

SCA
Interim Report Q1 2016
Moderator: Magnus Groth
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Joséphine Edwall: Hello, and welcome to SCA's first-quarter result for 2016, and the press conference. My name is Joséphine Edwall, Head of communication for SCA. And today, our CEO and President, Magnus Groth, together with our CFO, Fredrik Rystedt, will go through the highlights in the report and we will have a Q&A session in the end.

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

Magnus Groth: Thank you. And I'd like to start by thanking everybody who is here in person today because we have terrible weather in Stockholm; it's more wintry than springtime. So, thanks for that. And thanks to everyone listening in, of course, also.

And looking at the first slide, we were happy, when we discussed the front of this slide, that's it's more or less exactly the same as the last five quarters, so a very similar positive development, both on growth, on sales, on cash flow, and, very importantly, on efficiency improvements.

We also continued to keep a high pace on innovations, where our plan is to launch approximately 30 new products every year. And we did 10 now in the first quarter, so that's a good start.

Then, at the bottom there we have two new bullet points, which are actually important milestones for us. It's the finalization of the acquisition of Wausau. And, as you can see from the numbers, they're already contributing very strongly both to top line and bottom line. And this, we finalized on January

21. Integration is ongoing, it's working really well. We have not lost any customers, and there's a good momentum in the integration process.

Another very important milestone for us going forward happened just after the end of the quarter, on April 1, which is that we finalized the divestment of SCA's business in South East Asia to Vinda. So we're integrating these businesses to create a very strong Pan Asian hygiene company, and that integration work is starting now.

So, those are the overall highlights.

To summarize the numbers, we had a sales growth of one percent with some effect of currency affecting the overall sales. However, organic sales growth reached three percent. And behind this number, as you will see, we had a very good growth in the hygiene part of the business and a negative contribution from forest products in this quarter.

Operating profit improved 13 percent. And this had a positive effect on margins; earnings per share; and also on cash flow, which continues to be very strong.

All of this together, looking at return on capital employed for three months, so this is the first quarter this year compared to return on capital employed for the first quarter last year, improved by 1.5 percent to 11.9 percent. So still some way to go to our long-term target of 13 percent, but moving in the right direction.

Something about our innovations, and starting with two baby innovations. Last year, we launched our first super premium product, Libero Touch, and what we're seeing now is that some of the innovations from that product range is now trickling down to our premium assortment. So we continue to widen our assortment, and also to upgrade our assortment, which is something we're doing continuously.

In feminine care, as you know, our target, and we also achieved this target last year, is to be the world's fastest global feminine care brand. And we fuel this growth with innovations, and there are two examples here on this slide.

Moving over to incontinence care, we are competing, to an increasing extent, in the retail part of our incontinence care business, but very successfully. As you know, Proctor & Gamble launched incontinence care products two years ago. And as part of this competition, we are launching a number of light incontinence care products, specifically focused at the retail part of this category; lights by TENA, and the TENA lady pants are examples of that.

And finally, in the tissue area, the Tork SmartOne, the dispenser might not look that new, but what it shows is that, again, is the Georgia-Pacific product that we are adapting to our own assortment and range.

But maybe more importantly, we are now rolling out making our entire assortment sensor enabled, so that also these products now can be fitted with a sensor to make it possible to follow then the consumption of toilet tissue remotely from a device. And the Tork SmartFresh and EasyCube products that we are rolling out now, of course, need this type of technology in the dispensers.

And finally, a strategic growth area for us is wet wipes in different formats; and the Lotus wet toilet paper is an example of that.

With that, Fredrik, I think we should move over to the financials.

Fredrik Rystedt: Yes, I will talk a little bit about sales and earnings. And if I start with the sale side, as you can see, we continue to have a positive contribution from price/mix in our sales development.

We had, as we have had before, good contribution from personal care, and we've also had it from the tissue side, but not this quarter, and I'll come back to that in the results side, in the forest side; there we have a slightly negative contribution.

Volume continues to be strong, and especially in the personal care side. So we grew by 5 percent in the quarter in personal care, and with 2 percent in tissue, so continued strong growth. And slightly declining sales or volume development in forest, but largely flat, you can say.

As a consequence of the stronger Swedish currency, the krona, you can see we have a big translation impact in the quarter, so minus 4 percent. And you can also clearly from this slide see the contribution, just over SEK600 million contribution from the Wausau acquisition. All in all, 1 percent growth in nominal terms, and approximately 3 percent in organic terms.

If you look at organic growth in a slightly longer-term perspective, the hygiene business continues to do well.

And if you start with the personal care side, we have, as I mentioned, a slightly less positive impact from price. We have simply increased prices throughout 2015, also in the last quarter of 2014, on the back of higher raw material prices; and, of course, also currency changes in Latin America et cetera.

So we raised prices throughout 2015, and partly 2014. And, of course, now they're becoming increasingly part of the comparables; hence, the price/mix impact in the result is slightly less in personal care, but still positive.

Same for tissue, the same for tissue. But there we raised prices, if you recall, in Q3 and Q4 of last year in the tissue business, and that's still there.

Volume continues to be really strong, as I said, in the personal care, and also in tissue, and not least in Vinda. Some of you may actually have seen this morning that Vinda reported an organic growth of close to 18 percent; and that, of course, also contributes strongly to our volume numbers.

Forest, a different story; there, volumes are largely flat. But prices are impacted by underlying price declines, but also currency, or the stronger Swedish SEK.

This is pretty much the development: strong underlying growth, volume and price wise in hygiene, and slightly falling in forest.

If we look at the profit side, it's very much a similar story, price/mix is positive. And if you look at the numbers here of SEK100 million, this is

slightly lower than what you've seen before, consistent with the story I just talked about.

And here, you have approximately SEK40 million coming from personal care. Latin America and Russia are still key contributors here. We have approximately SEK200 million coming from tissue; and then, a negative of approximately SEK140 million coming from forest.

So if you look at that SEK140 million, and Magnus will show you some graphs a little bit later, of that SEK140 million roughly SEK30 million is currency; and the rest is actually underlying price declines in kraftliner, sawn timber and pulp.

Volume is really strong here, as you can see from this slide, so good performance. Here, personal care, with that 5 percent growth, contributes with SEK200 million, or just over SEK200 million in profit enhancement just from volume; tissue with SEK155 million; and forest largely flat, or slightly declining here.

Raw material underlying is coming down, you've seen that the pulp prices, not least on hardwood. We also see oil-based prices actually coming down. So that is now positive for us, the underlying development.

But, of course, still the exchange rate, not least the dollar and some of the Latin American currencies, are still having a negative impact. And if you look at the net of this, it is actually still negative with roughly SEK145 million, as you can see on this slide. SEK50 million of this comes from personal care; about roughly SEK90 million of this comes from tissue; and forest has a minor impact.

So this SEK140 million, actually, the negative impact coming from currency is a bit over SEK170 million, or SEK175 million to be exact, so the actual underlying is positive, but currency is still negative.

Energy has developed in a good way for us; and this is, of course, largely tissue. So here we see electricity, gas, et cetera., so a positive development.

Acquisition wise, this is Wausau contributing with USD9 million, so a good quarter, as you've seen from the report.

And then finally, the other line, Magnus talked about all the initiatives we've had, for instance, in Fem Pro, but also in other areas. A part of this, a big part, is actually increased A&P spend. Not necessarily in percentage of net sales, but as our sales is growing so does the A&P spend. So we are spending more in A&P as we progress.

And, of course, the rest of this negative number is largely inflation and some other things, like higher SG&A and sales cost.

We also continued to do well in terms of efficiency.

If I then turn to the next slide, cash flow, operating is increased by 40 percent. If you include the strategic investments we increase our cash flow with 27 percent. So really, really good quarter. This is mainly - the improvement here is mainly coming from the operating surplus, as you can see on this slide. But the seasonal increase in working capital that we always have has been little lower this year than we had the corresponding period last year.

You can also see that capital expenditure is higher. This is, of course, largely due to the strategic CapEx, and not least the investment we have in Östrand. But if you actually take this number, and you take it times four, you will get to a much lower number than the estimate that we have provided you with.

We have said previously that our estimate is roughly SEK9.5 billion in capital expenditure for the full year, that's still valid. So the low number here is largely a phasing issue; we will actually have higher numbers as we progress later in the year.

Finally, on the items affecting comparability, the main item here is the estimate we have made relating to the anti-trust case we have in Colombia. And we have clearly stated that in the report, we just don't know this number here. This is our best estimate to date of what this could potentially cost, so that's approximately SEK100 million.

SEK50 million, or SEK47 million, relates to the acquisition of Wausau. So this is revaluation impact, this is a restructuring, transaction cost.

And the other, the SEK43 million that you can see on this slide, largely relates to the transaction with Vinda, as Magnus talked about before. We only have minor restructuring costs in addition to that, included in items affecting comparability.

So, thank you.

Magnus Groth: Then, we'll dig in a little more in to the different categories, and starting with the personal care. As we've heard already, we continued to have a very solid organic sales growth here of 6 percent, and also a very positive effect on operating profit. And this comes from all the factors that we've seen over the last couple of quarters: higher volumes, better price/mix, cost savings, and, as already mentioned, surprisingly, higher raw material costs in this quarter.

So the positive development we're seeing now we didn't see here in the first quarter compared to last year's first quarter.

And we had an operating margin improvement of 150 basis points to 11.9 percent, so continued to have a good development.

And then, looking in to the geographies and sub-categories, we can see that this growth in sales is coming from all markets, and from all categories: 4 percent in mature markets, 8 percent in emerging markets. And the growth, as you can see, comes from incontinence products, feminine care, and baby.

And the growth in feminine care, we have found a winning recipe. We have, I think, surprised ourselves the last year or so in how well this is developing. But it continues, so very, very happy about that. And good to see that all the categories are growing.

If you look at the bottom of that slide, emerging markets, you can see how they continue to contribute in spite of the uncertain times in some of our main markets, like Russia, Latin America, of course, with 17 percent growth in

Latin America; and Russia 42 percent. And this is, of course, a mix again of volume and price increases that we did last year.

Asia is a little bit softer. This is primarily from Malaysia, where the Malaysian economy is right now in a very uncertain situation and the general retail market is quite soft. But we are doing well in market share, and we're expecting this to pick up going forward.

Tissue, also a good organic growth, 4 percent; and an improvement in operating profit, which is 17 percent. Should be noted here that, to some extent, we have relatively easy comparables to the first quarter. And we discussed how we were gradually during last year increased prices, so these comparables will become tougher and tougher as we move forward this year.

But, again, price/mix, volumes, savings, some added benefit from lower energy costs in general in Europe, primarily; and again, higher raw material costs this quarter. This is an effect that we expect, and I'll get back to that, to see less of then going forward in the next coming quarters.

And on this slide, it's pretty clear. Our strategy, especially in the mature markets over last year that we kept talking about, which was to go for price before volume; how important it was to close the margin challenge that we had in consumer tissue, especially in Western Europe, with increasing raw material prices.

And we've continued to push for price increases, actually, all the way in to the first quarter this year. And you can see here that this result is that in mature markets we had zero growth, while in emerging markets very, very strong growth; not only from Asia, but also from Latin America and Russia, so in all the emerging markets, more or less.

And this is now an opportunity for us internally to tactically, of course, look at our options that, with the development in raw material prices, how should we now act especially in Europe, the balance between pricing and volume going forward. So, that's a new and positive challenge for us, that we have this opportunity going forward.

Finally, forest products, as we have heard, sales growth down 6 percent, mostly from lower prices, and I'll get back to that. And we had lower volumes, a slight impact, higher raw material costs, but support from lower energy costs also in Sweden.

And if we look behind the negative price/mix here of 5 percent, so that accounts most of the sales growth decline, we have added this graph for clarity. What it shows here for the various areas is the price in the local currency, but more importantly for us, since forest products is based in Sweden and exporting almost everything, is the price in Swedish krona.

And here you can see for publication paper, in spite of declining prices over the last couple of years, actually, from an SCA perspective it's been quite flat. While in pulp and kraftliner, as Fredrik mentioned, we've seen quite a decline also now in Swedish krona terms, over the last quarter, and that's why we have this negative impact on growth.

Solid-wood products, as you know, has been soft throughout last year, also in Swedish krona; we have largely compensated for this by expanding volume.

Looking forward, we expect pulp and kraftliner prices to stabilize gradually, so at this point we don't see that they would decline further significantly.

And in solid-wood products, we are seeing some improvements, actually, in price recently, and expecting an improvement in that area; while, in publication paper we know that the long-term trend is that this is a very challenging part of the business. But we have an efficient setup now in Ortviken and feel confident that we'll be competitive in publication paper also, going forward.

So this is what's behind the decline in forest products, and a little bit what we expect going forward with all the uncertainties regarding global currencies and global raw material prices, of course.

To summarize again, it was steady-as-you-go in a positive matter with good growth in hygiene, margin improvements. And we continue to deliver on all

our strategic initiatives, which is efficiency improvements; innovation; and profitable growth.

With that, I hand over to you, Joséphine.

And before that, Joséphine, I would like to mention we have a Capital Markets Day coming up, and you're all very welcome, and invited, of course, and it's coming up in May.

And to set the expectations for this Capital Markets Day, we will have the entire management team in place, very exciting, from all over the world, and many of them are new. We will also have presentations and the opportunity to meet with the Chairman and the CEO of Vinda to give their perspective on the Chinese market and on Asian markets, and I think that's also very, very exciting. We will have the opportunity to go more in-depth in to our strategies in the different categories.

We will not make any announcement about the work we're doing about splitting the Company in to two divisions. I can only reiterate what we have been stating since August last year: that we are working on this, we're making progress. We're, at the same time, of course, doing many other things that we've seen here today.

From the January 1, next year, we will be providing more financial information about the two divisions. And we are also looking at ways to make it more clear, the value that's created in the forest products division. But no news about this at the Capital Markets Day.

Joséphine Edwall: OK, so then let's open up for questions. Let's start.

Linus Larsson: It's Linus Larsson, SEB. Could we just, to start with, talk a bit about price?

And just as an update, if you could go through your potentially ongoing initiatives and how the previous initiatives played out in the first quarter? And it's really about emerging markets that we've seen a positive price trend through last year, the tissue away-from-home US initiative in the first quarter,

and also maybe coming back to what you said about Europe vis a vis raw material cost deflation, please.

Magnus Groth: And if we summarize, last year, we were able to overcompensate the raw material headwinds in personal care with price increases. And looking now at the last quarter, we have continued to do price increases in some emerging markets. However, some of the currencies have started to strengthen significantly again, as you know, both for Mexico, Brazil, and Russia.

But, as you know, we are very flexible in those emerging markets when it comes to adjusting prices to adjust to the changing currencies.

In North America, we have some price increase initiatives, and that business is developing really, really well.

In Europe, we have continued to push, in the annual negotiations that we've seen with many big retailers, all the way in to the end of this quarter. But now with the changes in underlying raw material prices, we will have to balance price increases with, of course, margin enhancement and volume growth, so it gives us a bigger palette here to discuss with our retailers.

And with away-from-home, we typically have the annual price negotiations, so they are done with a positive effect.

Linus Larsson: Thanks, that's helpful. And then, a question on the changes that you doing in the forest land operations, this legal change that you've started a process about doing that change internally. What is the cost estimated associated with changing the legal structure of the forest land in the Company?

Magnus Groth: We don't have any cost estimates for that. Those are different options that we're looking at right now, and we'll have to come back at the beginning of next year with more information on that. We don't see any major costs this year that you would have to include in any estimates.

Linus Larsson: And what is -- could you talk, just briefly, about how that process is ongoing, and the choices that you might have to make in terms of timing, and how you do that best?

Magnus Groth: Not really, I don't have that much more detail to provide, sorry. But it's an important project for us. I can say that much: that the President of our South East Asian business that we now integrate in to Vinda is heading up this project, since April 1. So he's the product manager for this. So we are progressing according to our plans.

Linus Larsson: OK. Thank you.

Joséphine Edwall: You can actually hand over the microphone to Stellan, I think.

Stellan Hellström: You talked about you didn't fully compensate the raw material headwind in personal care this quarter, and I was just wondering if you have comments on the outlook for the remainder of the year with regards to raw material, particularly, as you mentioned, some of the emerging market currencies have improved lately.

Magnus Groth: It's very difficult to speculate about the underlying oil-based products, how they will develop. The trend has been down now for the last three, four, five months actually, gradually, so that's positive for us, of course, in the longer term.

And when negotiating with retailers, we always want to negotiate about innovations; about maximizing the profitability of the shelf; about developing the category. But, of course, if raw materials decline significantly and that has an impact in the price negotiations going forward. But, of course, that also helps us with margin enhancement.

Fredrik Rystedt: And, Stellan, you were asking about raw material prices specifically, and always difficult, of course, to give an estimate. But if you on QonQ for tissue and personal care, probably, slightly lower. If you look at sequentially, stable would be the best estimate for actually both of these. So sequentially, not really a lot happening; but in comparison to last year, slightly lower for both.

Stellan Hellström: Maybe you did talk about it, but the other line, or the Group common costs were down quite a lot here, if you can -- did you mention why?

Fredrik Rystedt: Yes, this, of course, consists of many different things, staff costs and other cost relating to IT, for instance, et cetera. This is slightly lower if you take the other costs this quarter, and once again take it times four it becomes lower than the total estimate we've had for approximately SEK700 million. We're still in that ball park of SEK700 million, hopefully lower than that. But it was actually low, more from a phasing perspective this quarter than we expect coming quarters.

Stellan Hellström: And finally, just on the lower raw materials prices that we see in tissue, I guess, what you're saying here is that we shouldn't factor that fully in to a gain on the EBIT, that you will have to maybe give away some to clients. Is that correct? Or any comments?

Magnus Groth: No, this I didn't say. We're working very, very hard to improve our margins all over, and, of course, specifically in tissue also going forward.

And I would say that it's a relief not to have the significant raw material headwinds we had last year. I think, in the end they ended up at over SEK2.4 billion in summary, so this is a better starting point, I would say, than to face those headwinds.

Stellan Hellström: Right. Very good. Thank you.

Olof Grenmark: Olof Grenmark, ABG Sundal Collier. A question on the cash flow, please, again. You said that you had a little lower working capital than normal, but I didn't quite understand why. And what should we expect for the future?

Fredrik Rystedt: The seasonal pattern is pretty much always that we build working capital during the first three quarters. So Q4 is really strong, we reduce inventory, we have a positive cash flow, normally, and then we build up during Q1. This is exactly what you have seen all the years.

Now, this quarter was fairly good in terms of working capital performance in comparison to the expectations, if you put it that way. So I think the seasonal pattern is largely similar Q1/Q2, normally a buildup; Q3/Q4, normally a reduction in the relation to sales, that's the typical pattern for us seasonally.

Olof Grenmark: Thanks. And you said, regarding sawmill products, that you saw a stabilization. I'm just curious, normally, at this time of the year we see sawmill products stabilize. What's your best estimate? Is it a clear change in the market, or could it still just be a seasonal issue?

Magnus Groth: We see declining stock levels in many places, and that's typically a good indication that prices will improve. So, I guess that's the same as what everybody else sees.

Oskar Lindström: Oskar Lindström, Danske Bank. I have a couple of questions. The first one relates to your negative organic growth in mature markets; if you could maybe provide a little bit more details of what was behind that, different categories, specific events. And what I'm really looking for is to what extent was this -- was it driven by one-offs? And what is something that we should factor in to the rest of the year as well?

Magnus Groth: We don't see a change in the underlying market growth. We have been focusing, as I mentioned, very much on price and getting the margins up. And this has an effect, and especially during the first quarter, because in the negotiations with the retailers it's not unusual that periodically we, as a supplier, get delisted during the negotiations. Of course, this is a very strong weapon for the retailer in the negotiations, and this could have an impact on sales.

In North America, in away-from-home, we had some supply chain issues during a period; those are all solved now at the beginning of the year. So, no major shifts going forward.

Oskar Lindström: Just to follow up on that, you mentioned some of these supply chain issues, and also being delisted as part of the negotiations perhaps for some private label contracts in Europe, I presume. Do you see -- so those are both just one-off in Q1?

Magnus Groth: One-off, yes, exactly.

Oskar Lindström: And they have been resolved, or are they --

Magnus Groth: It's all resolved, and we're moving forward. So no change in our view of the growth opportunities going forward, and we have a good momentum also in market share in most markets. So, yes, we're happy about the development.

Oskar Lindström: And just another question on A&P spend, which you said was up in absolute terms, so maybe it would be stable in relation to sales, where is the A&P spend increase going? Is this something that we should lead us to expect a kick in organic growth for certain categories year on year, because I know that you also increased it last year? And, if so, when?

Magnus Groth: Well, we have experienced this, that when we invest more in A&P behind feminine care and incontinence care retail it pays off in faster growth with continuously good margins, both gross margins and net margins. So this we want to do more of, of course. And we already see the effects, in especially in feminine care, in the good growth we have there.

Fredrik Rystedt: Oskar, can I just fill in on your question on mature markets, should you expect? Just to clarify what you already know, in personal care mature markets actually grew by 4 percent; if you look at tissue was relatively flat, so a fairly slow development in the first quarter, but not actually declining. So the decline you see for the Group as a whole in mature is actually coming from forest, and that is a pricing issue not a volume issue.

So I think your question, should you expect, it is very much linked to what Magnus alluded to before on the pricing development for pulp, of course, not least sawn timber, and kraftliner. So that gives you a fairly good sense of the underlying movements, so to speak.

Oskar Lindström: Very good. And just a final question on -- and maybe this something you will discuss more at the Capital Markets Day. From time to time you've mentioned that you might be interested in expanding in to new adjacent categories, partly to also support your presence in certain retail markets. Is that top of mind? Or do you see that as something that we should think about? Or has it faded from the screen?

Magnus Groth: No, quite the contrary. And we're putting more effort and more focused effects before -- behind what we used to call sometimes our adjacencies, but that we actually renamed our new core.

And two of those areas, wet wipes, there was an example here in innovations. And another area is soap, where we're also very much focused on growing. Wet wipes in all categories, actually, soap mostly in away-from-home. So, those are definitely prioritized areas, going forward. And we are both investing in new equipment, and we are investing in SG&A to grow in these areas.

Oskar Lindström: All right. Thank you very much. Those were all my questions.

Joséphine Edwall: OK, any more questions?

Mikael Jåfs: Mikael Jåfs, Kepler Cheuvreux. Three questions. The first one, more general, I notice in your report that you've begun working now, together with Vinda, to leverage on your joint strengths. Could you elaborate a little bit on that, and perhaps give some examples, and what potential benefits could be expected?

Magnus Groth: And, of course, the integration started April 1, so quite recently. But we have been working with the plan since a number of months, so we have a really, really good momentum in this process.

And then, there are three areas: one is that Vinda has been looking at increasing exports of the Vinda tissue products to neighboring countries. And with the go-to-market and the presence we have with the old SCA units, that's much easier. We can start exporting, and then start to invest locally, where we already have sites, for instance. So, that's a very important synergy.

A second very important synergy is that we have a lot of knowledge about the personal care categories in the former SCA Asian business. And this knowledge we now leverage in to China, where we have very ambitious plans for growing, especially in incontinence care and in feminine care.

So, those are two very important synergies in the longer term.

In the immediate term, we see cost synergies from taking out the SCA business unit head office that we have in Shanghai, and that we have stated previously. So, that's an immediate cost synergy.

Mikael Jåfs: OK, perfect. Thank you. And then, I don't know if you can answer this, but since you are building your pulp mill, or expanding the pulp mill at Östrand, then I'm guessing that you must also make some form of long-term expectations about the level of the Swedish krona. So I wonder if you could -- of course, you would not give us the number, but it would be appreciated, but some thinking around that, please.

Magnus Groth: We worked on this project for 1.5 years before deciding to move forward. It's one of the biggest industrial investments in Sweden ever, actually; and we're very proud about that. And considering this, we have been very, very prudent in our assumptions, to put it that way, both regarding pulp prices and the Swedish krona.

Of course, the only thing we know is that this will be quite volatile over the years. But in the long term, we have prudent assumptions. And what we are still very confident about is that we have the lowest cost for NBSK delivered to Rotterdam of any supplier. And, of course, that's a very, very good position. So we will always be the most competitive actor for delivery of NBSK to Rotterdam. And that was a very important driver of the decision.

Mikael Jåfs: OK, perfect. Thank you. And then, the last question, you state -- regarding the financial costs, you clearly state there why we have -- are running at a higher level due to the repayments of loans. But what should we expect for the coming quarters in terms of financial costs?

Fredrik Rystedt: Higher for Q2. And this is largely just a consequence of the fact that we don't have the dividend from Industrivarden. I think it was last year 77 million, or something like that, and that's not going to be there in Q2, since we no longer hold the shares. But other than that, no big changes, as you've seen.

If you look at Q1 without this -- without prepayment, it was kind of similar to what it was last year. So this is what you should expect, going forward.

Mikael Jåfs: Perfect. Thank you.

Joséphine Edwall: OK, any more questions from the floor? No? Then, let's open up the telephone conference. Please, operator, help us here.

Operator: (Operator Instructions). Celine Pannuti, JP Morgan.

Celine Pannuti: I, in fact, will have a few questions, so maybe if we can take one by one.

First one, on the outlook for forest, can you -- I just want to make sure that I understood well. So you're guiding that the pricing was probably stronger in Q1 and we should not see, as such, as a negative impact in the coming quarters. And if that is the case, does it -- what does it mean for the outlook on margin? Shall I also believe, or deduce, that the margin hit that we've seen in Q1 would not be as prevalent in the coming quarters? That's my first question.

Magnus Groth: Thanks, Celine. As you know, we don't provide any guidance. But I spoke a little bit about what we see right now in the development on some of the different products that we are selling in forests products, and I guess that's all the information we have to give at this point in time.

Fredrik Rystedt: Just to be clear, Celine, I think what Magnus said was that we've seen a decline in kraftliner, and in sawn timber and pulp. And Magnus alluded to a more stable environment compared to Q1. So it's not a temporary effect, there are signs of perhaps improving sawn timber. But largely, it's not a temporary impact, of course; it's similar to what it was in Q1.

Celine Pannuti: All right. OK, so, on that basis, if I look at forest product, probably, the raw material cost has been much better than what we anticipated. Does it mean that you would probably see a much better cost environment than you thought even a few months ago, given maybe pulp prices are declining faster than anticipated?

Fredrik Rystedt: I'm not sure I fully understand your question, Celine, because if you look at the raw material prices for forest, it's largely stable.

I think I mentioned there is actually a slight negative impact Q1 versus Q1 of last year in forest; it's small, it's minus SEK7 million, so it's largely flat, you can say, raw material. But there's no real positive raw material impact on forest. Or maybe I misunderstood your question.

Celine Pannuti: No, no, sorry, on tissue. Maybe it was my mistake, I meant tissue. Raw material costs came much better than anticipated; we've seen that pricing in pulp is weaker in your forest division, so does it mean that the outlook for tissue raw mat is looking much better than it was looking two, three months ago?

Fredrik Rystedt: Yes, it's a difficult question. I think, once again, the major impact during, as you know, Celine, during last year was actually the currency. Now, if you look at the euro versus dollar, it's 1.13 right now, so, of course, it will depend a lot on the currency.

And, of course, if you look at -- and I mentioned that before: we see slightly lower tissue costs QonQ for Q2. That's the estimate we have, and that's based on benefits on the underlying mainly hardwood, rather than softwood. But that's the estimate.

Celine Pannuti: Right. My other question would be the clarification on pricing. Again, can you make the difference, if I'm talking about hygiene here in terms of pricing ability in emerging markets, what we should expect; and likewise, in developed markets? Am I right in thinking flattish pricing, is that what you are trying to aim for?

Magnus Groth: We don't give that type of guidance. We have shown throughout last year that we have been able to compensate the price in a quite good way in emerging markets, and in personal care. And we actually compensated for more than half of the negative raw material impact also for tissue, and this was because of, as you know, the big negative impact.

And going forward, with less of that impact, we have to look at the big picture, where we're always looking at improving our margins through pulling all the levers, whether it be price, or cost efficiencies, innovations, and so on. So I don't have any more guidance to give you there.

Celine Pannuti: OK. And then finally, two more questions. On Wausau, could you explain why it was a positive contribution to profit -- sorry, yes, it was more positive contribution in profit than in sales, given that I was expecting it to be margin dilutive?

And then, a final question. I just wanted to rebound on one commentary that you made in terms of the forest division, where you said you were trying to make sure that the market understood the value in it. Can you elaborate on that?

Magnus Groth: Starting with the forest, I think this is what we stated already in August last year, so it's just reiterating that, and that we're working with this split of the Group in to two divisions. And we'll have more information early next year.

Fredrik Rystedt: Yes, maybe on the Wausau side, it was a good quarter for Wausau, so it had a good margin, and accretive margin, as you saw.

If you look at the total impact, there are three different areas in which Wausau actually comes in to our profit. First of all, of course, sales and EBIT, and that was margin accretive.

We also had an item affecting comparability, the SEK47 million that you saw there; that took away some of that.

And then, of course, in the financial net we had the prepayment. So if you look at the total net profit contribution, it was actually pretty close to nothing. So it was accretive from an operating margin standpoint, and dilutive from a net profit margin standpoint.

Celine Pannuti: All right. And on the full year, does it mean that Wausau, in fact, profitability is better than expected?

Magnus Groth: Yes, that's correct. We had better margins in the first quarter than according to our estimates, so a very, very strong start for Wausau.

Celine Pannuti: Thank you.

Operator: Justin Jordan, Jefferies.

Justin Jordan: Sorry, can I just return to forest products for a second? Firstly, just on kraftliner, you previously talked about potentially exporting some volumes of kraftliner from Europe to North America to try and offset some of the price softness in Europe. Is that something you've done in Q1?

Secondly, one of your major European peers in kraftliner production has announced a EUR40 tonne price increase from June 15, this morning. Now, I appreciate that will have little impact on Q2, but what's your thinking on the potential for kraftliner stabilization potential, or even price increases later in calendar 2016?

Magnus Groth: There have been product flows both ways of the Atlantic, actually, both from American producers in to Europe, but also from Europe, and to some extent from us in to North America, which shows, I guess, that these markets are quite balanced in different qualities, of course.

And I wasn't aware of the price increase announced this morning, but I guess that's pretty much in line with what I stated: that we see that the kraftliner prices are stabilizing.

Justin Jordan: Thank you.

Operator: Adam Kindreich, Morningstar.

Adam Kindreich: My question is about CapEx. Maybe if you can just confirm that you stated that the 2016 figure should be around SEK9.5 billion, because that seems a very high percentage of sales? And if you can maybe give us some sort of guidance for 2017. Now, the CapEx seems to be much higher than my expectations.

Fredrik Rystedt: Yes, Adam, it is higher. And I can confirm that SEK9.5 billion, it's an increase to sales; and that has to do with the investment in the pulp mill in Östrand. So that's close to SEK8 billion over a period -- it was a small amount or small, but it was an amount of SEK700 million in 2015; and then, we will have the

rest 2016, 2017, 2018, and a small amount in 2019. So we will actually have approximately SEK9.5 billion for this year.

We haven't given any forecast for 2017. We'll be back in Q4, as we normally do. But, of course, as you will see the Östrand investment progressing you'll see high CapEx also in 2017.

Adam Kindreich: And I think there was, just to follow up on that, also a new incontinence factory in Brazil as well. Is that quite a small one, though?

Magnus Groth: That's an investment of SEK650 million. So we are doing now and we will be mostly done this year. I think there could be a little bit of overhang in to next year.

Adam Kindreich: Yes. And just to look historically at CapEx, if I look back, since 2010 it's been very stable, around 6 percent of sales. Are we looking more or less towards the end of the decade to get back down to that sort of ratio again?

Fredrik Rystedt: We don't actually disclose that or disclose -- we don't disclose the long-term CapEx forecast. But, again, we have some significant investment now in Östrand. You talked about Brazil, so, of course, that brings the number up for a few years here.

There is no underlying trend towards higher CapEx with the exception of that. But on the other hand, of course, we have growth ambitions in many places and that takes also investment. All the investments we do, all the capital expenditures we do we look at the IRR or the NPV of those, and of course use return requirements; and all the investments we are undertaking produces very, very good return figures.

So no long-term major increase of CapEx, but this is -- we'll disclose that as we progress in the years to come.

Adam Kindreich: Sure. Thanks.

Operator: Jeremy Fialko, Redburn.

Jeremy Fialko: Really, just trying to square a bit of a circle in terms of some of the comments that you've made. So you've had a very good tissue margin expansion in Q1 of 120 basis points, but then you talk about tougher comparatives in subsequent quarters, implying obviously less margin expansion.

At the same time, you've clearly got a more favorable raw material situation in tissue, because you're talking about tissue raw material costs being down year on year in Q2. So, effectively, is it price that we should assume is the reason why you would see lower margin expansion in Q2, or are there some other issues in terms of the costs within the tissue business? Thank you.

Magnus Groth: OK, thanks for talking about the different parts adding up to the margin development. And what I spoke about specifically was the comparables when it comes to price.

Since we increased price during the year last year, from a price increase perspective the comparables are getting tougher, because especially in the third quarter we had significant price increases last year. But as you also state, if you look on the costs side, there could be opportunities then when it comes to raw material costs, especially regarding pulp.

We have also seen one positive cost component already in the first quarter that we'll probably see also going forward, which is energy.

Jeremy Fialko: Right, OK. So, effectively, it's really Q3 where you're signaling that the price will come down materially year on year?

Magnus Groth: It's gradually over the year, I would say. It's difficult to be that specific with all the dynamics in the market.

Added to all of this, of course, we are continuing to work with our efficiency program, and they're especially focused on the tissue part of our business, since it's such a considerable amount of our capital base. So we should see benefits from that also, going forward.

Jeremy Fialko: And any -- as you see things today, any quantification of the tissue raw material benefit based on current pulp prices and current FX?

Fredrik Rystedt: No, we don't make those kind of exact estimates, but, just to reiterate, slightly lower for tissue and for personal care.

Jeremy Fialko: OK, thank you.

Operator: Chas Manso, Societe Generale.

Chas Manso: Could you update us on incontinence, the category growth particularly in retail, and how SCA's market share is doing in that?

Magnus Groth: Yes, we're actually -- thanks, that's a great question. We're really excited about the recent development here during the last quarter, because what we are seeing is that the slight market share decline that we've been having on the retail side, especially in Europe, where we were by far the biggest player before P&G entered that, has stopped and we are now stabilizing our market shares.

And we have a lot of good things coming in the incontinence care area in retail during the year, and especially even more during next year. So that's going really, really well. And we still see the benefit of the underlying higher market growth, where we still see very, very good market growth underlying in retail.

Also, last year, just to cover that, in healthcare we actually grew market share throughout Europe. And this year, we are working to at least keep those market shares stable and to continue our growth in retail. So it's looking really good for our incontinence care category.

In North America, we think we are stabilizing our healthcare business, and seeing some slight improvements. In retail, we are still struggling. We are looking at ways of turning that around; we've been stating now for at least 1.5 years. But we see some opportunities there, as well.

And that's the reason for a slight decline in volumes in North America in incontinence care, that we are kind of revising our strategy there in retail. But overall, a very positive development in incontinence care.

Chas Manso: OK. And in fem care, this quarter was yet another quarter of very strong double-digit organic sales growth for you. Could you perhaps point out where the key growth markets are for you in fem care; and given such consistent strong growth, whether there's been any competitive responses yet?

Magnus Groth: The key market for us is Latin America, so Mexico, Central America, and South America, where we are typically number one, and in some cases number two. And this accounts for more than half of our feminine care sales, this region, and we are growing in every market there. We are also growing in Europe, in France, in the UK, in Russia; and we are applying the same recipe in all these markets.

Chas Manso: OK. And sorry, just to going through all the categories really. In diapers, you mention intense competition, that's not new. But similar kind of questions for the one before, where do you see the biggest flash points for you in diapers? And what are you doing about it really?

Magnus Groth: We're continuing to do well in Europe, growing volumes. So we have established a strong number two position in Europe with a mix of our own brand, Libero, in the Nordics and Russia, and private label, and that's developing very positively also from a margin perspective.

Outside, we have a stronghold in Malaysia. We have a number of markets, of which some we reviewed last year and actually decided to leave as part of our exercise to do fewer and bigger bets. And one of the areas where we are making a big bet is India; and building up an Indian baby business, of course, has a drag on the margins for the baby care business overall. But other than that, we are getting in better and better shape actually.

Chas Manso: OK. And final one, on tissue, in mature markets the organic sales was flat or stable this quarter. Could you perhaps tell us about the balance between volume and pricing in tissue mature markets?

Magnus Groth: I guess that's -- or not guess, the opportunity we have this year is to balance between these two, which we didn't have last year. Last year it was all about price. And this year we have the opportunity to balance between price and

volume, and let's see how that develops over the year. But I prefer having those two levers to pull than focusing more on just one.

Chas Manso: OK. But was it -- between the two, which one was down, and which one was up?

Magnus Groth: Pricing was up significantly last year; also, volumes actually, underlying volumes. We were able to achieve both. First quarter this year in the mature markets we still had positive price realization, but not the volume, so this is something that we're looking at balancing going forward, of course.

Chas Manso: Great. Thank you.

Joséphine Edwall: OK. So, with that, we conclude our Q&A session. Do you want to have any final words, Magnus?

Magnus Groth: Thank you very much for coming. See you next time.

Joséphine Edwall: Well, thank you. And goodbye.

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