

SCA report audio

Jan Johansson, President and CEO, SCA:

Good afternoon and welcome to the SCA report for the first quarter. I will start with some market updates, and as you can see we have had some significant increases in raw material prices, where the OCC is up with 140% compared to first quarter last year. Recovered paper in the US is up by 80% and Europe by 30% and pulp by 40%, and looking at what is driving this, it's mainly Chinese purchase of raw material but also, of course, that we had an earthquake in Chile that is impacting the pulp price. The hygiene business has continued to be stable, from a market perspective. In packaging we do see signs of recovery in the market. We have an increase in consumption of some 3% during the first quarter. We also continue to have a very good market balance in our solid wood operations. Another positive sign is that we do see an increase in consumption of magazine paper of some 4% and newsprint of some 2%, I'm getting back a little bit later to what is happening on the price side. Another way of seeing the dramatic change in raw material prices, you can see on these pictures and with the contractual situation we have in SCA it's impossible to offset such dramatic price increases in the short term. Normally we have between three and six months delay in our contract portfolio and I will get back to that when we get into the different business areas. Looking at the results, you can also see that we had a negative currency impact during the quarter and this is the translation impact, of course we have transaction but those are included in the results from the different business areas. Looking at net sales, it's down by 6% but taking in consideration the currency, it's actually up 1%. And the profit before tax is an improvement of 16%, or 20% if we take currency effects into consideration. And this is excluding restructuring costs in packaging which amounted to 244 million SEK during the first quarter. We continue to improve the debt situation, we now have a net debt of 38.7 billion SEK, we improved the debt payment capacity, went up to 35% which also has been our target and the gearing is down to 0.57 so we continue to strengthen the balance in this respect.

Getting into Personal Care, we have a sales decrease of 6% but with currency included it's flat. Interesting observation is as always we have this seasonal impact, normally you have pre-buys in December, and that has a negative impact on the first quarter. But looking at Europe, the incontinence volume was actually up 6% in the first quarter so we continue to see a good development in that area. Feminine is continuing to grow also, we have negative impact on baby and that is, as we explained in previous results, the loss of the Tesco agreement in UK, but also that we have had problem with the supplier, Pansac, which we communicated previously. They are supplying the back sheet to our baby diapers, and that has also impacted the result negatively with 30 million SEK during the first quarter. They are up and running now so we get all the back sheets we need and we can start with the promotions that we had to delay during the first quarter on the baby side.

Tissue is most impacted by the raw material price increases in pulp. We have announced a price increase in the United States of 5% during the first quarter. We will have another 10% announced price increase in the second quarter and in the portfolio we have in the United States you have two occasions where the bulk of the agreement can actually be renegotiated, and that's the last of June and the last of December. So now when we have a big portion of the contracts for renewal, we will utilize that and increase

prices in the US. In Europe we are also announcing price increases and the contract portfolio will delay the impact with two to three months, which means that we will see the full impact of price increases coming during the second half of this year. At the same time we are having cost cutting programs in Tissue Europe that will also have a positive impact during the second half of this year. So all and all, we are reasonably positive that we are able to offset cost increases by price and cost cutting.

Coming into Packaging, as I said we see some positive signs, volume is slowly coming back. We have seen price increases of some 1.5 to 2% during the quarter and as you know the delay is between four to six months before we get the testliner prices increased in the corrugated business. The restructuring program is going according to plan, we have taken all the costs now in Q1, and the cost savings will come in during the rest of the year. We have also announced that we have sold our packaging business in China, which is also in line with our strategy, as we have communicated previously. That means that we can now focus 100% on growing the hygiene business in the Asian market. We are getting a acquisition price of 200 million US Dollar, that means that we have a plus zero business compared to the capital employed we have in the Chinese business today. It's about nine times EBITDA for 2009.

Forest products: as we announced during last quarter there was a pressure on price in publication paper, both in newsprint and magazine paper and of course we see that's coming in to the P&L of our operations today. Solid wood, still strong, with price increases during the quarter and of course pulp, as you know, has also increased substantially during the quarter. What is positive here is, as I started with, we do see a volume growth, and we also see price increases in magazine paper that will start to kick in as of the second half of this year. When it comes to newsprint, normally we have longer contracts, yearly contracts, which mean that normally we cannot offset any price increases in raw material during the year. But in magazine paper we have different times on the different contracts and that's why we are starting to increase prices as of the second half of this year. So over all, I would say that we do see an improved market situation. We see the market is picking up, it's picking up from a very low phase and very slowly, but still positive signs on that. We are going to have an impact of our price increases and cost cutting during the second half of this year. In the hygiene business, we still see good demands, there are still high promotion activities as always, but we are keeping our market shares and actually gaining market shares in different markets. And as I said, increased price in tissue is absolutely necessary and that is something that we will absolutely pursue.

Packaging: increased demands, also increased prices, you know that one third of our contracts are indexed which means that automatically the corrugated prices will be increased with the test liner prices, and then of course the remaining will be negotiated price increases. Forest products: recovery of the market that I think we all are welcoming. Volumes are coming up and we will see price increases in the level of 5 to 7% I would say on the magazine paper side, and good market situation in solid wood products, and of course pulp, almost on a record high level. So with that short presentation I will open the floor for questions, operators do we have any questions on the phone?

Questions from participants:

Our first question comes from Michael Jåfs. Please go ahead, your line is now open.

MJ: Yes, hello, gentlemen. I have a question regarding your Asian business, that you're selling. Could you please tell us a little bit about what was the profit level in that business? And then, second question on corrugated board, can you try to quantify how much the prices of corrugated board on average are up now from the trough of last year? Thank you.

JJ Lennart (Persson, CFO), do you want to take the...

LP: It is corresponding to an EBITDA multiple of 9 and with a selling price of 200 you can calculate that it is not so much.

If we look at the packaging side, as you have seen we have continuously during last year and this year, increased prices in both testliner and kraftliner and gradually that will of course walk out to the corrugated side. On the same time the OCC prices have gone up by 140% which is of course taking away some impact of those price increases. In real terms, in corrugated, I would say that we have somewhere around 3%, Lennart, in price increases so far during Q1. So the bulk is remaining to come during Q2 and Q3.

MJ: Okay. Thank you very much.

Thank you.

Our next question comes from the line of Myles Allsop, please go ahead, your line is now open.

MA: Yeah, a few quick questions. Just, looking at consumer..., the tissue, you are saying, on the consumer side in Europe, volumes or sales were down 3%, could you give us a sense of what has happened with prices during the quarter and then also what sort of magnitude of a price increase you're looking to post through over the next three to six months?

Well, we had a situation last year where the raw materials in tissue went down quite substantially, beginning in the beginning of last year, following a price increase of raw material in the end of 2008. Which meant that we increased prices in 2008, got the raw material in 2009 and expectations from customers were then of course that they will have a piece of the raw material price decrease during 2009, that was negotiated in the end of last year. Impacting both Q4 and Q1, so you have an element of cost increases but also reduced price in the first quarter. And now, as I said, with the dramatic price increases in raw material that is of course justifying a price increase going forward, and we will aim of course to cover the cost of raw material in our price increase and I don't want to give a specific number today on that, but the aim is to cover the losses we have made on the raw material cost increases.

MA: And you see the tissue division margins now sort of closer to 7%, are you still absolutely confident that margins should be around 10% and this is just the timing aspect in terms of raw material cost squeeze and pushing it through during the second half?

Well, if you look at the tissue margin, that is a combination of course of the European operation and the Mexican operation and the Australian operation, and we still are struggling with profitability both in Mexico and Australia, and we are, as you know, correcting that in Mexico and will have a program in Australia. So if you look at the European business, it has a higher margin when you would see in the totality, so a simple answer to your questions is, absolutely.

MA: Okay. And how long to fix Australia and Mexico, is that kind of... I mean obviously the investment in Mexico will be completed soon but should we, kind of from a sort of division perspective, expect kind of over the next twelve months or, what sort of time frame to fix those two?

The Mexico investment will be up and running end of this year.

LP: Yes, November.

November this year, and this will take care of our problems in Mexico. And Australia, slightly more complicated, we have various options that we are looking into now and will probably decide during Q2 how we will address that problem.

MA: And then, could you remind us how much you're looking to increase corrugated prices, you got them up 3% so far, and was your target sort of 10% and are you going to be pushing again for further corrugated increases on the back of the recent testliner cost increases?

The aim is, and what is normally happening is of course that the price increases in testliner are being passed through to the corrugated business, and that is of course what we are going to do this time also. But as I said, at the same time we are running against an increase of raw material in the OCC of some 140%, which of course is pushing prices even more. So you will probably see more price increases on the paper side but then you have the same delay in those price increases as the previous, which means between four to six months, before you see the impact on the corrugated side.

MA: But in terms of the magnitude of the price increase you're targeting, you got 3% in Q1, or from the trough and what is the first increase that you're looking to achieve?

LP: I mean we need to get some 6 to 8%, to start with.

MA: Okay, and then a further 6 to 8% on the back of the second testliner increase.

LP: Yeah, I would say so, yes.

MA: Okay. Then just one last question on magazine paper, and that is not kind of a core area for you guys but, you..., how confident are you in this second half price increase, I mean volumes are only picked up a little bit relatively to how much they fell last year. We haven't seen any more closures in Europe, do you really think that it can be pushed up with pulp or are you sort of just following the pack and hoping that it will go?

Well, if we look at the price increases I indicated, we feel reasonably confident that it will pass through into the market, and of course we are, as you said, a small player so we have to follow the big players on the market, but it seems like everyone, of course, with the cost increases, have the ambition to push some of the prices out to the customers also. And since demand is picking up that is of course helping that process.

MA: Okay, thanks.

Thank you.

Our next question comes from the line of Johan Sjöberg, please go ahead, your line is now open.

JS: Alright, thank you very much. Yes, starting up with the tissue operations, could you explain a bit upon the price decreases which you had to agree upon in Q4, why that was agreed upon at all, considering that raw material costs actually was sky rocketing already in Q4.

It was a delay defect in relation to the contractual situation we had, which means that the discussions started much earlier and that's why it took until Q4 before it actually got out into the businesses. Then of course, raw material did go up, but they continued to go up during Q1 more then maybe anyone of us guessed.

JS: Okay. And looking at..., is the full effect on price decreases now in the accounts for Q1 or should we see any further price decreases in Q2.

I don't expect further price decreases in Q2 but what you could expect since we have delays in the impact of price increases of raw material, between, well let's say in average 45 days, so that may of course have an impact on Q2 also, but not for price decreases.

JS: Okay. But also looking at the cost increases in Q1, I mean looking at the pulp deliveries and also looking at recycled paper cost, I mean you are entering Q2 with a much higher level then you see as an average for Q1. How do you see in Q2, especially within the tissue segment, I mean a quarter of a quarter now is down by 2% and we are in a fast pace approaching the previous trough as we saw back in early 2008, should we expect to the margin decreasing by another 2% now in Q2 would you say?

I think that you probably will see some further pressure on the tissue margin, not in the level you are suggesting, but since the contracts doesn't allow us really

to pass the prices on very short term there will be given that the raw material stay on this situation and are not coming down, that may include another price pressure on tissue, short term. But we will get that back in the second half.

JS: Okay. And coming also looking at the Personal Care, you said that you did not see any seasonal slowdown of the incontinence products in Q1, despite that you saw margins down by 2%, during that quarter, is that just currency related?

A lot of it is currency related, I don't know if you have a comment on that Lennart?

LP: It is also a mix because we had high sales of incontinence products in the fourth quarter.

JS: Alright, okay. But looking in..., do you see this slowdown, or which normally takes place in Q1, will that happen in Q2 as you see it?

No, not at all.

JS: Okay, great. Thank you very much.

Thank you.

Our next question comes from the line of Oskar Lindström, please go ahead, your line is now open.

OL: Yes, hello. Two questions relating to the publication paper business. As you mentioned, a demand improvement of 5 to 7%, for publication paper. Is that your forecast for 2010 compared to 2009?

What I said was 4% on magazine paper and 2% on newsprint.

OL: Okay. And the second question, you said normally there are full year contracts for newsprint, so is that an abnormal year and that you're not looking at one-year contracts but something shorter, for newsprint.

I think, I mean, with the development we have now on the raw material side, both ups and down, very short time, one has to look if one-year contracts are really a liable way of working in the market, so my guess is it will be questioned by, I think, both the buyers and the suppliers.

OL: Is that something that you're questioning now to your customers.

Well, now we are in a yearly contract situation already, but that certainly will be something that may be brought up during the next round of negotiations.

OL: Alright. And do you have any sort of feeling for how OCC prices are developing for your part, now looking in the second quarter and the second half of the year.

We have seen the pressure in the US is off a little bit because when you had the extreme low prices on the recovered paper and all over the world, then of course the collection went down also, but if you specifically look at the OCC prices, we don't expect that this development will continue.

OL: Alright. Do you expect them to ease off or more remain on the current level?

Of course it's a very difficult question to answer, in particular since it's driven very much by China but normally when the prices are reaching a certain level China stops buying also. Our estimate today is that it will not continue with the development you have seen the first quarter, or compared to first quarter last year.

OL: Alright. Thank you very much.

Thank you.

Our next question comes from the line of Lars Kjellberg, please go ahead, your line is now open.

LK: Thank you. I just wanted to come back on the tissue side. You seemed quite confident to get margins back in the second half of the year, in tissue. Is this based on some sort of contractual agreement that you were able to pass on the cost or is that your sort of sense of confidence in the market, that it will be able to support price increases necessary to compensate for pulp prices and waste paper costs of course.

I probably would say that it's a combination and depending on which country we are in. If you take the US for example, I think all the major suppliers in the market have firmly announced that they need to increase prices, including ourselves. In Europe, being the market leader as we are, we will of course assume the responsibility to drive the necessary price increases to cover the increased costs that we have, but also reducing costs, it's not only price increases, it's also reduction of cost internally in SCA, and we do have a reasonable balanced market and I mean, we guess that our competitors also need to recover the cost that you saw in the first quarter.

LK: If you want to take the balance between what you need to recover on the top line and the cost line, how would that look, roughly, on a share basis.

Well, that's something we haven't really communicated. So I would rather not do that now either.

LK: Okay. And when you talk margin recovery, I estimate that things should hopefully start to improve with pulp prices, at least stabilize. You know, the magnitude, are we talking back to where you were or sort of half way? Do you expect margin recovery from the current quarter or the next quarter but not necessarily the level.

We do have different margins in different quarters depending on the seasonality. I mean the US is normally very weak the first quarter and then you get the ice-cream season started and then you have a strong quarter so I wouldn't like to

point out a specific quarter, it's rather that the average level that we have should be a level that we should be in.

LK: I understand. Thank you.

Thank you.

Our next question comes from the line of Nitan Diaz, please go ahead, your line is now open.

ND: Good afternoon, gentlemen. I had a question on pulp. What is your sense in terms of the pulp pricing, do you absolutely think pulp prices will remain stable at the current high levels, do you think it will go up higher or is there some fundamental reasons they should go lower from here, given that you buy about 60% of your pulp in the open market?

Well, normally of course the pulp market should ease up a little bit when Chile is coming back in production. They are in the level of 8 to 10% of the global production of pulp and they have been out of the system, and that of course put a lot of pressure on the price. Then I would say it depends very much on the need of the Chinese market since the European and US markets still are slowly recovering from a very low level so it is difficult to predict exactly how China will act or not act in the pulp market. But everything alike, Chile's coming back to the market should have a positive impact from a net buyer point of view, on the price.

ND: That's very helpful. Second question, more housekeeping. Your pulp prices, do you enter into the contracts at the beginning of every quarter so for Q1 your pulp prices were fixed, probably January or late December, is that how it works?

Normally, if you exclude the fluff price which is different. Normally we have a delay of some 45 days, Lennart, if I remember rightly.

LP: **45 days, yes.**

ND: That's helpful, thank you very much.

Thank you.

Our next questions comes from the line of Johnson Imode, please go ahead, your line is now open.

JL: Thank you. Within tissue, you refer to a changed product mix, I just wondered if you can give a little bit more color on what that is giving, from my understanding, you've been trying to sort of bring the brands more together in recent years.

Well as you know, we have quite a substantial process ongoing in tissue now to reduce the number of brands in Europe and also divide the object hygiene from personal hygiene, and that is ongoing and also of course consuming quite a lot of investments in doing that. So A&P, both for Tissue Europe but also Personal

Care has increased due to the change process we have. When it comes to the pure mixture change, maybe you can take that Lennart?

LP: Mixture change. For tissue, was that the question?

JL: Yeah.

LP: When it comes to branded products we try to increase the 50-50% relation between private label and branded and that will of course help us as well.

JL: Okay. It's just that you referred to a changed product mix in the next quarter, as being one of the reasons why profit decreased, that's why I wasn't too clear.

L: It has been more of lower price products we have sold compared to last year.

JL: Okay, thank you.

And that depends very much also on how the promotion activities are going, sometimes when we do promotion we are pushing the branded products and if we are not, it may change in the mix between retail branded and our own brands.

JL: And then just moving on to Personal Care, you mentioned raw material cost, I mean for my assumption, obviously oil is the main input cost in that division and obviously that price is going up, is that going to last or reverse?

When it comes to super absorbents, they are oil based and we have a delay, Lennart, if I am right about six months, four to six months in any oil price decrease or increase before it hits P&L.

JL: Right. Okay, thank you.

Thank you.

Our next question comes from the line of Myles Allsop, please go ahead, your line is now open.

MA: Yes, a few quick follow-up questions, could you run through the rationale of selling the Chinese corrugation operations, and are there any other kind of potential diversions that you have at the back of your mind?

Well, the main reasons are that we do see more growth potential within the hygiene business and of course there is always a competition on cash, where we should invest. We also saw that the Chinese market was very fragmented, with a lot of small players, we had some 1% market share, and with that 1% we were one of the big players in China. So over time we do see a need of consolidation of the Chinese packaging business and we didn't see SCA being the one who wanted to invest in that consolidation, because we rather would like to invest in building our hygiene portfolio in China. And on top of that there were very

small, if any synergies between the European business and the Chinese business. So that's the main reason.

MA: Okay, are there any other kind of small operations within the group today that you see is potential, kind of, cleaning up ?

We still have a couple of cleaning up that we are working on.

MA: Okay, and what are the European corrugated business overall, I mean the remainder of the packaging operations. Are they still core to the group and what's the kind of sense there, I mean you said about the need for consolidation in the past, are there any developments that we should be thinking of.

We are focusing all our energy now to improve our packaging business and we still see quite a lot of potential going forward, even after the restructuring program that we are finalizing now so that's where we are focusing, but of course the market situation hasn't changed, it's still quite an unconsolidated market in Europe so the need for consolidation is still there. But now we focus on improving our own business as well as we can.

MA: Okay, and once it's been improved, are all options open again?

Well, as long as we have a business it's always a core business.

MA: Okay. And just on the Personal Care and the increased costs or the likely increasing costs of super absorbents. How easy do you think it will be to pass these cost increases through, particularly if it looks like, over the medium term there could be quite a shortage of super absorbents? Or high cost at least.

We don't see any shortage of super absorbents but if you look from a historical point of view we have been quite good in Personal Care to handle any price increases or price decreases, it's a slightly different business from the tissue business, it's more innovation into it and of course also partly 100% branded if you take the Tena business, so I mean I trust on our historical ability to continue to handle that, going forward also.

MA: Okay, and the strike in Sweden, what is your sense to when this will get resolved, there is no progress over the weekend, it's starting to have more of an impact if the next six, seven mills start striking this evening, obviously it has a bigger impact on kraftliner, on pulp and so on, paper board obviously. I mean, could you give us a sense to how the negotiations are progressing, when will a resolution be found and so on?

Well, it is of course a very unfortunate situation we have, it's the first time I think in 30 years or more that we have a strike in our part of the business. So it is a new situation for us, and looking at where the parties are, we believe that we have done as much as we can, and as much as, or even more than the 25 unions already concluded in an agreement have done in Sweden, so it's extremely difficult to say where it's heading now. It's very unfortunate and of course it may have an impact long term on the business, short term we get compensated

but long term it may have a negative impact. Discussions have been ongoing for a very long time, and I think we are reaching a situation where we are not able to give anything more than we have given, or we have reached it already so we think it's very much now up to the union to take some responsibility.

MA: Okay, and the financial impact, you're fully going to be compensated by the Confederation of Swedish Enterprise?

At least from the short term perspective, for the two steps you see now. We will not of course be compensated for lost customers, if that's what happens.

MA: Okay, do you think it's going to be resolved today or do you think the next mills are going to down this evening?

I thought it should have been resolved a long time ago so your guess is as good as mine in this area.

MA: That's fair enough, thank you.

Thank you.

Our next question comes from the line Ross Gillardi, please go ahead, your line is now open.

RJ: Yeah, good afternoon. I just had a couple of questions. First of all, just on the pricing in the tissue business. What gives you confidence that you can raise prices here, it looks like, from you release, volumes are still fairly weak against what you presumably was a fairly easy comparison a year ago, in the first quarter. Trying to now raise prices, I would assume by fairly substantial amounts to offset this pulp price increase cannot be too easy? So what gives you confidence, are you willing to relinquish share, you know, in order to get those price increases and are you also, when you say that you're going to raise prices, are you including things like reducing sheets counts and some other mechanisms that might also be in a considered pricing or is that just a pure price increase?

Well it is, as I said, a combination of price and cost and you have to remember that of all the raw material costs in tissue, pulp is about 12%. But of course a significant part of the raw materials. We feel reasonably confident for many reasons, one is of course that we are in a as good or better shape than any of our competitors from a cost perspective. So if we need it we believe that our competitors need it also. But the most important thing is that we have a market that is in quite a good balance, and normally when you have a market in balance it's easier to increase prices, and also an understanding I would guess from our major customers that there is a need, when you see these dramatic price increases in raw material, for a price increase on the end product also. In the same way as they expect us to reduce prices when you have a dramatic decrease of raw material prices.

RJ: Not to get too caught up in individual word choice but you referred to the market as balanced and I would think a balanced market could be in a good position to sustain

pricing, I wouldn't necessarily think a balanced market you could raise prices by a significant magnitude and, at least in the US it seems like there is an emphasis with a lot of the retailers on keeping prices low on the shelf to drive volumes. What are some of your customers in Europe saying, in your sort of initial discussions here.

Well I think that an important aspect of getting an acceptance of price increases is of course that the retailer also see the need of it and don't reduce the shelf prices because there is a competitive situation between different retailers. In the US we are of course in a different situation because we only have Away From Home and work with different professional buyers. But in Europe, looking at the situation we have today, we feel reasonably confident that we will be able to increase prices but also to reduce our own costs. It's not only price increase, it's also reduction of costs internally in our own process. We are also a big net seller of mother reels in Europe with some 100 thousand tons and of course that is the first we are increasing, the price of mother reels, and that will of course have an impact on the finished goods at the same time.

RJ: Okay, I just wanted to clarify, your comments on corrugated pricing, you mentioned the number of 3%. Did you get all that, is that a 3% sequential increase in Q1 versus Q4.

It's on a yearly basis.

RJ: Okay, it's not how I understood it originally, so you're saying your prices are up 3% year on year in the first quarter.

The volume is up 3% and the prices are up, Lennart do you have this.

L: That is more on a sequential level, it is almost flat if you look year over year, the prices.

RJ: So prices for corrugated are up about 3% sequentially.

Q4 to Q1.

RJ: Q4 to Q1, yeah, up 3%, and flat year on year.

Yes.

RJ: Okay. Alright, thank you very much.

Thank you. So do we have any question from the web?

Yes we have, from Tatiana Snider from Mannheim Morgen. How are the results of your activities in Germany? Are there any plans for downsizing in Germany?

We don't have any direct plans for downsizing today, but that's always a question that is on the agenda, I mean to continue to improve the productivity but we don't have any specific plans today.

And Tatiana Snider has another question for how it impacts Germany. She says, you have announced cost cuttings in tissue for the second half 2010, what is the impact for your German sites?

Cost cutting is mainly in the total supply chain, which means it will have an impact in the whole supply channel of tissue, not particular in Germany.

That was all the questions.

Okay. So we don't have any more questions. So I would say, thank you very much for listening in to the presentation of Q1. Thank you.