

SCA
Interim Report Q3 2015
Moderator: Magnus Groth
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Joséphine Edwall: Hello, everyone, and welcome to SCA's third quarter report for 2015.

My name is Joséphine Edwall. I'm Head of Communications for SCA. And today, we have our CEO and President, Magnus Groth who, together with the CFO, Fredrik Rystedt, will go through the highlights in the report. And afterward, we will have a Q&A session.

So with this, I hand over to you, Magnus.

Magnus Groth: Thank you, Joséphine. We continue to have good momentum in most segments and in most markets in our business, which is very positive.

SLIDE: Summary Q3 2015

During this last quarter and also, after the end of the quarter, we have also continued with several strategic initiatives for two reasons. One is to accelerate our profitable growth, both through acquisitions, but also investments in our existing businesses.

At the same time, we're also addressing a number of low-performing parts of the business, primarily in the forest products business, as we will talk more about today; but also in the baby business. So this is something we will go through in more detail and also, the financial effects of this.

SLIDE: Group Q3 2015 vs Q3 2014

Looking then at the numbers briefly, and Fredrik will talk more about this. We have continued sales growth organically of 5 percent and an operating profit before items affecting profitability of 10 percent, leading to an improved operating margin of 50 basis points.

Looking at earnings per share, it's significantly down and this is, of course, then after items affecting profitability. So, if you add that back, we actually see an underlying earnings per share growth of 20 percent quarter over last year's quarter. And we continue to show a strong cash flow development.

SLIDE: Important Events

As mentioned, we have a number of important events since we last met after the second quarter. And looking at the first one, dividing the Group into two divisions. This is a project that we have started and we're progressing well. And we still aim, as we have earlier also informed, that this would be finalized by January 1, 2017.

The new hygiene organization is actually also in place and working, and this has gone very smoothly. There is always some concern when moving into a new organization if there will be a loss of momentum, but I feel that, on the contrary, we have a lot of new energy and it's a revitalized organization.

The final bullet point here. We are included in the Dow Jones Sustainability Indices as an industry leader, which makes us very proud. So we are the leader in the household products group also. And this relates to our code of conduct work and sustainability work, and social responsibility work.

And this is something we work with very, very hard every day. And I want to bring up also in line with this some news that came out just last night regarding an antitrust process in Chile that we announced already in May this year, where there's been another step in this process.

Still, we don't see that this is a material financial impact on the Group in any way. But just, again, being transparent, it's very important for us to state that this is completely unacceptable, whether it's a fully owned company or a partly owned company and that we are also always cooperating fully with the

governments and the bodies that are working with this. So I just want to bring it up. No financial material impact, but still.

SLIDE: Strategic Priorities

Moving on then to our strategic priorities. And this is a picture that we stick to. And I think some examples over the last quarter when it comes to profitable growth, is our acquisition of Wausau Paper in the United States; our investment in the pulp mill in Östrand in Sweden; and our investment in Brazil in incontinence care.

Moving over to efficiency. Some examples of work we have done to improve efficiency in the Group is, of course, the restructuring of the Ortviken paper mill that we announced today; again, the pruning of the baby positions that we have done over the last six months; and also, the divestment of Bromma Business Jet, which we announced a few weeks ago.

Today, we also announced that we are divesting our Asian Pacific business to Vinda, and as you know, we are the majority shareholder of Vinda with a 51.4 percent stake.

This divestment and the integration, actually, I am absolutely convinced will have a very, very positive impact in all these three areas because we will achieve synergies on the cost side. This will increase our growth because this will make it much easier for Vinda to expand in tissue outside of China and make it -- also strengthen Vinda's efforts to develop in personal care in China because we have very strong positions in Malaysia, for instance; and also the exchange of product innovations, not only then with SCA Group, but also between these two entities. So those are some examples relating to our strategic priorities.

SLIDE: Acquisition of Wausau Paper Corp.

And then I have three slides on some of the three major strategic initiatives that we have taken recently. And the acquisition of Wausau is actually very, very complementary to our business, both in terms of paper qualities, where they have a premium paper quality that we do not provide currently, in any large extent in the US, so very strong complementarity there.

And also, when it comes to customer segments where we are very strong in restaurants and catering, in North America, and they are very strong in washrooms.

And the initial response from customers is very positive because they see the benefit of a one stop shop that the combined entity can really provide then all types of qualities, and also products suitable for all different types of segments.

So initial response from our customers and Wausau's customers, what I hear, we are of course, competing vigorously is positive.

I also want to note that we have signed this agreement, but the completion is subject to Wausau Paper shareholder and regulatory approvals, which we expect then at the end of the first quarter.

SLIDE: Divesting business in South East Asia, Taiwan and South Korea for integration with Vinda

Then over to the divestment of SCA's Asian Pacific business to Vinda. And I think you have the number. Again, I think it's important to note here that this agreement is also subject to approval of the independent shareholders of Vinda, and we expect closing first quarter.

We had the Board meeting yesterday and, of course, the independent shareholders had their representatives and participate, so -- but still, to make this clear. And again, I see this is a very, very positive development for our Asian business in total.

SLIDE: Intended closure of paper machine at Ortviken paper mill and an impairment loss for the mill

And finally then, the intended closure of paper machine number two at Ortviken, followed by an impairment of the entire Ortviken mill. The paper machine that we are closing is the oldest and smallest machine, with a capacity of 135,000 tons. After this, we will still have a capacity of 765,000 tons. It will still be one of the world's largest publication paper mills.

But we see that we can achieve a huge efficiency improvement by focusing on the remaining three bigger and more modern machines, going forward. And that this plant will now be very competitive going forward.

OK, Fredrik, if you want to get into the financials.

SLIDE: Net Sales Q3 2015 vs Q3 2014

Fredrik Rystedt: Yes, I will do that Magus. And I'll start with net sales, and as you can see from the report, we grew our net sales by 9 percent, out of which 4 percent is simple currency translation, mainly coming from the Swedish crown.

And you've noted perhaps, also in Q1 and Q2, that price and mix were significant contributors to our growth in sales, and that is the same also for this quarter. In fact, if you look at all our business areas, had a positive development in price and mix. And especially so in this quarter, for personal care.

We have raised prices in many different places. We've done it predominantly in Latin America. We've done it in Russia. We've done it in the European away-from-home business and now in Q3, in the consumer tissue business in Europe.

So from that perspective, we have been able to compensate a large portion of raw material impact and, of course, adverse currency impact.

Volume was also positive. For tissue and personal care, both grew by 4 percent each. A slight difference for forest. There, we had actually slightly lower sales coming from publication paper, and that we'll talk some more about later.

SLIDE: Organic Sales Growth

If we look at the organic growth level for the Group and the different parts of the Group for this year, we've had a strong quarter. So both Q1, with about 6 percent; Q2 and now Q3, with about -- both being 5 percent.

That is, as before, driven to a large extent, by innovation, and in personal care, also, new customer contracts that we have alluded on before.

And we have also of course, for personal care and tissue, both had a significant contribution from price throughout this year.

You may, of course, remember that Vinda is a fast-growing company, so particularly for tissue, that's certainly helping growth and the organic growth level for tissue and for the Group as a whole.

If you just look at Vinda, and take that as a part of the total Group, it accounts for approximately about 1 percent of total growth. So again, a strong performance by Vinda, in terms of growth.

SLIDE: Operating Profit* - Group Q3 2015 vs Q3 2014

If you look at the operating profit, we increased by, as you can see here, 14 percent, and 10 percent roughly, is organic. So if you exclude the pure translation impact from currency, we grew organically by 10 percent.

We did that despite a very significant raw material impact. This actually accounts for approximately 25 percent of the quarterly profit, so it's a very significant raw material impact.

And a large portion of this comes from tissue. So if you look at the tissue operation, it is, of course, the fact that pulp is denominated in US dollars. The US dollar is strong, and that causes, of course, a very significant increase.

So approximately, of all the tissue impact of (SEK 560m), roughly 90 percent is attributed to currency.

And if you look at personal care, it's approximately 110 (percent) so actually even more than -- it's very, very negative and we've been compensating in other areas, such as oil-based products, for taking it to the full level of increases in personal care. So very significant.

We have compensated, as you can see, with SEK 688m in price increases. And this is particularly strong for personal care, so SEK 320m out of the SEK 688m relates to personal care.

SEK 258m or SEK 260m, in that ballpark, relates to tissue, and forest also has a positive price and mix. So price and mix continues to be very positive.

You may wonder, savings. We have said previously that our ambition is to continue to save approximately in line with what we have done in the previous couple of years. And that's also the case in this quarter.

It's a good result in savings. You will actually find that in the other line here, the minus SEK 41m. And of course, it doesn't sound like good savings if you have a minus there, but it's actually a lot of different components.

So basically three things that are negative; inflation, normally salary inflation and all other inflation.

We have fairly large increase, as you have seen also in previous quarter, of A&P, and this has to do, to a large degree, with personal care and the inco efforts that we've put in place, also fempro, to some degree.

And then finally, we also have much higher SG&A, primarily actually in Vinda, but generally, more sales efforts in the Group.

So all those three components, SG&A, A&P and inflation, is more or less fully compensated by the efficiency gains that we have in our business. So once again, a strong performance in efficiency.

SLIDE: Cash Flow Q3 2015 vs Q3 2014

Look at the cash flow, Magnus alluded to it. On the operating cash flow level, we have improved by 7 percent. If you look at this slide, you can see we're actually slightly lower than we were last year. And the difference between what Magnus showed and this is that here we include also strategic investments, so it's all investments that we have in the Group.

And this may not appear to be a good performance but, in fact, it is actually a good performance. Because last year, we had a really exceptionally strong performance in working capital, but it also had very, very low investments.

So, if you look at the capital expenditure here, the SEK 1.7 billion including strategic investments, it's pretty much in line with our full-year forecast of between SEK 6 billion to SEK 6.5 billion. So this is very much as expected.

As before, cash surplus increased a little quicker than EBIT. And, of course, that has to do with the higher depreciation of approximately SEK 130m or in that ballpark.

SLIDE: Items affecting comparability Q3 2015

Finally, we have in this quarter a very high number on items affecting comparability, as Magnus already alluded to. Of course, Ortviken and the publication paper, the closure is a very significant part of that, as you can see.

But we've also done two other impairments. If you look at the first one, the Mexican baby diaper business, this is a non-profitable business that we have in Mexico. We are not shutting it down. On the contrary, we've taken actions to improve that profitability from the loss-making situation it is at this point.

But it is our estimate that we will never be able to achieve a profitability level that supports the value we have of these brands that we use in the Mexican business.

And there's a similar story relating to, predominantly, Sealer and Dr. P for the Everbeauty acquisition. So these are pure impairment. They have no profit impact going forward but we don't amortize on those items.

Georgia-Pacific, this is predominantly Orléans that we have already announced and we've also closed that facility. And the rest, divestment of Bromma Business Jet, we have announced and this is the cost for that divestment.

And then the last portion, the SEK 111m that you see on this slide, is predominantly advisory fees relating to the two transactions, Vinda and Wausau.

Just a final comment here, this is close to SEK 2.5 billion. Out of this, SEK 460m, approximately, is cash related and the rest is more balance sheet adjustments.

So, with those words, Magnus?

Magnus Groth: Thank you, Fredrik. And quickly, a closer look then at each of our three business lines.

SLIDE: Personal Care Q3 2015 vs Q3 2014

And for personal care, we see good growth both in sales, operating profit and operating margin.

When looking at the operating margin, which improves with 90 basis points, actually, that is including headwinds from raw materials of 240 basis points. So the actual improvement, taking that into account, it's over 300 basis points. So very, very good work with increasing prices everywhere where we've had these raw material headwinds.

Return on capital employed, this is now before items affecting comparability. It's actually above our target rate of 30 percent, so I think this is a good step.

Moving on then to more of the market conditions and how this growth has occurred. We have a good development both in mature markets and in emerging markets. And what's keeping down incontinence products, again in this quarter compared to last year, is the development in inco North America retail, where, compared to one year ago, we lost approximately 2.2 percent market share.

In all other markets, the incontinence care business is doing really, really well. And, of course, we are working hard to address the issue in inco North America now, with the new organization we have in place, with the transatlantic inco business.

Other than that, very, very strong volume development and both baby diapers and feminine care have exceptionally strong volume growth.

And Fredrik mentioned the fact that we are investing more in advertising and promotion, A&P. And actually, this is a very profitable investment when it comes to these categories and especially feminine care because we really see the profitable growth with high gross margins and the high EBIT margin.

So it seems that the more we spend in feminine, the more actually profit and margin we get out of it. So A&P is not only a cost, of course, it's an investment also in growth and profit.

SLIDE: Personal Care – Innovations and Product Launches Q3 2015

To mention then some of our innovations, I'd like to bring up Libero Touch, which eight out of 10 parents in Sweden say is softer than the competitive diaper. And it looks like this, it's the best diaper we ever made and it's the softest diaper we ever made.

And not only that, this is our first global launch of a new platform. So we launched this now in Sweden and in Finland. We are launching it in Malaysia, which is the Drypers product. You see it looks exactly the same. And we are now rolling it out also in Russia and looking at other markets.

So it's aligning on one brand platform, one technical platform; this takes time, but we're moving in that direction. So please feel it. Some of you are young enough to still have maybe some babies at home. And then go out and buy it.

SLIDE: Tissue Q3 2015 vs Q3 2014

Moving on to tissue, similarly improving net sales and operating profit. The margin is down by 40 basis points. But in this case, the raw material headwind quarter over last year's quarter is 350 basis points. So, again, very, very good compensation through better price/mix, better volume and saving initiatives. And the return on capital employed before items affecting comparability, up 0.4 percent compared to last year, to 13.5 percent near our target of 15 percent.

And then digging into the different markets and products. We have reasonably good growth in consumer tissue everywhere and in away-from-home in North America, with zero growth in away-from-home in Europe during the first three quarters of this year, partly due to the price increases that we have prioritized before volume.

And as you can see also in the split, consumer tissue and away from home, that also is reflected there. But overall, good growth in the tissue business.

SLIDE: Tissue – Innovations and Product Launches Q3 2015

And some innovations, I will not get into them. But, again, this shows the importance of being relevant with both the retailers and the distributors when it comes to Tork and always having new news to show and present.

And, of course, this contributes to our improved price/mix and our improved volumes that we are continuously talking about new, attractive, innovative products with our customers and consumers. So that's why I keep bringing this up. It really underpins the development we see financially.

SLIDE: Forest Products Q3 2015 vs Q3 2014

And finally forest products, that has zero growth, an underlying volume growth is slightly negative, so the growth comes from price/mix and currency. Operating profit increased substantially, 14 percent-- or 13 percent, and this is very much based on higher prices, including exchange rate effects. So the weaker krona and the stronger dollar really helps our forest products business.

But we continue to see very good cost-efficiency savings in forest products as in the other business units underlying. Also, remember that in quarter 3, we have seasonally low energy costs, for instance. We were also helped by some seasonally low costs here.

SLIDE: Q3 2015 Summary

And to summarize then; good organic growth in sales and operating profits, both in personal care and in tissue, and we have seen a very good price realization and we have earlier communicated that we'll see a gradual improvement of price realization during the second half of the year.

And then, now with the good improvement we had in the third quarter, I think we've seen most of it. So most of the initiatives that we have taken and then we, of course, always adjust to the changing currency, taking the opportunity to increase prices.

In personal care, the very good margin we also saw was partly supported by a lower promotional pressure than the same quarter last year and this varies depending on promotion schedules a little bit between quarters.

Forest, very good result. In the material, you can see that we will have some stops for planned maintenance in the fourth quarter. We continue to have very strong efficiency gains and I mentioned the seasonally low energy prices that we had in quarter 3 and normally then, in the next two quarters, we see the effects of winter.

When it comes to the strategic initiatives, we are working very hard both to accelerate our profitable growth through different initiatives, but also, to really address low-performing parts of the business. And that's what makes up the initiatives that we have presented over the last quarter. Thank you for listening.

Joséphine Edwall: Good. Thank you, Magnus. So let's start the question-and-answer session. Please state your name and where you are from. And we have the first question there.

SLIDE: Q&A

Oskar Lindstrom: Oskar Lindstrom from Danske Bank. I have more of a general question here with regard to the strategic initiatives that you've presented today, but also earlier now after the summer.

The ones presented so far this year have tilted very much towards forest products with the investment in the pulp mill in Ostrand and towards tissue, with the acquisition of Wausau or the proposed acquisition of Wausau.

And I've also looked at historically, let's say over the past five years, the personal care division, which is your most profitable division, has only received some 20 percent of strategic CapEx.

Are you happy with that distribution of strategic CapEx? Do you see that changing going forward or should we expect roughly a distribution similar to what we've seen in the past?

Magnus Groth: We want to invest in the profitable opportunities that really enhance margin for the Group as a whole and if you look at the Ostrand project, for instance, this has been prepared for the last two years, so it's not that it happens to happen now because of a change in strategic direction or anything like that.

And ideally we want to invest, of course, more in the high margin, high growth parts of the business and what we have seen is, for instance, the initiative in Brazil, the initiative in India at the beginning of the year and we are also investing quite substantially in modernizing our machine park and also product assortment, both in incontinence care and feminine care.

And the good thing is that these investments are relatively very low. So, of course, that's why you want to do more of that, but still, it doesn't show compared to some of these other bigger investments.

But I agree that, of course, we would want to do even more in personal care, which has higher margins and higher return on capital employed.

Fredrik Rystedt: Can I just add maybe one thing? Just generally, we also have a lower capital intensity in personal care, so it doesn't actually take that much strategic investments to grow significantly. So just generally speaking, of course, acquisition-wise it takes a lot of money, but if you just grow the business, it has a much higher capital turnover, so that's one issue.

And the other thing is there are more ways of investing and, of course, one is A&P and sales, and there we have invested a significant amount both in inco and fempro, so from that I mention, we have -- we continue to invest a lot in personal care.

Oskar Lindstrom: If I may, just a follow-up on organic growth within the personal care business area. In this quarter and if I remember correctly also in the previous quarters now, we've seen the highest organic growth in feminine care and baby, and at

least in this quarter, the lowest organic growth within the incontinence business.

Now, you mention that this was due to some of the challenges from competitors in North America within the incontinence business and that you hope that the new transatlantic organization would help to remedy the low organic growth within inco. But don't you feel that there's -- do you feel that there's more you need to do structurally to drive that organic growth from relatively low levels of around 3 percent?

Magnus Groth: We're in good shape in Europe and we are taking more and more initiatives in emerging markets where this category is tiny typically, but we need to really establish ourselves early like we're doing in Brazil, for instance. So yes, we want to grow fast in incontinence care.

There's also a certain price increase effect in here also that baby and feminine's very strong in some of the markets like Latin America and Russia where we have increased prices substantially, so that accounts for some of the growth that you see in those categories.

I don't know if you want to fill in?

Fredrik Rystedt: No.

Oskar Lindstrom: All right. Thank you.

Joséphine Edwall: So next question.

Linus Larsson: Thank you, it's Linus Larsson with SEB. If we could talk a bit more about organic growth, which accelerated in the third quarter if you compare with the second quarter, and year on year, and maybe we could drill down a bit on that.

Where do you see organic growth? Going forward you had, for instance, eight product launches in the third quarter. Is that a pace that we should expect going forward?

And secondly, if we try to break down organic growth into volume versus price/mix and then maybe divide price and mix, could you say something about that?

To what extent have we seen the price impact already from inflationary environments, etc? And could you say something about what the mix component has been and might be going forward; and also, with regards to launches on the volume side, please?

Magnus Groth: OK, so if I start and then hand over to you about the technical issues and so on there. It's very difficult to give an estimate on launches per quarter, but I think if you sum up what we're doing this year, I think that's a good pace.

What we're also looking at with this global platform is that every launch should have a bigger impact; that we launch on a bigger market, of course, so that we use the same investment in technology but also in developing the advertising, the branding and so on globally instead of in one specific small market which we've done, and still do to some extent still.

So it's not only the number of launches but also the scale of each launch that we want to make them bigger. That was the easy question ...

Fredrik Rystedt: Yes, the price and mix, Linus. That varies, of course, over quarter. So we have a positive mix also in this quarter, a positive mix contribution to profit if that's your question. And we have that predominantly, of the SEK 688m that I showed in this quarter is actually price.

And it's two parts, as Magnus alluded to. The first one is actual price increases in LatAm and Russia and in consumer tissue, et cetera, that we talked about. And the other is a relatively low sales promotion level in comparison to what we had a year ago.

So price is a higher part of the development in the quarter than mix, and sometimes it goes the other way round. So it depends on, of course, the launch pattern of new products, etc. But mix is clearly positive and it will probably remain that as we go forward, or it will remain positive.

Linus Larsson: But do you have initiatives out there which haven't yet filtered through in terms of price increases in Russia, LatAm, Asia, what have you?

Magnus Groth: If we look at the big initiatives in markets that are more stable, like consumer tissue Europe, then most of that price realization we see coming through now in quarter 3, so don't expect a significant continued improvement going forward.

Then in these more volatile markets, we will always adjust with price increases as necessary, as the currencies fluctuate.

Linus Larsson: And what you just said, does that go for the European tissue business as well? Have you already realized the price hike gains that you're expecting to compensate for raw material cost increases?

Magnus Groth: A large part of it for this time. Of course, then we have new negotiations coming up next year. In away from home, we are still in negotiation and pushing price increases to -- that would then take effect beginning next year in Europe and in North America.

Linus Larsson: Great. Thank you.

Joséphine Edwall: So next question, over here in the front row.

Mikael Jåfs: Thank you. Mikael Jåfs from Kepler Cheuvreux. I'd like to continue a little bit on this price discussion, as you talked about, raising prices in emerging markets. Is there somewhere sort of threshold where the consumer in those parts of the world will have difficulty in continuing to pay up?

Magnus Groth: I can say that we are positively surprised by how -- that our categories seem to continue to grow at the pace that not some other categories do, so that our categories are quite resilient. Because of course in countries like Russia, in Malaysia now, the purchasing power of the average consumer is down 20 percent, 30 percent, 40 percent. And at some point, that should impact growth one could assume.

But so far, we continue to see a fairly good growth because, of course, the penetration is still so low in these markets, and you still have a growing

middle class. And this is also the categories that consumers still want to buy and invest in, even when their overall purchasing power comes down. It's a very important essential.

Mikael Jafs: Thank you. And then just a housekeeping question. On the sale of your Asian business to Vinda, did you state anywhere what sort of the benefits or cost savings from that would be?

Magnus Groth: No, other than the fact that we are closing our Asian Pacific business unit office in Shanghai, and that we will have SEK 90m of costs relating to that. So that's a short-term synergy, but then we foresee bigger synergies going forward, but those we haven't stated, no.

Mikael Jafs: Thank you.

Joséphine Edwall: So any other questions? OK.

Oskar Lindstrom: Oskar Lindstrom from Danske Bank again. Coming back to your changes in emerging markets, where you've now sold most, I would assume, of your East Asian hygiene business to Vinda; you've previously reduced your stake in or sold off your Australian and New Zealand business. Today, what percentage of your exposure to emerging markets within hygiene is in joint ventures? Do you have a --?

Magnus Groth: In Vinda, which is not a joint venture, because we are the majority owner, and Familia which are the big ones. And what could that be in billions? It will be over 10 percent of sales would be a more exact number -- of our overall sales. So if you have 32 percent in total sales, it would be then a little over one-third of our emerging market sales. That is in either Familia or in Vinda.

Oskar Lindstrom: Do you have a strategic view of -- that you prefer joint ventures or you would like to be a full owner? Or is it more whatever works in each specific market which is the preferred strategy?

Magnus Groth: With a choice, full control and full ownership, definitely, but then, what you can actually achieve varies from market to market. But if you look at the trend over the last couple of years, we've been rather pulling out of joint ventures.

We pulled out of the joint venture in South Africa, for instance; one that we had in the Middle East that we did last year. With the majority stake in Vinda, still, of course, we have an important partner and it's listed, but we're still the majority shareholder there, so that's our preference and that's the direction we're moving in. So don't expect to see any more joint ventures going forward.

Oskar Lindstrom: All right. Thank you.

Joséphine Edwall: Next question?

OK. So, then let's open up for the telephone conference. Operator, please bring us the first question.

Operator: Yes, your first question today comes from the line of Kartik Swaminathan from Merrill Lynch. Your line is open.

Kartik Swaminathan: Hi everyone, Kartik Swaminathan from Bank of America, Merrill Lynch, thank you for taking my questions.

The first was on your EM footprint. So, with regards to the Vinda transaction, I've only just started to get through the material that Vinda has been distributing and I appreciate that, given they're a listed co., certain comments will have to be relegated to their own management team, but I wanted to clarify where does the transaction leave your balance sheet if it's going to be financed partly with their own equity and also through what I'm guessing to describe as an intracompany loan?

And the second part of that was, given that you've made very substantial progress on your EM footprint, where does that leave you towards your target of bringing up your EM margins towards that of your developed market businesses? And how does that translate into your Group target of hitting, if I recall correctly, 13 percent return on capital?

So, after these initiatives, should we assume that the Company should be hitting that run rate either Q1 or Q2 2016?

The second question I had was on raw materials. So just some clarification on what can be happening with pulp into Q4 and the remainder of the year and, of course plastics and polymers, given there seems to be a clear dislocate between what we're seeing on the screen on Bloomberg relative to what the Company is experiencing.

And the final question is on adult incontinence. So if you could perhaps qualify or give us a qualitative opinion as to how much the North American retail business is a drag on this year's 3 percent growth run rate.

And, secondly, whether there's been any change to the intensity of promotional activity in Europe from the likes of P&G and some of your other competitors, given that you were talking about a very positive return coming out of the A&P investment that you're currently putting to the market.

Magnus Groth: OK. Starting with Vinda, initially the gearing of Vinda will increase. We will support Vinda with an intercompany loan, as you mentioned, but over time, we have a plan that gearing will come down. So that means they can continue on their very ambitious growth trajectory and while still keeping the balance -- the ownership stakes that we have today which is very important, that free flow stays above 25 percent and that both Fu An and SCA keeps our current stakes.

Fredrik Rystedt: Can I just add maybe to that? Your question, I guess, on balance sheet, first of all, we consolidate Vinda already today, so it's already part of the Group and the actual transactions will have very limited impact on the balance sheet of the SCA Group, so just a clarification.

Magnus Groth: Yes, OK. And the more specific questions regarding Vinda, you will have to ask the management of Vinda.

When it comes to the emerging market footprint, this is an ongoing process. So we don't give any forecasts regarding margin improvements going forward but, of course, we hope and expect that the work we're doing will have a positive effect eventually. But I can't be more specific than that.

And the North American inco drag. Maybe I leave that to you to think about, Fredrik, but when it comes to the P&G launch that we saw now over a year ago in Europe and in North America, and they're still rolling out in some markets, they are still hovering below 10 percent market share in almost all markets where they launched, also in the US actually. And we feel that --

We have lost some market share to P&G and also in that initial phase to private label, but we feel that market shares are now stabilizing, and more positively, the underlying market growth has really, really increased in Europe and in North America. So it's double digit and remains double digit in many markets because of the increased, again, advertising and promotion pressure from us, from Procter and from others.

And, of course, that's helping us in Europe where we are the incumbent and have a very strong market share; less in North America, where we are reviewing our strategy.

Again, remember that if you look at our overall inco portfolio, it's a mix of healthcare and retail where retail is the smaller part there and where inco North America is a quite small part of our overall inco portfolio.

Fredrik Rystedt: I think your question was whether inco US was a drag on profitability. We don't actually give numbers for individual categories or geographies for competitive reasons. So we don't comment on that.

But needless to say, of course, there's been a significant launch in the US so profitability has been impacted, needless to say, from promotional things and more competitive pressure. But we don't give away numbers for individual geographies.

Kartik Swaminathan: And finally, on raw materials, if I may?

Fredrik Rystedt: What was your question on raw material?

Kartik Swaminathan: Sorry, yes, it was on understanding where pulp is heading given we're seeing quite a lot of negative pushback from apparently Chinese purchases. And secondly, on plastics and polymers, moving into the fourth quarter.

Fredrik Rystedt: Again we don't really forecast. It has been a fairly stable now level on pulp and over time, of course, in dollar terms, it should be stable or perhaps even slightly increasing, but it's always difficult to predict.

Our main issue, as you have seen, is, of course, the exchange rates. That's the impact for us, not the actual pulp level, if you take the hygiene business.

If you look at the oil-based material, it's been fairly, you can say, odd trend. So if you look at the plastic indices, they were coming down quite significantly in the first part of this year, so the first quarter.

And then we saw an increase, a considerable increase, back again back up to higher levels than at the starting points during summer, and now we've seen plastics indices trading down.

And, again, this is at the same time as oil prices have been stable, or very low. So, of course, if this stays the way it is now with a lag, we should have a slightly positive impact towards first or second or maybe more in the second quarter next year, but it's really difficult to predict at this point of time.

It should be slightly positive.

But right now, plastic indices are coming down and that should mean over time that oil-based materials should come down.

Kartik Swaminathan: That's great. Thank you very much.

Joséphine Edwall: So operator, you can take the next question please.

Operator: Surely, your next question comes from the line of Celine Pannuti from JPMorgan. Your line is open.

Celine Pannuti: Yes, good morning. I would like to follow up on that last point on raw material. So I think in previous quarters, you help us understanding the moving part for the next quarter. So could we do the same here? Because I understand your point on the absolute US dollar-based raw mat, but then FX,

as you just pointed, has had a big impact and we should anniversary that given that the dollar strength really started in Q4 last year.

So, could you please maybe if we look at personal care and if we look at tissue, give us a bit of an estimate of how we should model those raw material impacts in the next quarter? That's my first question.

Fredrik Rystedt: Yes, I can try and do that. It's always difficult without having a real good crystal ball, Celine, but I'll try to do that.

First of all, we don't expect any major changes in comparison, if I start at that end, in comparison to Q4 versus Q4 of last year. If you look at Q4 versus Q3, if you take personal care, we expect slightly higher raw material costs, and this is more negative transactional effects, and predominantly, actually coming from emerging market currency. So they have continued to become weaker and therefore, we expect a slightly higher raw material level.

If you take tissue, also there, slightly higher prices, and this has to do with hardwood pulp in US dollars, so that's an underlying price increase in hardwood pulp. And for forest products, basically stable.

So this is pretty much the outlook. But again, of course, currency has such a big impact, so depending on what the dollar will do or not do and an emerging markets currency will do, that of course, will impact more I think.

Celine Pannuti: So, just to recap. So, if I look at tissue, it's slightly higher in US dollar but the dollar, I think you mentioned, was 90 percent of the hit, that should anniversary in Q4.

Fredrik Rystedt: Yes, you're right in comparison. If you look at the comparison Q4 versus Q4, so the dollar rate was, I think, \$1.25 in average during Q4 and it's clearly lower now. But if you look at Q3, it was roughly about \$1.35, so if you just compare it –

Magnus Groth: Last year.

Fredrik Rystedt: Last year. So if you actually compare it with the change Q4/Q4, then that is, of course, a lower number simply for the dollar reason. But if you look at the absolute level that we are now buying at, of course, that's the same.

Celine Pannuti: OK, but if you look at the SEK 700m hit from raw mat that you had in the quarter, maybe let's be a bit clearer there, what should be a broad-based number for Q4 as you stand today?

Fredrik Rystedt: We don't give that forecast, Celine, of course, for obvious reasons. It's really difficult to do that. But as I just said, generally, if you compare it to Q3, the absolute level that we're trading at, we expect for tissue higher cost and this has to do with higher hardwood costs or hardwood pulp; and, of course, for personal care, for Latin American currencies predominantly.

And then if you compare it to Q4 of last year, it should be slightly lower simply because we have an easier comparable in the US dollar rate.

Celine Pannuti: Right, OK. My second question would be on the category growth if we look at personal care. Of course, you had a big pricing benefit that you mentioned in emerging market, but volume growth was as well quite good.

Can you talk about the category growth maybe on a global basis and in your peerage and then how your market share are trending against that, and whether this 3 percent, 4 percent volume run rate is sustainable in that category? Then I will have a last question on tissue.

Magnus Groth: OK. So, overall we have been gaining market shares in most categories except the incontinence care because of the negative development in North America, and also the shares we lost when P&G launched last year in Europe, but that loss has stabilized.

So we have stable shares in incontinence care; stable to slightly growing shares in away from home; and then improving market shares in consumer tissue, baby, feminine care, in general actually.

Then we have, of course, exceptions in baby where we decided to ramp down or to leave the market and then, of course, we gradually lose market share. But in general, that's how we are performing.

Otherwise, when it comes to the overall market development, it's still the same as we have stated all through the year actually, which means that in general, continuing good growth in emerging markets and very slow growth in mature markets, maybe with the exception then of inco in Europe, which is growing faster than before because of the reasons I already mentioned.

Celine Pannuti: Did you say double-digit growth for inco? Was it globally or was that Europe included?

Magnus Groth: No, that was Europe.

Celine Pannuti: That was retail Europe not institutional?

Magnus Groth: Retail Europe, yes, not overall inco.

Celine Pannuti: Yes, OK. And then on tissue, so a few things there. You said that you put all the pricing you wanted in Q3. Does that mean you had the full benefit already of pricing in Europe in tissue already in Q3 or the full benefit will be there in Q4?

And then in tissue as well, volumes were quite good, in fact they have been good all year, so around 3 percent to 4 percent run rate. Is that as well a run rate we should be looking at as sustainable?

Magnus Groth: First when it comes to the price increases, yes I think we have seen most of the expected price realization already now during quarter 3, so actually faster than previously predicted when we said that this would come gradually on the quarter 3 and quarter 4. So maybe make an indication then for the next quarter, but of course, we always continue to work with our price/mix in the long-term.

And when it comes to volumes, yes I think we have good products and good sales force and we want to keep on growing, but right now, we don't see any reason why growth should be either up or down.

Celine Pannuti: All right. And lastly, what about your market share in consumer tissue in Europe, branded versus private label, or in both branded and private label?

Magnus Groth: We are growing most of our branded positions with the exception if we had decided to really go for price again before volume. In our overall mix, it's unchanged this year and that's because of the price increases that we are doing and on the private label side, it's a temporary mix issue.

Our long-term ambition is always to grow the branded part of the sales, but this year, it's more or less unchanged.

Celine Pannuti: All right. Thank you very much.

Magnus Groth: Thank you.

Joséphine Edwall: So we continue, operator, with the rest of the questions please.

Operator: Yes. Your next question comes from the line of Rosie Edwards with Goldman Sachs. Your line is open.

Rosie Edwards: Yes, good morning. Just a couple of quick questions from me. So, just firstly on the Vinda transaction. I know when the same was done in Mainland China, you talked about wanting to capitalize from Vinda's extensive distribution network and I think you said, their point of sales was over 300,000. Can you give us any sort of similar data points to understand the rationale behind the further transaction today?

Magnus Groth: So to first talk about that transaction. We see actually very good growth in feminine care and in incontinence care now actually through Vinda, but that you can also see from their own numbers; I won't dwell more on that going forward.

What we have in the Malaysia and in some other markets is their very, very competence and very strong market positions in personal care, and we believe

now taking some of those key persons into the management team of Vinda will really support Vinda's efforts to continue to grow in personal care. This is also one of the reasons why the new CEO of Vinda is Christoph Michalski, who is an expert in branding and innovation in personal care that used to head up the global hygiene category for SCA before. So that's one synergy to the benefit of Vinda.

On the other hand, Vinda has almost no sales of tissue outside of China and we have a very strong distribution network in some Asian countries like Malaysia, Korea, Taiwan, Philippines, Thailand to some extent where, of course, over time we will start to market where Vinda can be expected to start marketing tissue products.

Rosie Edwards: OK. And then could you just remind us in your personal care business how much Russia is or roughly? Having looked -- when I last looked at it, it was about 8 percent, does that sound?

Fredrik Rystedt: Yes, it's close, if you take the whole Group, Russia accounts for approximately 3 percent. So yes, that's a good question actually, you're probably roughly about right.

Rosie Edwards: In personal care, yes. OK.

Fredrik Rystedt: And obviously, lower for -- it's actually slightly less than 8 percent.

Rosie Edwards: OK, perfect. And then you've obviously been very clear in personal care and in diapers that pricing has been a significant part of your growth. Are you saying of that 12 percent, are we looking at 70 percent to 80 percent of that being price or is that too much?

Fredrik Rystedt: Of the SEK 688m, yes we don't disclose it, but it's a big portion of the number, is of course price.

Rosie Edwards: No, sorry, of the 12 percent organic growth that you did in diapers in the quarter?

Magnus Groth: Yes, how much is price and how much is volume?

Fredrik Rystedt: Yes, actually, we have a good volume growth in diapers, we have a really good volume growth, in Europe we have it in many places. So we don't know the exact proportion, it's actually good volume and good price; it's both.

Rosie Edwards: And what's driving that volume growth in Europe?

Fredrik Rystedt: It's predominately new customers, I mentioned that previously, but it's new customers in the European market.

Magnus Groth: In private label, but we're also growing market shares in the Nordic region and in Russia since the beginning of this year.

Rosie Edwards: OK fine. All right then. Thank you very much.

Joséphine Edwall: Let's have the final question I think before we end this meeting, so the final question operator, please.

Operator: Sure. Your next question comes from the line of Robert Waldschmidt from Liberum. Your line is open.

Robert Waldschmidt: Good morning gentlemen, excuse me. I just wanted to come on to your reorganizations of the business and how you expect to attack things on cash flow, supply chain, logistics, etc., because I believe that's been a point trotted out before for a key focus.

We've seen some improvements in cash flow to date, but I think there's quite a lot of scope to further improve. How should we think about that going forward and what plans do you have in place and on what time frames?

Magnus Groth: We don't have any specific savings programs running that we announced externally. We have very clear targets internally and with the new hygiene organization, with two persons specifically responsible for the supply chain, which accounts for 75 percent of costs in relation to sales. So it's the big cost part cost of goods sold.

With the new focus that these two persons have, one for personal care, Ulrika Kolsrud, and one for tissue, Donato Giorgio, we are now reviewing

completely our entire footprint and logistics set up and operations. But this is something they are just starting now.

But, of course, other than that, we continuously have -- are working with improvements in all markets.

Robert Waldschmidt: But I guess it's fair to say that improvement in both working capital and cash conversion would be a very critical focus go forward?

Magnus Groth: Absolutely, it has been and it will continue to be.

Robert Waldschmidt: OK, thank you.

Joséphine Edwall: OK, Magnus, any final conclusion before we end this conference?

Magnus Groth: No, I think we made those conclusions. So good growth and profit and many strategic initiatives to accelerate growth and to also address low-performing parts of the business, yes.

Joséphine Edwall: OK, thank you very much for joining today. Goodbye.

Magnus Groth: Thanks.

Fredrik Rystedt: Thank you.

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