortviken mill you have started producing a type of kraftpaper called sustainable packaging, could you perhaps elaborate a little bit on how that is going and is this something you're planning to grow substantially going forward?

Jan Johansson

It is an opportunity we have with present technology to produce a paper, it's not a kraftliner but a sort of packaging paper for cookies and things like that. And there is an interesting potential in it. It will not replace the publication paper but there is an interesting niche for us to go into and we'll see how big it is but it's gone quite well, as we speak. I'm not going to give you any figures on that now because we're still on the starting point. But the margins are better; competition is less.

Oskar Lindström, Danske Bank

Super, thank you very much.

Mikael Jåfs, Kepler Cheuvreux

Mikael Jåfs from Kepler Cheuvreux, could you please say a couple of words on raw material cost development, what you see coming in the coming two quarters?

Jan Johansson

Lennart, do you want to comment on that?

Lennart Persson

What we can see if of course that we have seen the softwood pulp coming up, creeping up. On the other hand it depends also on the US dollar movement. If this may be foreseen that it should increase somewhat and we have also seen if you look at 2013 compared to 2012 we had the raw

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material cost increases but not sequentially. And then it is also some movements in the plastic materials.

Mikael Jåfs, Kepler Cheuvreux

But nothing, sort of, dramatic?

Lennart Persson

Not dramatic no.

Mikael Jåfs, Kepler Cheuvreux

And then second question on publication papers, I see here in the footnote that if you exclude the divestments that deliveries were up quite a lot in Q4; am I reading this correctly? Could you just say a couple of words what's driving; are you taking market share or was the market better or what's happened?

Lennart Persson

I think here it is more between the two years that we had a better production and also that we had better deliveries. We find customers even if it is not that profitable but of course it helps to cover the fixed cost.

Mikael Jåfs, Kepler Cheuvreux

Perfect, thank you.

Stellan Hellström, Nordea

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Stellan Hellström from Nordea. I wanted to come back to the tissue in the US the away from home business, the price erosion that we saw in the fourth quarter do you see that as something temporary or something we should also consider for coming quarters?

Jan Johansson

Normally we have our strongest quarters in US in the second and third quarters and we have normally typically weaker in the first and fourth. And also depends a little bit on where you pay out the bonuses for the year. We actually had some impact on Baby on that also that it was paid in Q3 instead of Q4 last year. No we don't expect any market price decreases; this was very specific ones that I was mentioning.

Stellan Hellström, Nordea

Then also a question again on Personal Care if you maybe also can comment there how you see the difficulties that you had in China in Q4 how that will evolve in Q1 and into 2014. Are you shipping your new products now and are you up to speed?

Jan Johansson

We have now removed all the old products, and we are talking about China now so it's quite a big country, and actually bought them back. And now we have all the new products out on the shelves. And as I said it's doing quite well during Q4 but of course doing that we also have to invest in A&P and promotion to get the consumers back to the new products that we lost on the old products. But it's going quite well now but it will of course impact over Q1, the investment to get the volumes back.

Stellan Hellström, Nordea

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Just a question also on... if you can comment something on the private label business for baby diapers in Europe where I think you had weak volumes in Q3 if you saw those volumes coming back and if there's anything else happening in terms of pricing in that area.

Jan Johansson

Today in the market in Europe as KC has left there is competition only between two, private label and Procter & Gamble if we exclude the countries where we are branded in Nordic and Russia, etc. And private label is gaining market share so private label is growing and of course being one of the biggest suppliers to private label in Europe we will benefit from that. And we have improved during the last two years, Magnus, who is responsible for this the profitability quite substantially in private label.

Iain Simpson, Barclays

Iain Simpson from Barclays. Sorry to come back to it again but just the China diaper situation; could you please explain how that drove a volume shortfall because I understand that you had to pull existing products off shelves but I would have thought that the inventory selling of your new products would have counterbalanced that. Unless, were you completely off shelves for a period or has it also been accompanied by a destock of what's in the distribution?

Jan Johansson

It's a combination of being too slow in replacing the products which meant that we were losing volume during last year including Q3 and when we then started to introduce the new diaper the inventories were substantially bigger than we expected which meant that we need to buy back and sell at the same time. So it was a double negative impact Q3 to Q4. But now when we've got it off the shelves, off the inventories of our distributors we actually see the new products taking off with this, as I said, extremely high growth that we had during Q4.

So it's an unfortunate combination of a little bit too late for the product and not really having full control on the size of the inventories in stock with distributors.

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Iain Simpson, Barclays

Just to confirm that destock is now fully finished; we shouldn't see any destock.

Jan Johansson

It's finished.

Iain Simpson, Barclays

And then just on European diapers you said that sales there were a little bit weak in the third quarter but you speculated that might just have been due to the warm weather; was that the case you did see European diapers go to more normal levels in the fourth quarter?

Jan Johansson

We had a slight pick up during Q4 if I look at our business.

Iain Simpson, Barclays

Okay, thank very much and just one last question, if I may, on Russia I didn't quite catch what you were saying there. Is it a matter of just increasing marketing in Russia or are you planning new products there as well?

Jan Johansson

It was launch of new products and that we started I think in summer some time, third quarter in the same way as in China but we didn't have a lot of stocks that we needed to buy back it was

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planned in a better way. But of course in doing that, completely new product segment we invested in promotion and advertising to get attention of the consumers.

Magnus Groth

We have also been improving distribution in Russia by increasing the sales force.

Iain Simpson, Barclays

Thank you very much and I know that it must be very difficult to measure sell out in a country like China but do you feel that you've permanently lost share in China as you switch or do you feel that, you know, in a couple of quarters it should be back to normal?

Jan Johansson

In the segment that I'm talking about now which is the value segment, I'm not talking about economy segment or the premium segment, and in the value segment we don't really have any of the international competitors. So our belief is that anyway we will get back the share that we had.

Karri Rinta, Handelsbanken

Karri Rinta, Handelsbanken. If I look at the cost savings that you achieved in 2013 in Hygiene and then your guidance of what you expect going forward can you confirm that the incremental cost savings in 2014 should be higher than 2013? Is that implied in your guidance of reaching the full run rate in 2015?

Lennart Persson

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I mean, what we can see today we should reach the €300 million at a run rate after 2014 then it depends a bit on the facing over the year. But absolutely what we still have to deliver; it will come.

Karri Rinta, Handelsbanken

But in 2015 on a full year basis you should be there.

Lennart Persson

Yes.

Karri Rinta, Handelsbanken

And then a follow up on the 2013... your earnings in Hygiene grew a bit less than what you saved in terms of cost savings, ie, organic growth was below what you saved or organic growth was negative in earnings. Can you, sort of, summarise the outlook for 2014? We have discussed investments in India, we have discussed less headwinds from China and Russia in terms of these re-launches so what would be the, sort of, magnitude? Are the investments in India in the same ballpark as these, sort of, headwinds have been in Russia or China or are they considerably smaller in 2014? How should we see the organic earnings growth in Hygiene?

Jan Johansson

India is smaller than the impact you have seen from China and Russia, definitely so that will have... I mean just like for like... that will have a positive impact. But otherwise we are not going to give you a forecast exactly how it looks and what we are doing, but the first assumption yes.

Karri Rinta, Handelsbanken

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Then finally in Tissue we have discussed more competition in personal care space, especially in diapers from private label, have you seen anything on the tissue side in Europe from private label in 2013 becoming more aggressive or less so?

Jan Johansson

Just a comment to the more competition private label when you say that you have to remember that we are the biggest private label so it's actually helping us. No, not really.

Karri Rinta, Handelsbanken

All right thank you.

Oskar Lindström, Danske Bank

Oskar Lindström from Danske Bank, again. Regarding the increased marketing costs that you had in China and Russia now in Q4, you're talking about them that they impacted actually all of 2013. But I don't recall you having talked a lot about that in earlier, you know, earnings calls. Was the magnitude fairly small in the first nine months or even in Q3 and it was really in Q4 that this became significant? I'm trying to understand to what extent this also impacted the first nine months as opposed to only the fourth quarter.

Jan Johansson

If I remember rightly I think we had some higher impact of price/mix in the first nine months which of course is included in this. But the problem is if you really communicate everything that you know in a situation like this you will also tell your competitors what you're going to do. And if you do that the costs will be even higher to get into the market. That's why you have to be very careful to say that of course I know what we're going to do Q1, Q2, Q3, Q4 when it comes to launches, etc, etc, but that's nothing we want to give away because then we will get much more resistance from the competitors.

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We are also trying to understand every day what Procter and KC are going to do so we can mitigate that by action. So we have to be very, very careful, I mean, to say that now we're going to invest heavily in China to get back to the shelves then it would be much more difficult. We have to have a balance there what we actually communicate to you and the risk of that hurting us on the market. I don't know if you understand.

Oskar Lindström, Danske Bank

Yes I understand thank you.

Josephine Edwall

Okay we have some questions from the telephone conference as well, so operator let's open up that line and start with the first question.

Operator

If you would like to ask a question over the telephone please press *1. Your first question comes from Celine Pannuti from JP Morgan; please go ahead.

Celine Pannuti, JP Morgan

Good morning I have a few questions, first of all if I look at pricing for Tissue where you said that you had a sequentially higher pricing in Q4 in Western Europe but then you had an offset from US pricing line, so am I right first of all to believe that this US did you say it was only temporary in Q4; if you could clarify that. And what should we look on pricing in 2014 given that, if I understand well, you, kind of, hinting to a rather soft raw material inflation? That's my first question. My second question is that you have been tracking at around, I think, 3% to 4% growth in Tissue for the nine months and we didn't see much growth in the fourth quarter. Are you still comfortable with your 3% to 5% annual growth as we go into 2014? These would be my two questions.

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And also I have another question you mentioned Vinda, you said that you would see substantial synergies, can you elaborate effectively on the plans you have for Vinda and to maybe give some quantification because I think it's quite a meaningful acquisition?

Jan Johansson

When it comes to pricing I comment that on the margin development on Tissue that has been reasonably good but it's not good enough which means that we need to continue to increase prices and make sure that we deliver on the cost saving programme. I mean, you know we have a target on return on capital employed for Tissue of 15% and we're not there and we need that return really to have an investable business over time. So we need to increase prices. We do have some slight raw material increases but that should not per se be the only reason for having a price increase. And that goes both for Europe and US.

Then talking specifically on US, I mean, it's not really a market, overall market price decrease; it's a very specific situation that I'd rather not comment on. But obviously we will have to have further price increases in US.

What was the second question? Yes, growth, I mean, we do have the ambition, as you know, of 3-4% growth in Tissue organically and we will absolutely stick to that. But in certain situations we may focus a little bit more on the margin than the growth if we see opportunity to do that. But overall we still have the ambition of 3-4% growth in Tissue. It's always a balance between margin and growth.

Vinda, it's a listed company and Lennart and I are now in the board of the company and we know the rules of the Hong Kong Exchange so I can't really comment upon that until we have an agreement with Vinda how we should do it and we communicate it together.

Celine Pannuti, JP Morgan

When is that... when could that happen?

Jan Johansson

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I want to happen it as fast as possible.

Celine Pannuti, JP Morgan

Do you think that you would be ready this year to launch your own products into Vinda distribution should agreement happen as fast as poss?

Jan Johansson

I would be disappointed if not.

Celine Pannuti, JP Morgan

Okay thank you.

Josephine Edwall

Okay operator let's have the second question from the telephone.

Operator

Your next question comes from Kartik Swaminathan from Bank of America; please go ahead.

Kartik Swaminathan, Bank of America Merrill Lynch

Hi there thank you very much for taking my question; Kartik Swaminathan from Bank of America Merrill Lynch. I just have one question, if I may, if I understood correctly the product situation baby diaper in Russia and China was pertaining to a roll back of an old product which was subpar

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in terms of quality relative to the rest of the group. And I was just wondering are there any other gaps in your product range in China which may require a similar treatment, so a roll back of an old product and the introduction of a better product and that's, kind of, stretching across your legacy and Vinda operations?

Jan Johansson

The roll back was only in China not in Russia and no there's no other situation like this in China.

Kartik Swaminathan, Bank of America Merrill Lynch

Thank you very much.

Josephine Edwall

Okay, let's have the third question, operator please.

Operator

Your next question comes from Peter Testa from One Investments; please go ahead.

Peter Testa, One Investments

Thank you very much, a couple of questions please, maybe just to try to put a line under this Chinese question as to how it impacted Q4. Can you be, please, a bit more specific as to what you think the sales impact and EBIT impact in Personal Care was from this roll back situation in China?

Jan Johansson

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I mean, what we gave was the total Baby impact, Lennart, didn't we, on Personal Care and if we would have excluded Baby the EBIT results would have been... increase would have been plus 5%. I'm not going to go into the specifics of China.

Peter Testa, One Investments

Okay, but was that the vast majority in China was also some of the European points you made?

Jan Johansson

I did discuss Russia also.

Peter Testa, One Investments

Okay, so then when looking into the start of this year for 2014 you described the Chinese situation on the technical part of it being largely solved; there was some investment would carry on and I guess in Russia. So you would expect to, you know, substantially but not fully recover that in Q1 and look to get the rest through the year.

Jan Johansson

What I said is that with the programme we have you will see the impact after Q1. Of course you will see some positive impact in Q1 also but the major recovery, I mean, if it has an impact that will make the profitability to increase the 5% from what we have now it's quite a substantial thing we're doing here.

Peter Testa, One Investments

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Right, okay and then when looking through the innovation impact as you launch new products into the market can you give us... would you expect a certain amount of turbulence as you're replacing products elsewhere in the Group from this or do you expect this to be much smoother and more strictly additive through 2014?

Jan Johansson

If we look at some of the major launches that we will have this year it will be in an environment where we have much more experience and much better control and will not risk to have a situation of huge inventories in distributors when we do it. So that will not happen. But of course when you introduce new products you always have start-up costs, etc, etc, but that's also the way to improve profitability. We need to introduce new products on the market and we have some great ones coming up.

Peter Testa, One Investments

Of course and then specifically inside Inco where the sales growth is still quite good but has slowed a bit, when you look around that do you see this as related partly to how you're introducing products at this point in time also into 14 or what is your comment on that, please?

Jan Johansson

When it comes to Inco we always try to balance growth with margin and obviously we could grow much faster if we wanted but then at the cost of the margin. So it's always a balance between these two. We had a great growth in emerging markets. We even had a great growth in Europe in a market which is not growing which means that we are actually gaining market share. But we try to balance that in a way.

Peter Testa, One Investments

And last question is just on M&A, you talk about your M&A as being part of your strategy and I know it's not something one can forecast, but when you look at M&A and M&A opportunities

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would you expect significant opportunities in 14/15 or is it something that's not really visible based upon what you can understand? Just maybe if you could help us understand within your growth strategy how you see the M&A component of it, please.

Jan Johansson

I think the only comment I can make there is that we're not going to do anything that destroys the balance sheet.

Peter Testa, One Investments

Okay perfect, thanks very much for your help.

Josephine Edwall

And then we have a final question from the telephone, so, operator please go ahead.

Operator

Your final question comes from Chas Manso from Société Générale; please go ahead.

Chas Manso, Société Générale

Good morning, I have a few, firstly you talked about your A&P spend to sales in 2014 being broadly stable but you have talked about increased investments behind these new launches in China and in Russia. Does that mean elsewhere, you know, there are offsets? So is A&P stable but the new investments are part of that or are they incremental on top so overall it will go up? That's question number one.

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Question number two, you were a bit shy about the US tissue pricing erosion but without going into details could you answer the question about whether this is a temporary erosion or whether it's a longer lasting erosion? Could you talk about the innovations for 2014, at least the ones you can talk about at this stage? And then finally about these new launches in China and Russia, could you perhaps give us a bit more colour about the scale and scope of them? You said you wanted to recover your previous value segment volumes; could you give us an indication of how big those were? That's it, thank you.

Jan Johansson

When it comes to A&P we don't see any increase including what we do in China in relation to sales. So that's our plan and I don't see that it will impact negatively in other categories. US Tissue is temporary. When it comes to China I can't really comment on that.

Chas Manso, Société Générale

You can't comment on your previous volumes?

Jan Johansson

Sorry, on the?

Chas Manso, Société Générale

On your previous volumes; what your, kind of, number of baby diaper units you had before at the peak?

Jan Johansson

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I don't want to comment on our ambitions on that one because then I will comment that to the market also. When it comes to innovation, as I said, we do have more innovations in the pipeline now that we can actually marketing which is very, very positive. And it's in all categories within Hygiene so from that perspective it will be an exciting year this year. But I don't really want to give out what we have. I guess you won't get that from Procter or KC either if you ask.

Chas Manso, Société Générale

I was just wondering whether some had already been announced to the trade or already being rolled out.

Jan Johansson

Some have been announced and some not.

Chas Manso

Okay thank you.

Jan Johansson

Thank you very much.

Josephine Edwell

So with this I think we conclude the Q&A session and any final comments from you, Jan?

Jan Johansson

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I don't think so I think we've covered almost everything now. Thank you very much.

Josephine Edwell

Thank you and goodbye.