

SCA Interim Report Q3 2016
Moderator: Magnus Groth
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10:00 CET

Joséphine Edwall: Hello. Welcome to SCA's interim and third-quarter results for 2016.

Slide 1 My name is Josephine Edwall, Head of Communications for SCA, and together we have our CEO and President, Magnus Groth who will, together with Fredrik Rystedt, our CFO, go through the highlights in the report followed by a question and answer session.

Slide 2 So, with this, I leave over to you, Magnus.

Magnus Groth: Thank you, Joséphine. Organic sales was flat in the third quarter impacted by challenging market conditions for our hygiene business. This includes both
Slide 3 slower market growth, both in emerging and mature markets during the quarter, and increased competition.

Growth was also impacted by capacity reductions, specifically the closure of one publication paper mill in our forest products business and closures of tissue capacity in our hygiene business.

Breaking down this flat growth, we can see that the hygiene business is still growing 1 percent; forest products down 3 percent; and emerging markets growing with 4 percent.

We continue to see good organic growth in operating profit and an increased operating margin, and strong contribution from efficiency gains and, in this quarter, specifically from the hygiene part of our business.

Strong cash flow, and following our strategy we had a good flow of innovations; four that I will talk about in a minute.

Slide 4

In addition, during the quarter we initiated the work to propose to the Annual General Meeting at the beginning of next year to split the Group into two listed companies, hygiene and forest products. During the quarter, we also decided to implement restructuring measures into our tissue plants in France, and this has been communicated previously.

After the end of the quarter, we have decided to close our baby diaper business in Mexico. As you will see later, the baby segment of our hygiene business is the one that's been underperforming in the quarter. This closure is a consequence of that underperformance during the last couple of quarters and this will have a negative impact then on growth in the fourth quarter for our personal care part of our business.

Our capital structure and dividend policy for the future hygiene business, subject then to approval of the Annual Shareholders Meeting, has been communicated this morning in a separate press release.

With that, moving over then to the financials.

Slide 5

Again, organic sales growth flat; however, growth in hygiene with 1 percent and a negative growth in forest products.

Adjusted operating profit grew by 7 percent; operating margin by 60 basis points; and earnings per share showed a significant jump. However, in the third quarter last year we had a number of items affecting comparability, significantly more than the third quarter this year.

So, comparing like for like, excluding items affecting comparability, earnings per share would be up 12 percent; and a strong cash flow.

Slide 6 Return on capital employed where we have a target of 13 percent remained flat at 12.8 percent.

However, during the year we have closed the transaction of Wausau, the Away-from-Home tissue business in North America and this is contributing, in a very positive way, to our growth and to our profitability. However, the goodwill has a negative impact of 0.4 percent on return on capital employed. So, again, comparing like for like, we would actually now be above our long-term target for return on capital employed, up to 13.2 percent.

Slide 7 Our innovations follow our strategy, which is to put more emphasis on what we call our new core, soaps and wipes. Tempo Fresh to Go is an example of that; it's a new wipes assortment.

It also follows our strategy to launch innovations in the winning channels and the new napkin box for Tork, which is, as you know, our Away-from-Home tissue assortment. It's focused then on a channel that's growing for this category today which is the cash and carry channel.

Slide 8 Nosotras in feminine care is another example of soaps and wipes, launched in Latin America. And, we are upgrading our assortment for incontinence for men, which is a fast -- very fast-growing segment within incontinence care.

Slide 9 With that I'd like to hand over to our CFO, Fredrik Rystedt.

Fredrik Rystedt: Thank you, Magnus. I'll take you through a few slides on the result development.

Slide 10 Starting with the net sales, as Magnus already alluded to, we have an organic growth of 0 percent, and various components. So, if I just start with price and mix.

We had a positive, slightly positive price impact for price and mix impact for tissue. This is largely coming from Away-from-Home and, to some degree, LatAm.

Personal care was largely flat for the quarter. Of course, forest as a consequence still of lower prices and, in average, a weaker Swedish crown in the quarter, forest is still negative.

Volume is positive or slightly positive for both personal care and tissue and a minor drop in forest.

We look at the currency here; I get many questions on Brexit and roughly if you look at the number here on this slide, about 3 percent impact on net sale, roughly half of that comes from the weakening pound.

Slide 11

If you look at this slide it looks -- as you can see a falling growth for all of the units with the exception of forest. So, if I turn to these, you can see that we have, as Magnus said, been impacted in this quarter by tougher competition.

There's been some price pressure and we've also had capacity reductions. Specifically, if you look at personal care, both volume and price mix dropped in comparison to the previous quarter, and specifically that relates to a drop in baby.

We also have a lower growth rate for personal care, because of tougher comps. Many of you will remember the price increases we made during 2015 and, of course, also the private label contract that was part of personal care, baby to be specific, and that is now all in the comparing numbers and, hence, a part of the explanation for the lower growth rate in the quarter for personal care.

For tissue, the main contribution there was the mother reels' sales. We have reduced capacity there and we've simply sold less mother reels. We also have a lower growth rate for Asia, or for Vinda, in particular.

Slide 12

This is a more detailed, a granular view of sales and it's kind of complicated, but if I ask you to start by looking at the bottom of the page, you can see the organic sales growth by category. So, you can see for incontinence, baby, etc.

If you actually look at that, you can see that four out of five of the hygiene categories are growing. But, of course, you can also see the big decline there in baby. The bars will show the contribution from each of these categories to the growth of organic sales for the Group, as a whole.

Particularly if you look at that baby decline of 7 percent, that is pretty much all of it coming from emerging markets, and specifically Russia, Mexico, some Latin American countries and Turkey. There are various reasons for it, competitive pressure or political or rather harsher market conditions, and Magnus will allude to that a little bit later.

The forest contributes also one of -- it's also a negative contributor to the Group, as you can see here, with 0.5 percent or 3 percent for forest as a business. All of that, actually the entire 3 percent is coming from the closure of Ortviken that we executed during Q4 of last year.

Slide 13

If I turn to profit, the adjusted operating profit, if I start with price/mix there, we can see that we had a positive price/mix contribution, minor for personal care and about SEK150 million or so for tissue. But we also still have a negative offset from the forest business.

Roughly the same kind of pattern for volume contribution, both personal care and tissue positive, and forest slightly negative.

One thing that you saw already in the second quarter is that market prices relating to raw material has become lower, and that's still the case. So, we have a considerable contribution from lower raw material cost. Most of this, the absolute majority is within tissue and this is, of course, related to pulp. But we also see reductions in for instance SAP and fluff pulp, and some other plastic material.

The other bar there, negative SEK177 million, we continue to do really well in terms of efficiency. This hasn't been a very, very good quarter which is part of that bar.

But, as you've also seen in previous quarters, we continue to increase spending on both A&P and SG&A. A&P is up if you compare it to net sales is up by about 0.5 percent, so we continue to increase our market investments.

Also, SG&A is up by 0.8 percent in relation to sales; a large part of that is, actually, relating to Vinda and a larger sales force.

Brexit. Once again, if you look at the Brexit impact on the total result, it's approximately SEK205 million; so pretty significant. Out of that, SEK120 million or so is related to transactional impact, so simply exporting into the UK.

That's a pretty significant impact on margin, so if you look at the margin impact, it's 0.4 percent, so it's not small. It's been a fairly significant impact in the quarter.

Slide 14

Taking the next slide here with cash flow, we continue to do well on cash flow. If you look at operating cash flow without strategic investment, the increase was approximately 10 percent. This is, of course, coming from the higher result, as you've seen, the operating surplus, as you see on the slide.

But, we also continue to do well on working capital. If you look at individual items and starting with accounts receivables, if you compare it to last year, we have reduced accounts receivables by two days, and we've done exactly the same with accounts payable. So, this work or efficiency work is continuing to do really well.

Looking at the total cash flow, including strategic investments, the increase is less; it's 2 percent. This is just a reflection of the fact that strategic investments is much higher than it was in the corresponding period last year.

The absolute majority of this increase, as you can see on the slide, is relating to Östrand. And you know that we have an intention to spend approximately

SEK7.8 billion in Östrand. So far, up to now, we have spent approximately SEK1.9 billion of those SEK7.8 billion.

Slide 15

Items affecting comparability, no surprise; we have communicated all of this prior to the quarter. So, of course, a big portion of it relates to French manufacturing sites that we have restructured during the quarter, or announced that we will restructure.

We have announced also the closure of the baby diaper business in Mexico, an unprofitable business that we have decided to shut down.

The Wausau integration is proceeding according to plan and we continue to take restructuring measures and costs related to this. This is exactly in line with our business case that we originally made and the time plan as well.

And the last part, the SEK20 million there relates to just write-downs of intangible assets no longer in use. The cash flow impact from the SEK710 million is approximately SEK325 million, so there is a lot of write-downs in this number.

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With those words, Magnus.

Magnus Groth:

Slide 17

Thank you, Fredrik. Looking closer than at personal care, organic sales growth was flat. We increased operating profit with 1 percent, based on high volumes; better price/mix; cost savings; lower raw material costs; with a negative impact from investments in increased marketing activities, across the categories and across the markets, and higher selling costs.

Adjusted operating margin improved by 60 basis points, to 12.8 percent.

Our adjusted return on capital employed remains over our target of 30 percent, at 32.5 percent.

Slide 18

Looking at the different geographies and segments, in personal care, we had zero growth, both in mature and emerging markets, but with big differences between the segments.

As you can see incontinence products continue to grow, and feminine care continues to see a strong growth, while we had a decline of 7 percent in baby care.

Looking at the different geographies in Western Europe, we were growing in all of the different segments, while in North America we saw a slight decline in our inco business. However, our profitability in North America, inco business is improving and we see a stabilization of that business, quarter over quarter.

In emerging markets, there is a common theme here, among the different geographies, with baby declining in all the different geographies, but for some different reasons, actually.

In Mexico, we have had a weak development, but that was even stronger in the quarter, based on some quality issues.

In Russia, the decline was mostly based on tough competition in the quarter, between the main competitors.

While, in Middle East and Africa, our baby sales in Turkey, which we include in this part of our business, was set back. We were launching a completely new assortment at the same time as the political unrest during the quarter.

So, different reasons, but all affecting our baby business in emerging markets.

Slide 19

Tissue. Net sales growing 4 percent, of which Wausau contributes 5 percent. We have a negative currency impact, so organic sales growth ended at 1 percent.

Operating profit, a strong improvement, by 13 percent, based on better price/mix, higher volumes, cost savings, lower raw material and energy costs; so really benefiting from all areas. And again, increased investments in marketing activities and higher selling costs, due to the competitive situation.

Adjusted operating margin was up 110 basis points, to 12.7 percent.

Our return on capital employed ended at 13.8 percent. This would have been close to 15 percent then, excluding the Wausau goodwill.

Slide 20

Looking into the geographies and different segments, in the mature markets we had lower sales for consumer tissue. We have taken measures that we have communicated, to reduce our capacity in order to improve efficiency, during the year.

This results in lower sales of the semi-finished goods, that is mother reels, as you know. We make the mother reels in the actual paper machine, and then we convert it into the final product in the converting machinery. This is the semi-finished mother reel product that we are now selling less of, due to these capacity reductions over the year.

So, it's the lower margin part of the business that we have discarding and focusing, of course. As we always are doing on the branded part of our business, and finished goods part of our business.

We saw slightly high sales for Away-from-Home tissue in Europe. That's developing well. While sales were slightly lower from Away-from-Home in North America, very much due to our ongoing integration work and this is the focus area, to get back to growth, in Away-from-Home also in North America.

Emerging markets all continued to grow, even though at a lower pace than in previous quarters.

Slide 21 Forest products, finally. Organic sales growth was negatively impacted, as now mentioned several times, by the closure of publication paper machine. But we also had a negative impact from price/mix and volume.

Adjusted operating profit was negatively impacted by lower pricing of kraftliner and pulp primarily. We also had higher energy costs that were partly offset by lower raw material costs, even though that was -- had a smaller impact. Resulting, then, in an adjusted operating profit margin of 14.6 percent.

Slide 22 With that, I'd like to take a look at the prices in the quarter, and as we usually do, saying something about the coming quarter, when it comes to prices in our different forest products businesses.

As you can see from the graphs here, we have seen a slight decline in the quarter, in publication paper, while the other product areas actually saw a small increase or a stable price development during the third quarter, compared to the second quarter.

Going forward then to the fourth quarter, we more or less see a stable development in all these different areas, compared to third quarter this year and, quarter four compared to quarter four last year, a slight decrease in most of these areas.

Slide 23 During the quarter and in preparation for the proposed split into two separate listed Companies, we have worked with our strategic framework and this is -- and we're very happy and very excited about this strategic framework, something that we have launched internally, during the quarter, and now externally.

With a new vision we very much emphasize the positive impact on hygiene -- of hygiene, on well-being, and on improved health. So, we want to put hygiene into a wider context, through our new vision.

Our mission is unchanged. Until the proposed split has been approved, and happened, we are still, of course, producing, marketing and selling hygiene and forest products.

Our objectives, or our reasons to be, are very much to generate increased shareholder value, through profitable growth, of course. Something we have been discussing this morning.

But also, very, very much important, our customers are and our consumers. Every day, 500 million people around the world are using our products to fulfill their hygiene needs, to improve their health and well-being.

We are also very much focused on contributing to a circular society, playing our role, in a wider context. And, to make sure that our employees are able to realize their full potential, which is absolutely essential to reach our other objectives.

Our strategies are unchanged. However, we have split what we used to have as a strategy of profitable growth into focusing and winning in chosen geographies and categories, and customers and consumers, while our emphasis on innovation and efficiency is also unchanged; and a very important part for our future development both in hygiene and in forest products.

So, this is our new framework and we are aligning our strategies and our operations to this.

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During the quarter, we also launched a number of other initiatives, the first one being our new communication platform, which is based on the Hygiene Matters Report. This is a report that we are now presenting for the eighth time and it really positions ourselves as the thought leaders in hygiene and the impact on health and well-being.

This year, we launched it together with a UN body, the Water Sanitation and Supply Collaborative Council, some write it as the WSSCC. We have worked

with them to make sure that in this report we looked at how can improved sanitation/hygiene contribute to the United Nations new global development goals.

We have also joined the Circular Economy 100 program, which includes 100 companies that exchange knowledge and best practices on how we can contribute to a circular society.

Last week we were also recognized as a world leader for our work in reducing climate change by the NGO CDP, so very proud about that.

Slide 25 Summing up then, organic sales growth impacted by a challenging market situation and capacity reductions. Good organic growth in operating profit; increased operating margins; and strong contributions from efficiency gains; and continuing to see a very strong cash flow.

Thank you for listening.

Josephine Edwall: OK, thank you, Magnus. Let's open up for the questions. Yes, Stellan, let's start here, please speak into the microphone.

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Stellan Hellström: Stellan Hellström, Nordea. First, I had a question on the demands for lower prices perhaps in tissue that you talked about in the previous report.

How do you see that playing out going forward? We've seen raw materials and currencies moving a bit in this quarter, but how is that playing out?

Magnus Groth: We are experiencing increasing price pressure and we are every day working to balance volume versus margin and, as you can see also, about performance in the third quarter. So, that's a continuing effort that we are working on.

Stellan Hellström: OK. Also on -- with Brexit now, are you seeing any type of moves to increase prices to compensate for the weak currency?

Magnus Groth: So far, we have not seen any move to increase prices in our categories in the UK. Most of the retailers have committed not to increasing shelf prices and that makes it very difficult for us to increase prices in our categories.

Stellan Hellström: All right, thank you.

Mikael Jåfs: Mikael Jåfs, Kepler Cheuvreux. Two questions. The first one, now we see that organic sales growth that you're reporting and you are describing it very well. But can you try to link this to the longer-term growth rates that are expected to be substantially higher?

Is there something happening in the marketplaces for, let's say, tissue and personal care. For instance, I noticed that in personal care you are gaining in feminine care where you are small, relative to many others.

In incontinence, you are at roughly 2 percent, if I remember correctly, but there you are big. Is there something going on that we should be aware of?

Magnus Groth: There are no specific competitive dynamics, other than the fact that we overall see a higher competitive pressure. As you can see here from the report, we are also investing in advertising and promotion.

We have a stable or positive development of our market share in most categories and markets, so we're happy about that, but we are investing more behind that.

When we look at the overall market growth, of course, this quarter was impacted by a number of different discreet things that happened. In Colombia and Ecuador, we had a big transport strike. We had the situation in Turkey. We had the Brexit, of course; so, a number of these singular incidents.

However, we also do feel that the overall market growth is slowing down in our categories.

Mikael Jåfs: OK. Could you a little bit specify that or is it hard to say?

Magnus Groth: It's hard to say. It's based on the overall growth of the economy, both in emerging and in mature markets.

Mikael Jåfs: OK, thank you.

Fredrik Rystedt: And may I just add, Mikael, we haven't changed our long-term view on the growth aspirations. I guess that's partly your question.

But, of course, the market will be different by quarter or from year to year. Now, we have seen -- and that's pretty obvious to everyone, that some of these emerging markets have a fairly tough or challenging environment, like Latin America, that's fairly obvious. We have some political turmoil in a few countries, like Turkey. And, of course, we can see a general slower, perhaps, development in Asia.

I think this will happen, there will be variations. Sometimes markets are fantastic. Sometimes we are performing fantastic here. As you can see, as Magnus alluded to, our market shares are largely constant. If you look at it, there are ups and downs, but largely constant. So, this is much a market issue, I think, and that will vary.

Mikael Jåfs: Many thanks.

Magnus Groth: On a positive note, we're very much focused now on individual quarters and then suddenly we talk about the long-term perspective.

Of course, this quarter has also been impacted by the comparables, which was the third quarter last year, when we had significant price increases and some very big contracts that were ramping up to full speed. So, you have to also carry that in mind when talking about the short term and the long term here.

Olof Grenmark: Olof Grenmark, ABG Sundal Collier. Regarding the coming split up of the Company, you promised us more financial data at the beginning of 2017.

Without going into any figures, can you say anything about the timeframe, when we will get that information; and also, maybe what kind of divisions we will see in the old SCA, so to say?

What I'm aiming at is will we see -- will we be able to analyze the cash flow from the forest land operations in old SCA, so to say?

Magnus Groth: We have communicated what we will do, so the Q1 report there, as we have communicated, you'll see much more about forest. So, we'll be back during Q1.

Of course, the Q1 report is due late in April, of course. But during the quarter, we'll also provide additional numbers, so you'll be able to fully compare and understand what you will actually see at the end of Q1. So, you'll see more during, basically, Q1.

Olof Grenmark: So that information can come any day during Q1?

Fredrik Rystedt: Not any day, towards the latter part of it. It's just to facilitate. So, largely, you can expect new information at the time of our Q1 report.

Olof Grenmark: And, for example, forest land and sawmill operations will that be merged from a reporting point of view?

Fredrik Rystedt: We haven't communicated that. So now you're asking about the segments that we will communicate.

In that work, which we haven't completed of course yet, we will do that. But we are looking at how to present that and to make it as transparent and easy to read for investors and analysts as we possibly can. So, I hope you will be happy when that comes.

Olof Grenmark: Fair enough. Coming back to the Q3 report then and hygiene and more specifically personal care, you talk a lot about increased competition, and you

mentioned slightly lower sales also for inco in North America year on year. Was that also due to higher competition?

Magnus Groth: Competition has remained high in North America since the last, actually, 18 months to 24 months, so there is no change.

We have been very determined to improve our margin and, also, our total profit in North America and in retail specifically, and done great progress actually in that area. This has then also included discarding some lower profit SKUs, so where we also launched new SKUs that are performing quite well.

From a volume point of view, we are more focused right now on overall profit, so that we have a good stable platform to build on for the future as we then turn to developing our inco position in North America.

Olof Grenmark: OK, thank you.

Linus Larsson: Linus Larsson, SEB. I appreciate you do very much on margins. You work hard on restructuring and you've announced restructuring efforts in France and Spain, and you've been very detailed about the costs of those. Could you say something about the benefits of those restructuring initiatives and the timing of those?

Magnus Groth: The benefits are substantial. That's why we are doing them and you see some of those already in the margin improvement, for sure.

The timing, typically you see the benefit immediately in the quarters after these changes have been announced, since we include the full cost of restructuring in what we communicate. I don't know, Fredrik, if you want to add?

Fredrik Rystedt: No, no I don't. I think the timing will differ. So, the ones that you have now seen announced, the two French, we will not see much benefit in this year, because it simply takes time to execute.

Sometimes we announce complete closures, like with did with Orleans. Then, of course, the impact is much more immediate, so that will vary by nature, so to speak.

If you look at the closure, here, of baby in Mexico, you will not see any impact on profitability, if you put it that way, during this year. But you will see it from the start of next. So, it's different depending on what we do.

Magnus Groth: And, Linus, if I just may add, we don't take closures lightly and restructuring charges. This is something we want to avoid, of course, to the highest extent possible. So, we need to have a good return on this, otherwise we don't want to do it.

When we look at underperforming parts of our business, our first assumption is always that we should fix it and we should improve performance and, of course, use those assets to the full extent. But when we have assessed and come to the conclusion this will not be possible, that's the decision to make restructuring.

Linus Larsson: And linking this restructuring and exiting of certain operations to the organic growth, if you look at the quarter, how much of a burden were closures, exits on the Group's organic growth rate in the third quarter?

Fredrik Rystedt: Yes, you could see the closure of one paper machine in forest. So it's, as you saw here, pretty much 0.5 percent for the Group as a whole. We also have an impact from, primarily, the tissue business in Europe of slightly smaller than that. But that's approximately the number.

Linus Larsson: And on that note, the exiting of the mother reels -- or the gradual decline of your sales in the mother reels' business, is that something that will continue? Will that continue to maybe improve margins, but affect the organic growth negatively in the quarters ahead?

Magnus Groth: Restructuring, in general, has a negative impact, in some cases, not in other cases because we move then the volumes to other mills and that's what we

ideally want to do. But in this case, there was a combination, so that will vary from case to case the impact on volumes.

Linus Larsson: Let's rephrase it maybe. So, if you look at your mother reels' business today, how big is it and how big would you like it to be strategically?

Magnus Groth: Strategically, we would like to be more balanced than we have been. We have been a net seller of mother reels, historically.

Depending then on the supply/demand balance, you could argue that even though it varies, margins on a semi-finished product will be lower than on, of course, a finished product. So, we would like to continue to reduce our mother reels' sales. I'm not sure if we give specific numbers on this.

Fredrik Rystedt: We don't, Linus.

Linus Larsson: That's fair enough. And then maybe just one final question –

Fredrik Rystedt: Can I just add maybe to that because mother reels, to some degree you could argue, it's more of a commoditized product than finished, of course, needless to say. It's also, therefore, more price sensitive.

So, we would -- of course, if you have a tougher pricing environment, then by definition we would choose perhaps to sell less, because the profitability is not sufficiently good.

So, it's not only capacity reductions, it's also a choice of volume versus profitability if you like. So it's both those factors.

Linus Larsson: That makes perfect sense to me. Maybe just one final question on forest products and relating to media reports. The question is has SCA received any kind of a bid for forest products at this stage?

Magnus Groth: As you know, Linus, we never comment on questions like that. There is no change today.

Linus Larsson: OK.

Josephine Edwall: I think we have Oskar here.

Oskar Lindström: Oskar Lindström, Danske Bank. I have three questions about tissue and one about the capital structure press release that you came out with this morning.

I'll start with the tissue questions. Last quarter when you were standing here, you talked about pricing pressure on tissue. Today, you've not mentioned that, and we did see some support from price/mix to the EBIT of tissue in this quarter on a year-on-year basis granted.

How should we think about that pricing pressure? I realize that pricing pressure isn't necessarily the same thing as prices going down, but what is the pricing situation in tissue?

Magnus Groth: Again, there's a balance between price and volume to some extent, and we are trying to manage that in the best possible way in the short term when raw material prices move. I think we've been quite successful in this quarter as you can see, on margins and on profits, with then slightly lower growth in tissue, of course.

This is the balance we have to try to play in a successful way going forward. But pricing pressure remains, and as raw material prices come down and new capacity, to some extent, is coming online in Europe, there is pricing pressure. There is no change there from the previous quarter.

Oskar Lindström: Thank you.

Fredrik Rystedt: And, Oskar, I actually did mention it, pricing pressure, when I talked about organic growth, because it has an impact.

So, there is a balanced -- of course, there's both ups and downs. I mentioned specifically that if you look at tissue, we've had some pricing, in comparison

to Q3 of last year, some pricing benefits in Away-from-Home in LatAm, but we also see pricing pressure in the market, as a whole. And in Europe, of course, we see that.

There's always lag effects, so it's difficult to talk about price pressure on an individual quarter, but there is price pressure in the market.

Oskar Lindström: Right. But just to be clear, you've not had to renegotiate contracts at lower prices during this past quarter? There's not been that type of –

Magnus Groth: Pricing pressure's not something that happens overnight, because we have different terms and conditions with all different customers. So, I don't want to be specific about individual customers or contracts.

Oskar Lindström: I understand that. My second question is related to that and that's the mother reel or the reduction of your capacity or your net sales of mother reels. Is that one way for you to manage pricing pressure, because I reckon that you sell these to non-integrated tissue converters and, well, if they're not getting supplies of mother reels any more, it's difficult for them to be in business or to –

Magnus Groth: Well, there are other suppliers of mother reels, but to a certain extent, of course, this is a way to manage that. But there are many other suppliers of mother reels, but we see no reason.

Fredrik already said that when we have price volatility, it's higher on mother reels to semi-finished product and the final products, and that's what we see today and then we decide to hold back in the area.

Oskar Lindström: And a follow-up on that. Are you closing mother reel capacity, or just reducing your net sales and producing less on existing assets?

Magnus Groth: The impact on the quarter is a mix of both; from closures during the last year, but also, to some extent, that we are not seeing sufficient profit margins in that part of the business.

Oskar Lindström: OK. And my third question on tissue relates to raw material costs, which was much more of a benefit this quarter on a year-on-year basis compared to the impact that we saw in Q2. While tissue prices, when I look at it, are down by about the same amount, slightly more, but not -- is there something else?

Is it a lag effect? Or last quarter, you also mentioned FX impact and recovered paper prices, which had spiked in Europe or in North America. What's changed to give a larger contribution this quarter compared to last quarter on a year-on-year basis?

Fredrik Rystedt: Yes, it's -- when you see these numbers that we show on the bar charts here, it's compared to last quarter, so, of course, it depends on what happened last year as well, right.

So, if you look at what's actually happening on the actual raw material prices at this point, they're actually quite stable. So, if you look one quarter ahead, then we don't actually expect any major movements for any of these businesses just sequentially.

But, of course, if you look at it compared to -- if you look at Q4 versus Q4, our expectation would typically be that tissue would also, for Q4, have a benefit from raw material prices; not sequentially, but in comparison to Q4. To some degree, that would also be the case for personal care. So, you can say largely now raw material prices are stable.

So, what is actually lower? Pulp and also for personal care, fluff pulp; SAP is actually lower than last year; recovered paper, the other way; it's actually up. And packaging in the quarter is also up, so it's a mix. But it will be positive also in Q4; that would be our expectations when you compare to Q4 of last year.

Oskar Lindström: Thank you. And my final question regards the separate press release this morning about your new capital structure and financial targets regarding capital structure.

I know you mentioned an ongoing potential acquisition process and I'm not going to ask about that. But following that, you also said that any acquisition, as I understood it, would not breach your new financial targets regarding capital structure.

Does that mean that you will seek -- and the capital target regarding -- or the financial target, as I understood it for capital structure, was to remain an investment grade.

Magnus Groth: Solid investment.

Oskar Lindström: Solid, sorry, investment grade.

Fredrik Rystedt: Quite clear messaging you got there, yes.

Oskar Lindström: Yes. So, does that mean you would not want to significantly increase the net debt compared to where the new separate hygiene business is today with the split that you gave us in that press release?

Fredrik Rystedt: Yes, I mean, first of all, it's really difficult to comment anything more than we've already said during the press release. But I think what your question is probably, is there fire power, are we able to buy anything given our balance sheet and the rating that we have communicated, and that's been confirmed by the rating agencies? Yes, of course.

We still have a very strong balance sheet within hygiene. So, the policy that we have communicated, and by the way we already have for SCA today also enabled us financial flexibility and the possibility to buy or acquire other companies.

So, yes, of course we could take up additional debt within the boundaries of our financial policy. The exact amount, though, we don't of course -- obviously communicate.

Oskar Lindström: Thank you. Fair enough.

Rutger Smith: I appreciate the rationale for closing the Mexican diaper business, but still Mexico is a large country, should be an interesting market. So, in order to understand your business, why didn't you make it there?

Magnus Groth: Yes, you're right; it's a very attractive market and we are very, very successful in the Mexican market with a strong number two position in tissue with growing market share, a very strong position both in consumer tissue and Away-from-Home tissue, absolute market leader in feminine care and very strong position in incontinence care. So, we are a big and successful player in Mexico.

In baby specifically, we see a little bit the same thing as we have seen in other baby businesses that we have managed over the last year. It's an acquisition of a small market position with a value brand, not a premium brand positioning, and with assets that require high investments in order to be competitive.

All this combined makes it very difficult to design a business plan that takes this business to the nice gross profit level that we need to make it investable and to grow it. This is then in spite of having a very strong position and strong of course distribution in the country, and a strong sales organization and Go-to-market. This is the assessment we have made.

Josephine Edwall: I think we'll take the last question there.

Karri Rinta: Karri Rinta, Handelsbanken. The last two please. First the baby business which -- just to understand what kind of an impact on your growth this downscaling that you're doing will have. It will be helpful if you could give us a rough ballpark number, so how much of that business is branded Nordic, private label Europe and everything else, a rough split between those three?

Fredrik Rystedt: I can just start; we don't give those details, but we're not scaling down with the exception, of course, as we have just talked about in Mexico, and Mexico

baby is a fairly small business, so it doesn't have a big impact on organic growth if you put it that way.

So, we're not scaling down on baby.

Magnus Groth: No, just adding then Europe, and in this case including Russia, is already a well developing and profitable part of our baby business, so we're very happy about that.

We also have very strong and successful baby operations in Vinda today through their acquisition of SCA's Asian Pacific business, specifically a market-leading position in Malaysia and also in Latin America through our joint venture partner, Familia, we have a very, very strong baby position in Latin America. So, we have mostly very, very strong baby positions around the world.

Karri Rinta: Thanks. And then the other question about this capital structure once more; in your discussions with the credit rating agencies, what kind of a net debt to EBITDA would still be a solid investment grade for a hygiene business?

Fredrik Rystedt: Here if you look at the rating methodology, they're slightly different from S&P and Moody's. Both of them have issued their statement this morning, so you will have to refer to them.

It's, of course, not just a net debt to EBITDA; it's also free funds from operations relating to net debt, plus a judgment on the business risk that you have for the individual businesses. There are many parameters, so it's quite difficult to give you an exact number and you would have to refer to the rating agencies to get more guidance on their methods. I wouldn't want to do that.

Karri Rinta: And then maybe a very quick follow-up; what happens to the year, because now the net debt is SEK40 billion and it's split as -- or you are proposing to split it? What happens to the -- if there is further net debt, how do you see that being split up between the two?

Fredrik Rystedt: Yes, we know there's going to be more net debt, because one of the features of forest, and I've already alluded to it, is of course the Östrand investment. So, this is the number that we have set out for September 30, but of course forest debt will build up.

We'll look at the individual cash flows and each business will basically assume their own cash flow. We've made forecasts and we'll come back to that when we have more numbers.

Josephine Edwall: So with this, operator, let's open up from the questions on the phone please.

Operator: Iain Simpson, Societe Generale.

Iain Simpson: A couple of questions from me if I may. Firstly, can you just remind us what proportion of your diapers business is in emerging markets these days and what proportion is in developed markets?

Secondly, there was a recent story naming you as one of the potential bidders for BSN. I just wondered if, to understand any more on this, but I just wondered if this was in any way related to the reference to a potential acquisition that you made in your filing today, because I know that in certain countries regulatory listings would require you to acknowledge the possibility of an acquisition if there was a specific news story that appeared in mass media. Thank you very much.

Magnus Groth: I will start with the second question. We have no more information to give on any acquisition other than what we have stated today in the press release.

Regarding the first question, the split, we don't provide that number, do we? But if you listen to my description of our businesses that I gave earlier, I think that shows that it's a pretty good balance between emerging and mature markets in our baby business.

Iain Simpson: Should I think maybe roughly 50/50 or thereabouts, like it's not as if one is much bigger than the other?

Fredrik Rystedt: It's reasonably good, yes.

Iain Simpson: OK, thanks very much.

Operator: Jeremy Fialko, Redburn.

Jeremy Fialko: Jeremy Fialko, Redburn. Just a brief one on Wausau; could you talk a little bit about what you've done in terms of getting some of the revenue synergies from this transaction, because I know that it was quite a complementary business to you in terms of the different washrooms versus institutional, so can you talk about that?

And then also what the update is in terms of the synergies and the cost savings you're getting out of that. Thanks.

Magnus Groth: So remember, we only closed this transaction earlier this year, so it's still very, very early days. Initially, there's always a big focus on the cost saving part of the synergies, which is exactly what we have been focusing on. Primarily, then, administration overheads since Wausau was a listed company, as well as SCA.

And then, in the second step that we are just taking now, we have merged the sales forces and, actually, announced our new setup for our Go-to-market. This is something that we have waited until now, to make sure that the two separate sales forces are completely focused then on securing, of course, customers and volumes.

This is a step we're taking now, and we expect that will be beneficial in the longer term for also then the revenue synergies in Wausau.

Overall, synergies that we have presented is USD40 million after three years, dollars, and we are well on track to achieve those. We feel very, very comfortable about those synergies.

Fredrik Rystedt: And a very small part this year, so the majority is year two and three.

Jeremy Fialko: OK. Thanks very much.

Operator: Celine Pannuti, JP Morgan.

Celine Pannuti: My first question is on the efficiency benefit. If I look at others sequentially Q3 versus Q2, there has been quite a reduction both for personal care and for tissue. Would it be fair to assume that this reduction is due to the delta in efficiency that you have created?

I didn't really understand what you mentioned in terms of whether the efficiency was coming fast or not fast. So -- but if I look at the tissue variation that you are closing down, when are those benefits due? And roughly what kind of expectation -- you said substantial, what substantial means. That's my first question.

My second question will be on the balance of volume and pricing. You mentioned that there is a bit of a pricing pressure. But in earlier calls, you were talking about higher volumes that you tried to -- my understanding was that you had probably left some volume on the table as you tried to raise prices. So, why aren't we seeing that, or is it -- does it mean just that the volume is quite flat in the market, and you only see the pricing pressure?

And lastly, on raw mat, I'm sorry, I didn't really understand your commentary. Are you saying that the benefit from raw mat in tissue would be the same as -- in Q4 as in Q3? And same question for personal care and forest. Thank you.

Magnus Groth: Do you want to start, Fredrik?

Fredrik Rystedt: I can maybe start with efficiency. Of course, efficiency gains will -- I'll try and answer your question, I'm not sure I fully understood it. And then you need to correct me, Celine.

But, of course, efficiency gains and the benefits of those will be unevenly spread through the year, depending on what we do. And there are many ways that we can get efficiency gains. One is, of course, value engineering of our products, and better waste management, for instance; or pure negotiation with raw material suppliers.

There may be other things like manufacturing efficiency, where we'll have more production and more efficient production. So, there are many, many different things, and they'll come differently phasing-wise.

In Q3, we've had a very good quarter in terms of what has been achieved in financial benefits. That's what you see mainly reflected in the other line. There is also other parts of that, but that's the main reason for it.

Celine Pannuti: Yes. And that was my question. I think the line, sorry, I don't have it in front of me went from, if I look at tissue, 270 to about half of that.

Fredrik Rystedt: Yes.

Celine Pannuti: Does it mean that the delta is the increased efficiency? And the same question on personal care.

Fredrik Rystedt: Efficiency is a big part of it. There is also other things, but this is a big part.

Celine Pannuti: And in personal care as well?

Fredrik Rystedt: Yes.

Celine Pannuti: Thank you.

Fredrik Rystedt: And you were also asking about -- maybe I should take that question, the raw material, what you didn't understand there. We don't give forecast relating to whether the number will be the same for tissue or for personal care in the next quarter, so to speak. We can only talk about direction, Celine. This is not

because we're evil people; this is simply because it's really difficult to estimate.

What we can see now, given the prices that we see in the market, I mentioned that prices are largely stable. So, therefore, the impact on a sequential basis we estimate to be roughly -- prices are estimated to be roughly flat Q4 versus Q3.

If you look at Q4 versus last year's quarter, we expect raw material prices for tissue to be lower -- for personal care somewhat lower. So, this was the guidance we can give, and not to be more exact than that.

Magnus Groth: OK. Finally, Celine, on volume and pricing. One year ago, or now almost two years ago, we saw rapidly increasing raw material prices, and we had a very clear strategic direction to go for protecting our margins. We said that we would really protect our margins before going for volume increases.

In the growth that we saw last year, a big part, both in tissue and in personal care, was actually price. There was also mix; there was also volume, but a big part was price increases.

When we're now comparing quarter over last year's quarter, we then have a tough comp from that perspective.

I also stated earlier this year, I think presenting the first quarter, or maybe previous to that, that this year would be different, because raw material prices started to come down, and we could see that trend also going forward.

It would be important for us to balance then volume versus price, and this is what we've been trying to do. You cannot be very generic about this, because it's different from market to market and from customer to customer, and category to category.

But I think the overall result, we're quite happy with, that we are able to continue to see growth while having a significant margin improvement. Of course, going forward, we will have to continue to manage that balance

between volume and prices and margins. It's very difficult to be more specific than that.

Celine Pannuti: Just one follow-up. If you look at the shape of raw material, so has come down, you see the benefit, and probably we are going to see flattening and, at some point, going up.

But where are we -- now that the prices have come down, you talk about pricing pressure. Are we seeing negative prices now in the marketplace, or is it something that we should expect in 2017? I'm talking here about retail tissue.

Magnus Groth: I can't really be more specific than what I already stated that we see overall increasing competition in both emerging and mature markets and in consumer tissue in Europe, due to lower raw material prices, but also in general.

Celine Pannuti: Thank you.

Operator: Saul Casadio M&G.

Saul Casadio: I have a bunch of questions on the proposed split. The first one is in your engagement with the rating agencies, are you able to confirm that the bonds will maintain their existing rating? That's the first one.

Fredrik Rystedt: Yes, the rating agencies have confirmed the rating for SCA Hygiene this morning. So, they've actually published their own press releases this morning. In addition to that, we cannot add anything.

Saul Casadio: OK. No, I haven't seen that, so thanks for confirming that.

Fredrik Rystedt: OK, both of them have confirmed the rating for SCA Hygiene.

Saul Casadio: OK, perfect. And the second question is on the pro forma numbers that you have provided. You have provided a profit and loss and balance sheet, but I haven't found the cash flow pro forma for the hygiene business. Is this

something that you will provide? Or it's in some other documents I haven't managed to see?

Fredrik Rystedt: It's a good question. Basically, the solicitation memorandum that's also been released should contain all the relevant information needed. I'm not sure what you actually missed there, but let's talk about that.

In general, we have now disclosed what we have perceived as necessary to entertain the solicitation process.

Saul Casadio: So you're saying that the cash flow will be in there. Is it somewhere --?

Fredrik Rystedt: No, the cash flow is not there. It's basically what you see in the solicitation memorandum.

Saul Casadio: OK, I'll try and get hold of that. The other question is on the consent threshold. What's the consent threshold that you need to achieve?

Fredrik Rystedt: I don't think we have disclosed that, Raoul, actually.

Saul Casadio: Will you disclose that?

Fredrik Rystedt: No, I don't think so. We will basically continue with the solicitation process. The consent percentage is not something we disclose.

Saul Casadio: OK. And I haven't managed to look at the docs in detail, but can you tell us what's going to happen to the non-consenting bondholders?

Fredrik Rystedt: Once again, we need to refer to the documentation that we have sent out. But, of course, our belief is clearly that this will go through as planned.

Saul Casadio: So once you've reached the threshold, the non-consenting will be dragged into the new entities or will they stay in the existing?

Fredrik Rystedt: No, of course, there is documentation that we have for all the outstanding loans and bond agreements. This is very regulated, what exactly will happen, Raoul. We have to refer to our own documentation, the solicitation memorandum. Those are the two things.

Saul Casadio: OK, thanks.

Operator: John Ennis, Goldman Sachs.

John Ennis: I've got two questions, actually. The first one is around baby. Moving into 2017, I just want to know what sort of efforts you can take to try and improve growth in the baby division and, therefore, personal care. Or do you expect that part of the business to remain a drag going into next year?

And then the second question is on tissue. You're obviously closing capacity in European tissue. But it seems like some competitors may be increasing capacity. I wanted to get your sense on what you think the net capacity change will be, and how that compares to the net volume change within tissue. Thanks.

Magnus Groth: OK, regarding your first question about baby, we don't give any such forecasts. We are working really hard to make all our categories and segments profitable and successful. That's our ambition and it's only a last resort when we decide to take other action. That's our ambition, also, with the baby category.

Secondly, yes, there is always a mix of new capacity coming in and capacity moving out of any market. Typically, of course, it's high-cost inefficient capacity that is going out.

We have a 30 percent market share in tissue in Europe. We have a mix of highly efficient capacities and less efficient, through acquisitions and for other reasons. And we announced our tissue roadmap at the Capital Markets Day earlier this year, which has the ambition to increase our cost efficiency in tissue. That's the overall.

Then in addition, we aim to grow market share, of course. But this is, again, a balance that we're always working within each individual market. We want to grow our branded share and we want to improve our efficiencies in the ongoing dynamic of new capacity coming in and leaving the market.

John Ennis: OK great, thanks a lot.

Josephine Edwall: Operator, let's have the last question from the telephone, please.

Operator: Iain Simpson, Societe Generale.

Iain Simpson: I wondered if you could just comment on price competition in Western European diaper. This is something a number of your competitors have talked about having stepped up recently, but it seems that your Western European diaper business is actually going pretty well. So, any color on that would be great.

Secondly, you talk about your commitment to maintaining a solid investment grade credit rating. How much headroom do you have to a solid investment grade credit rating with the hygiene business? Is it in the order of some SEK30 billion or SEK40 billion, is it that sort of magnitude?

Magnus Groth: OK, baby, yes we are happy with our European baby business. I don't really have anything more to say.

I've also stated earlier that, in general, we see an increasing competitive pressure in the hygiene business in its entirety, both in mature and in emerging markets, and I can't be more specific on that.

Regarding our investment grade and the headroom, Fredrik, is there anything you can say on that?

Fredrik Rystedt: Iain, I will be glad to do that. Actually, if you look at solid investment grade, it's rating based, so it's, of course, the rating agencies that will define the boundaries. They look at both financial measures, they look at business risk

and, of course, they always look at the characteristics of the target. It's actually difficult to give you any given number; it depends on what you do with the debt that you acquire.

But I can say this and this is something we've already communicated that we stand by the finance policy that we have communicated, the solid investment grade. Of course, we're committed to that. Then we'll simply have to see what kind of firepower that will entail. But we have a strong balance sheet, in SCA, as it looks today and as you can see, also in SCA Hygiene after the potential split of debt.

Iain Simpson: Thank you very much.

Josephine Edwall: OK, any final remarks, Magnus?

Magnus Groth: Just to conclude then, organic sales, as already mentioned, was impacted by a challenging market situation and capacity reductions. We are happy about a good organic growth in operating profit and in margins, and the strong contributions, as we continue to see from efficiencies and the strong cash flow.

Thank you.

Josephine Edwall: OK, so with that we conclude today's press conference. Thank you for coming and joining.

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