Jan

Good afternoon and welcome to the first quarter result for SCA. To start with general comments, if we look at the development during the quarter, we of course, have some positive developments and also some negative developments. To start with we still see a good growth in emerging markets. We still see costs coming down compared to Q1 last year. We have new product launched. In Personal Care Europe we have five new products launched Q1. We will have another ten new products being launched during the rest of the year in Personal Care. On the other side we have continuously increasing raw material costs and we also have a much stronger Swedish currency that is impacting us negatively. I will get back to the details of that later. We also have an improved profit in local currencies and excluding reconstruction costs, it’s at 10%. But even if we include the currency impact we still have an improvement in profits in Q1 compared to Q1 last year.

The main impact and the most difficult is the raw material situation. If you look at SCA from a historical point of view, normally when you have high raw material costs we make more money than when the raw material costs are low. But the problem is when it’s going like this all the time, because then we are behind in price increases and behind in cutting costs. And as you can see from this picture we do have some dramatic changes in the bulk of our raw material today. And we will compensate for that. But since they are moving faster and have a faster impact on the P&L than the contractual situation we have on the customer side allows us to increase it, there will always be a delay. We have one month delay, for example, in tissue from the raw material cost before it hits us. And then, we have three to six months contractual situation with our customers which means that it will be a delay before we can implement price increases.

And that’s a similar situation in packaging. You know, of course, that in general, we have five to six months delay before we get the price increases through in the system, but a shorter time period when the raw materials hit the P&L situation. So when raw materials are going like that, we are lagging behind. If they would stay I’m absolutely convinced that we will improve our profitability. But as long as it’s moving upwards we will be a little bit behind. But we will, of course, catch up after time.

Looking at the results, as I said, it’s 6% improvement in local currency in net sales. We had a 2.1 billion negative impact from currency in Q1 compared to Q1 last year. An improvement of 10% on EBIT and earnings per share which, including the restructuring costs, is improving by 24%. We are also strengthening our balance sheet. We have a debt/equity now on 0.49. As you may know, we have a target on 0.7 so we are quite below the target today in debt equity ratio.
If we look at Q1 to Q4 which is probably the biggest difference and what has happened is what we at least tried to communicate during the Q4 presentation. We have the seasonality, we have the raw material and we have the currency. There is nothing else inside SCA that hasn’t been performing in the way we expect it to perform. So it’s those three that are impacting the result of Q1 compared to Q4. And as an example, we have 5% lower volumes in Personal Care in Q1 compared to Q4. We have 7% lower volumes in Tissue. In Americas we have 9% lower volume. The market was down 14%. But we were down 9%.

We have not lost any market share in any part of the world. On the contrary, we have gained market share. We have been producing fully in all our operations. So it’s an effect of the seasonality which means that this volume will, of course, during this year be back since the market is not going down. The market is still growing, even if it’s slower in some parts of the world, but still growing. Big impact from the volume, raw materials still going up in particular in packaging quite substantially compared to Q4 and then, of course stronger Swedish Krona in Q1 compared to Q4. That is the only thing that has impacted Q1 compared to Q4, nothing else.

If you look into the different parts of the business - I start with Personal Care, if we just take the raw material part. The impact of that Q1 to Q1 it means 3.5 percentage points in margin only the increase in raw materials. And as I said, lower sales compared to Q4, 5% which is also, of course, impacting a lot. We have quite a few positive things in Q1. We are now fully introducing the thin diapers on the market in Europe. We are starting now with the Nordic Countries and Russia. We are already supplying one of our major retail customers with thin diapers in Europe. We have the quality we need which we didn’t have before, which means that we can start to regain some of the volume we lost during 2009 and 2010. And as I explained previously also, we have a big over capacity in Baby in Europe and we still have the costs for that. And gradually we can now start to fill the machines and of course, that will have a very positive impact on the margins.

Also the restructuring programme closing Linselles and moving everything to Poland is going according to plan. Will be finalised during Q3 this year and then, we will have an annual, positive effect of €50 million in reduced costs. And also, as I said, the most important thing here is that we continue with innovation and five new products Q1, at least ten more new products during the rest of this year. That’s the way we can improve margins, improve profitability. But we are also going to increase prices in Personal Care and normally from a historical point of view that hasn’t been a very well used tool. But this, of course, with the raw material increases we see now, we need to introduce that tool in Personal Care also. So we can’t only work with innovation. We have to start with the pricing tool and that’s what we’re going to do now going forward.

In Tissue we have the same situation only the raw material impact is 3.5 percentage points in margin impact. And the 7% lower volume compared to Q4 is, of course, having a big negative impact if you compare those two quarters. We have already initiated substantial price increases in Tissue. We initiated prices increases between 5% and 10%. In the US we have announced an 8% price increase and all our major competitors are on the same levels. But as the contractor situation is in US, for example, as I think I showed a couple of quarters ago, the bulk of the contract are for re-negotiation at the end of June, which means that they will not have an impact in the first half of the year. But the impact will come in the second half of the year.
Going into packaging – if I use the same method, the raw material price increase had a huge impact on the margins, as much as 7.8 percentage points, just the raw material Q1 to Q1. We are increasing prices. We did increase prices in Q4. We are increasing prices in Q1. We will continue to increase prices in Q2 in the level of 3% to 4%. But of course, we had the same situation here, the raw materials are up and we are increasing prices and there’s a delay before you see the impact of that in the P&L. But the momentum on the market is good. The growth is back and as far as we can see, all our competitors are in the same position as we are, which means that they’re also increasing prices. So I feel quite confident that we will continue to see improvement in the packaging business.

In the Forest operation, we have seen price increases in LWC of 8% in Q1, but due to the currency situation we only got 1.3% of that. In SC there is a price increase of 6% and since we produce most of that outside Sweden, we get the 6%. In newsprint we have seen price increases of 18% to 23% and depending whether it’s produced outside Sweden or inside Sweden we get the whole of that or a part of that. We still see a need for further price increases. So we will push for another 5% to 7% price increase in magazine paper in the second half of this year and substantially higher on newsprint. But due to the contractual situation it will happen in the second part of the year and not in the first part of the year. And of course, when I talk about currency impact in the other business areas, it’s mainly translation. Here we also have a transaction currency impact and that is 175 million SEK compared to Q1 last year. So the transaction we are being hit here, and translation in the other business areas.

So going forward, we still see a very good demand for our business. We still see a good growth in emerging markets. But we also see raw material continue to go up, in particular, the OCC, the raw material to packaging, but also some waste paper coming up. The pulp is up in Dollar. But since the Dollar is weakened to Euros and Euro it has been stable or even maybe a bit lower in Q1 than in Q4. We will increase prices in all our business areas with different timeframes and we feel confident that we will succeed in the price increases also. So with this short presentation, I know you would rather like to ask questions, I will open the floor for questions and also ask Lennart to join me to help me to answer.

Johan Sjöberg – Carnegie

Yes, hello Johan Sjöberg, Carnegie. Could you say something about Q2 outlook when it comes to your margins, EBIT or something?

Jan

If you look at Q2, of course, we will get back some of the volumes for the seasonality that you saw in Q1. But if we could start with Tissue we will not see any or very, very small impact of price increases in Q2. But we still see raw material coming up in Q2. Then, you have a combination of higher volumes, very little price increases and higher raw materials. So then the question is how much will the raw materials go up compared to the compensation you get from the volume? And then, you will have the impact of the price increases starting in the second half of the year.

Packaging will continue with price increases in Q2 in the level of 3%, 4% as I said. We’ll see another volume coming into the market. But OCC, as I show in the picture, is the one
that’s going up the fastest. It also depends of course, is it going to stay there or is it going to continue up and then, we need to continue with the price increases. And Forest, second half of the year. Personal Care you will see some volume impact in Q2. Some maybe small price increases, also depending on in particular the oil based products, where the cost for that is heading.

But the main impact of Personal Care also when it comes to restructuring, the cost savings, the closure of Linselles, the building up of Poland. The most important in Personal Care now – in Europe anyway – is to get new contracts in Baby, because we are sitting with a cost structure and we don’t have the volume. And we feel quite confident that with the new technology, with the new products that have been tested by the market and received very positive judgements, that we will be able to do that. The rest of the world is going very well in terms of growth and the necessary price increase. It’s Europe that is the challenge.

**Johan Sjöberg - Carnegie**

*Yes, also looking at full year outlook, last quarter you said that 2011 adjusted EBIT would be higher compared with 2010 adjusted EBIT. How do you see it today?*

**Jan**

And I also added everything else alike, which means that it will depend on how the raw materials are developing. I don’t have any problem with our own operation. We will operate 100%. We produce 100%. We will continue to gain market share. But it’s almost impossible to have a view on where the raw material will head from here. So from that aspect it’s difficult to answer now. We had an idea… we hadn’t thought that they would sort of not continue to increase. But and I know you’re not supposed to blame Japan, but a lot of the waste paper to China is coming from Japan and that is not possible at the moment, which that means that they are already in Europe and in the US sourcing the waste paper. And as soon as we get the Japanese sourcing up and running again, we believe that there will be a relief on the increase of raw material. But if it continues, then it’s difficult.

**Lars Kjellberg – Credit Suisse**

*Do you in any of your contracts on the Personal Care side have any passed through contracts through any other raw materials?*

**Jan**

No.

**Lars Kjellberg – Credit Suisse**

*If not, do you sense there’s any degree of pricing power, you know, consumer inflation is comparatively low ex foodstuffs and petrol, etc. But so how do you perceive your opportunity to actually compensate through price?*

**Jan**
It’s two ways. One is new products, as I said, because then you can put yourself in a
different position on the market, which is very important. That’s normally the way we do
in improving profitability. But I feel confident, since if you look at Kimberly-Clerk, if
you look at Procter & Gamble and all our competitors and the reports they have issued
now, they are all in the same situation. And they have all announced substantial price
increases, but also substantial cost cutting. So if we are all in the same situation, we all
see the necessity of increasing prices, I think there will be an opportunity to do that. If it
would only be SCA, then it would be much more difficult.

**Lars Kjellberg – Credit Suisse**

*And when it comes to the currency situation, it is what it is. But how are you hedged
today, and on that note, you talk about transaction exposure in publication papers, but
surely there’s a meaningful element in kraftliner from your Swedish mills?*

**Jan**

Absolutely, that’s right. I forgot to say that. Of course the packaging operation in Sweden
has been impacted in the same way as the Forest operation. And Lennart, maybe you will
comment on the hedge.

**Lennart**

Yes, and normally we have some four to six months hedged. We had some hedges for the
Forest operations export out from Sweden from the beginning of the year mainly in
Europe and that is still also giving us some hedge this year, also for the remaining part.

**Lars Kjellberg – Credit Suisse**

*And just to follow up on that, you know, packaging side. Do you have any number for the
actual transaction exposure was or the negative impact for the packaging in Q1?*

**Lennart**

That transaction it’s, if I remember the correct one was some 40, 50 million Swedish
Krona and that is mainly coming from what you’re pointing at our costs for kraftliner in
Sweden last year. We are exporting it in Europe.

**Lars Kjellberg – Credit Suisse**

*And you didn’t have any significant maintenance work at those mills in Q1?*

**Lennart**

No.

**Lars Kjellberg – Credit Suisse**

Thank you.

**Linus Larsson – SEB Enskilda**
A couple of questions on the cost side in the second quarter. If you look at the first quarter compared to the fourth the raw material costs were up 220 Swedish Krona, something like that. Do you have a rough...?

Jan

It really is more if you take the transaction into consideration.

Linus Larsson – SEB Enskilda
Do you have any early indication what one should expect for Q2? I know it's early days.

Jan

I don’t know, if you look at April how is the currency?

Lennart

But you are talking more about the raw material, you said the currency, it’s the raw material.

Linus Larsson – SEB Enskilda
No, the raw materials. Then there are currency aspects in that.

Lennart

What we can see, as Jan said, we see a continuous increase in the OCC prices into the second quarter and also that we gradually have seen it increasing in the first quarter for recovered paper. I mean also pulp has come up to the $1,000 level, but here of course, we have seen weaker Dollar, so in Euro terms, it is – f anything – a bit slower.

Linus Larsson – SEB Enskilda
But it appears as if the lion’s part of those more than 200 million cost increase that you see in the first quarter compared to the fourth quarter, is OCC actually in the packaging division. So should one be concerned that anything that has to do with oil or other input cost pressures is still ahead of us?

Jan

You know, the level of the oil price today, and if that continues to go up, of course, that will have an impact. I mean your guess is as good as mine if that would happen. But if we look at how it is, we will see further increases in raw material, I think in all raw material, maybe except pulp, during Q2. But maybe less in some of them, and OCC is up quite substantially still if I remember rightly. OCC is probably the biggest challenge.

Linus Larsson – SEB EnskildaSo you think even in the next quarter OCC will be the bigger component in the cost inflation all in all?

Jan
Yes.

Linus Larsson – SEB Enskilda
And then also, on the cost side, the energy costs seem to have increased some 70 million in Q1 versus Q4. Is that seasonally easing in the second quarter? Are gas costs, the electricity prices coming down?

Lennart

Somewhat, but we expect it to be quite flat, marginally down.

Jan

When we have about 55%, 60% hedged all that gas and electricity.

Linus Larsson – SEB Enskilda
And then just finally, you mentioned the gearing which has come down quite a lot. You have a strong balance sheet. You have a long term agenda when it comes to growth in certain parts of your company. Should we prepare for something happening there especially on the hygiene side? Is it likely that in the next 12 month period we will see SCA making some moves in the M&A area.

Jan

Well, I mean we are certainly looking into M&A possibilities and we talked about Brazil I think last quarter, and that’s still a high priority for us, and we believe that we have some interesting options in Brazil. And still China is a question mark, except in incontinence, where we are already in China and doing quite well. But in our other categories how we should go into China and organically it’s probably very difficult or impossible. So you would probably need a partner in some way to do that. There is also of course, we talk also about consolidation in the paper industry and the packing industry. There is also need of consolidation in the hygiene business in Europe and that may also raise some opportunities. But I mean you never know, but if there is, of course, as a market leader we will certainly look at it.

Linus Larsson – SEB Enskilda
Thank you.

Claes Rasmussen - Swedbank

Claes Rasmussen, Swedbank. You say in the US you have announced price increases of 8% on Tissue and normally you sort of get half of that. Do you think that this time it’s more of an issue to get more of that than half of the close to 8%?

Jan

It has always been a tradition in the US to get half, but I think the needs – I mean looking at what is happening on the raw material side – are quite big now. So I would be rather disappointed if we only got 50% of that price increase. So I hope that we can change that.
Claes Rasmussen

And also if you can, we have seen the Test Liner and fluting prices go up with the higher raw material cost, but we have really seen any change to Kraft Liner prices even though they have been some announcements of price increases. How do you see Kraft Liner prices developing?

Jan

I think they will increase. There is a need for increase in kraftliner also. The raw material is going up on that side also, not only on testliner side. So I would expect price increases.

Claes Rasmussen

Right, thanks.

Lennart

And if you compare with the first quarter last year you have quite significant price increase also for kraft. It was a bit earlier than testliner.

Jan

Do we have any questions from the telephone conference?

Operator

Our first question from the phone line comes from Oscar Lindstrom from Erik Penser Bank. Your line is open, please go ahead.

Oscar Lindström – Erik Penser Bank

Yes, good afternoon. I actually have three questions. I hope that’s all right? The first one regards Tissue. Now, I’ve understood that you’ve had some price pressure in the private label Tissue segment in Germany during the first quarter and that sort of seems to point that it’s quite difficult to raise prices there. You know has that competitiveness continued into Q2?

Jan

We have always tenders out, of course, and every time you have a tender you always are afraid of what’s going to happen with the pricing of those tenders. So that’s not something new for us. But we don’t see any different actions or behaviours that would make us more nervous for the price increases we will have during the second half year, no. It’s not an unnormal market situation.

Oscar Lindström – Erik Penser Bank
All right. Thank you. Second question concerns cost savings. Now, your baby supply chain restructuring programme is coming to an end and in this report you talk about activities to lower costs. Do you have any specific activities sort of up your sleeve to cut costs in this situation?

Jan

We’ve, as you may know, programmes ongoing in all our business areas today. I mean we have announced some of them in Forest. And in Tissue Europe, we are continuing first of all of course with the Procter & Gamble acquisition to get all the synergies out of that. But also to improve the efficiency in all our production facilities. We have a blueprint of the optimal plant and how we implement that blueprint in plant after plant, and that will certainly continue. In Packaging we have finalised a big restructuring programme, the one billion saving. But we continue of course with other saving initiatives without adding any restructuring costs to that in the report. But we also believe that there is an interesting opportunity within Hygiene Europe to improve efficiency and save costs. And we are just looking into that and it’s too early to say what impact it may have.

Oscar Lindström – Erik Penser Bank

Could you say a little bit more about it? Does it sort of continued supply chain restructuring or is it more of an osthyvel method?

Jan

Osthyvel we’ll always do and otherwise it’s too early to comment on it.

Oscar Lindström – Erik Penser Bank

My final question if I may, concerns, you talked about sort of growth and you talked about areas where you’d like to grow or where you are looking into acquisition, and you talked about consolidation in the hygiene business in Europe and so on. Do you see any opportunities for divestments? Is that something that you’re also investigating or is it purely on the acquisition side?

Jan

We have been divesting for the past three years and maybe it’s time now to invest instead.

Oscar Lindström – Erik Penser Bank

So you’re more focussing on that going forward?

Jan

On the growth side, yes.

Oscar Lindström – Erik Penser Bank

All right. Thank you very much.
Jan

Thank you.

Operator

The next question from the phone comes from the line Ross Gilardi from Merrill Lynch. Your line is open.

Ross Gilardi – Merrill Lynch

Yes, good afternoon everybody. Thank you. I’ve just got a couple of questions. John, you know, I appreciate that the cost environment is tough. But certainly there’s a lot of talk about the external, you know, environment here and how you’re taking share in the hygiene business that your volumes are up 1% and your personal care earnings are down 20% year on year. Are you satisfied that you’re doing really all the right things here and are you getting compensated for your innovation from your customers? And if so, why aren’t we seeing mixed benefits flow through on the earnings? And why aren’t we seeing more than 1% volume growth year on year overall?

Jan

Well, if you look at Personal Care, volume is of course important and in the emerging markets we do have volume growth. But it’s even more important to grow the sales, which means that you can with the same volume increase sales as we have, even though it’s quite low for the group. It’s only 3% in local currency and that’s of course too low and I’m not satisfied by that. But we should not only look at volume we should also look at the same volume at a higher price and a higher margin. And the innovation process we are running now will certainly over time generate higher sales and higher profits and as I just said we launched five new products during Q1. We have another ten plus coming during this year and of course it takes time. I mean you need to get it on the shelves. You need to get the sales volumes up. But they will absolutely generate higher sales and higher margins once they are out in the market and have the right position. But I’m not satisfied with 3%.

Ross Gilardi – Merrill Lynch

And then, on the Tissue business, the volumes held up very well of course in the recession, you know. But since then haven’t, don’t seem to have snapped back particularly hard. You seem to have some limitations on your pricing power in the Tissue business certainly at the very least, as you well point out, there are lags here. But the fact that you’re getting squeezed suggests that there’s some excess capacity in the industry. Given that, why are you adding capacity in the Tissue business? And do you actually need to do the opposite and have a more aggressive capacity rationalisation in this market?

(Due to technical problems the red-marked part of the question did not go through)

Jan
We lost him? But I can answer anyway. If we look at Tissue, we have the increased market share in Europe from 18 to 19%. We are on the same market share in consumer tissue, 26%. We are growing in Latin America in Tissue. We still have the issue in Australia, and the market is not growing in Australia but we have a very strong position. We are ramping up the new production in Mexico, but of course, when you’re starting up a completely new plant, it will take some time before you’re up running fully. And I think the most important thing in Tissue; particularly in Tissue Europe is to improve profitability, rather than chasing market share. So that’s our main focus; profitability and not market share.

**Camilla Weiner**

Do we have any more questions from the floor? From the telephone conference? From the web? Ok. Any last comments?

**Jan**

Just what I have said, that we still have a market that is growing, in the growth markets. We have a tough situation when it comes to raw materials. We are dealing with it, both with price increases and cutting cost. And we feel very confident that we will be able to offset any price increases, but we need some time to do it due to the situation we have with our customers. So with that, thank you very much and have a nice weekend.