A leading industrial ecosystem, driven by the force of the forest

Capital Markets Day
May 22, 2018
## Today’s agenda

<table>
<thead>
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<th>Time</th>
<th>Activity</th>
</tr>
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<tr>
<td>08:30 – 09:15</td>
<td>Registration and coffee</td>
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<td></td>
<td>Strategic direction – Senior Management Team</td>
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<td></td>
<td>Growing forest asset – Jonas Mårtensson, President Forest</td>
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<td>10:45 – 11:00</td>
<td>Coffee break</td>
</tr>
<tr>
<td></td>
<td>Increased value from each tree – Toby Lawton, CFO</td>
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<td>Concluding remarks – Ulf Larsson, CEO</td>
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<td>Q&amp;A</td>
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<td>12:00 – 13:00</td>
<td>Lunch</td>
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<td></td>
<td>Forest site visit – Mats Sandgren, Senior Advisor and former President Forest</td>
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<td></td>
<td>Harvesting and planting in action</td>
</tr>
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<td></td>
<td>FSC certification – Hans Djurberg, Board Member FSC International, Sustainability Director SCA</td>
</tr>
<tr>
<td></td>
<td>Market valuation of forest assets – Johan Freij and Oskar Lindström, Danske Bank</td>
</tr>
</tbody>
</table>
Strategic direction

Ulf Larsson, CEO
A strong and integrated value chain

**Sales (SEKm)**
- 16,664

**EBITDA 1) (SEKm)**
- 3,761

**EBITDA margin 1)**
- 22.6%

**Industrial ROCE 2)**
- 13%

**Forestland**
- 2.6 m ha

**Net growth**
- 3.0 m³fo

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Global trends favoring fiber based renewable materials

- Increased demand for renewable materials
- Growing demand for virgin fiber
- Eco-awareness
- E-commerce
- More packaged goods
Cash flow funded growth opportunities

- ROCE
- Leverage
- Credit rating
- Integrated value chain

**2018→2019**

- **Increase share of White-top Kraftliner**
  - SEK 7.8bn investment
  - Start-up in June 2018
  - Further growth potential

**2019→2020**

- **5.0 TWh wind power on SCA land**
  - Agreements signed for construction in 2018-2020

**2019→2021**

- **Biofuel production from crude tall oil**
  - Joint venture with St1 signed

**2019→2021/22**

- **Kraftliner expansion**
  - Pre-project to prepare for expansion at Obbola

- **Bio refinery optionality 2025?**
  - SEK 50m pilot plant
  - Environmental permit

- **2015→2018**

- **Östrand expansion**
  - SEK 196m investment
  - +50kt white-top kraftliner
  - Further growth potential
Profitable growth strategy

1. Forest – the source for value creation
2. Paper – Kraftliner expansion
3. Pulp – start-up of a SEK 7.8bn investment
4. Renewable energy – the next value creator
5. Wood – moving forward in the value chain

Growing forest asset

Increased value from each tree
Forest – the source for value creation
Jonas Mårtensson, President Forest
The forest is our source for value creation

Growth  
Harvesting  
Land value
Profitable growth since 1950

**Standing volume**
- Million m³fo
  - 1950: 146
  - 2017: 232
  - Increase: +60%

**Growing asset base**

**Harvest plan**
- Million m³sub
  - 1950: 2.0
  - 2017: 4.3
  - Increase: +120%

**Increasing cash flow**

**Land value**
- SEK/m²fo (real value)
  - 1950: 109
  - 2017: 396
  - Increase: +260%

Note: 1) Average price Sweden, real price (2017 price level). Source Lantmäteriet.
Forest – strategic direction

- Maximize growth
- Increase sustainable harvesting level
- Secure raw material supply
- Secure biodiversity for future generations
- Prevent further restrictions in ownership rights
Paper – Kraftliner expansion
Mats Nordlander, President Paper
Kraftliner – strategic growth area
Munksund – grow the share of value-added products: white-top, heavy duty and wet strength
Obbola – increase production capacity and improve efficiency

Publication paper – maximize cash flow
Positive cash-flow through operational excellence and optimized product and market mix
Prepare for profitable growth in Kraftliner

1. Increase share of White-top in Munksund
   SEK 196m investment
   White-top Kraftliner capacity increased from 150k tonnes to 200k tonnes
   Expected completion in May 2019

2. Transfer mid-grammage brown products from Munksund to Obbola
   Investment enables contribution optimization of Obbola paper mill
   Cost savings in addition to increased share of White-top at Munksund

3. Expand capacity and reduce costs of goods in Obbola
   Environmental process initiated
   Pre-project to prepare for Kraftliner expansion at Obbola initiated
Favorable long-term trends for Kraftliner

E-commerce – 20% growth CAGR
Increasing world trade
Substitution of plastics
Shelf ready packaging
Food safety

Kraftliner demand Europe / Growth CAGR

Source: Numera.
Increased capacity needed to meet demand

Kraftliner growth limited by shortage of supply

Operating rates (shipment-to-capacity)

<table>
<thead>
<tr>
<th>Year</th>
<th>Virgin</th>
<th>Recycled</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
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<tr>
<td>2014</td>
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<td></td>
<td></td>
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<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Numera.
Opportunity for increased capacity

Obbola one of few brown field opportunities in Europe

- Access to fresh fiber
- Technical requirements
- Infrastructure
- Chemical pulp
- Leading non-integrated supplier

Pre-project to prepare Kraftliner expansion at Obbola initiated

New ~800 kt paper machine

Expansion of existing pulp line
- Virgin fiber
- Recycled fiber

Potential investment decision based on outcome of pre-project

<table>
<thead>
<tr>
<th>Present</th>
<th>New capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>450</td>
<td>700-800</td>
</tr>
</tbody>
</table>

Total capacity Obbola (ktonnes/year)
Pulp – start-up of a SEK 7.8bn investment

Ingela Ekebro, President Project Helios
Start-up of the world’s largest NBSK pulp line

Sequential start-up mitigates risk
- Control center – Q3 2017
- Wood handling unit – Q3 2017
- Evaporation plant – Q4 2017
- Drying and baling – Q1 2018

Market preparations
- Expand market and sales organization
- Training and simulation

Start-up in June according to plan
- Extension of recovery boiler
- Fiber line

Ramp-up period of 12-18 months
- 2018 – volumes in line with 2017
- 2020 – first full year at full capacity

7.8 SEKbn investment
1mt pulp mill with enhanced competitiveness

World-class competitiveness

- Doubled NBSK capacity
- Fixed cost reduction of SEK 350 per tonnes compared to pre project level
- Improved energy balance – from a net consumer of 0.1 TWh to a net producer of 0.5 TWh
- Wood supply secured, but with potentially higher transportation cost
- Leading pulp quality for tissue products
Growing demand for pulp

Strong market growth...

Growing tissue demand, shrinking supply of high grade recycled fiber from Printing & Writing

Index (global market)

- **Tissue production**: CAGR +3.4%
- **Printing & Writing consumption**: CAGR -1.8%

Source: CEPI, RISI, PPC, SCA.
Pulp – strategic direction

1. Start-up
2. Ramp-up
3. Quality
Renewable energy – the next value creator

Mikael Källgren, President Energy
Östränd investment enables biofuel potential

60,000 tonnes

Doubled tall oil production

Energy surplus

Net energy producer 1)

Synergies

Energy and production optimization

Note: 1) Net energy producer at Östränd.
SCA and St1 to start a joint venture for the production of biofuels from tall oil

Reduction of CO₂ by blending biofuels
- **Sweden**: 21% diesel and 4.2% gasoline by 2020
- **EU**: 7% renewable energy in transport

The HVO market is growing rapidly due to its compatibility with fossil diesel

Joint venture with St1 for the production of liquid biofuels
- Moving forward in the value chain
- SEK ~0.5bn investment by JV
- Annual production of ~100k tonnes HVO or biojet
- SCA to supply ~60k tonnes CTO out of ~170k tonnes
- Additional products include LPG, Naphtha, Turpentine and Pitch bioenergy

Development of HVO volume in Sweden

Source: SPBI.
Note: HVO = Hydrogenated Vegetable Oil.
Biorefinery potential enabled through the Östrand investment

- Energy surplus and byproducts from pulp production create opportunities in biorefinery
- SEK 50m invested in a pilot plant in Obbola for the production of liquid biofuels from black liquor
- Environmental permit application for two full scale biorefinery lines initiated
- Investments enable debottlenecking of the recovery boiler

Long-term potential 2025?
Doubled wind power production by 2020

- Land with excellent wind conditions
- Land available through leasing
- Target of 5.0 TWh by 2020 will be exceeded
- EBITDA contribution of SEK 60-70m by 2020

Construction scheduled to start in 2018-2020

Current wind power on SCA land:
- 2.3 TWh
- 5.0 TWh

Target of 5.0 TWh by 2020 will be exceeded

EBITDA contribution of SEK 60-70m by 2020
Wood – moving forward in the value chain
Jerry Larsson, President Wood
One of the largest and most efficient sawmill operations in Europe

From 11 to 5 highly automated and efficient sawmills

SEK ~2.0bn invested since 2007

11 sawmills

2007: 1.8m m³
1160k m³/year

2017: 2.2m m³
430k m³/year

Average capacity/mill: (m³/year)

1.8m m³
11 sawmills

2.2m m³
5 sawmills

2007

Gällö
Vilhelmina
Gräninge
Jämtland/Örnsköldsvik
Rundvik
Bollsta
Tunadal
Tjärnvik
Boden
Graninge
Holmsund
Rundvik

2017

Gällö
Bollsta
Tunadal
Rundvik
Munksund

Long-term profitable growth with focus on value added products

Profitable growth

Higher and more stable margins over a business cycle

Customized products based on customer insights

Wood sales (SEKbn)

1997 2007 2017

1.1 4.7 6.0

Wholesalers Wood Industry Building Materials Trade

+9% p.a.
Product innovation

Pine heartwood decking

Outdoor cladding with concealed fitting
Wood – strategic direction

Continued profitable growth through focus on:
- Building Materials Trade in Scandinavia, UK and France
- Industrial customers with high demand for customized products

Optimized production sites for world-class efficiency:
- Well invested large scale units
- Focus on automatization and optimization

Digitalization
- New tools and services for a growing e-commerce market
Growing forest asset
Jonas Mårtensson,
President Forest
Swedish forest transformation

Exploitative selective logging of the 1920’s ¹)

The forest landscape of today

Note: ¹) Source SLU, Skogsbilder.
Europe’s largest private forest owner

Forestland
2.6 m ha

Productive forestland
2.0 m ha

Standing volume
232 m m³ fo

6% of Sweden
Significant real growth of 3.5%

<table>
<thead>
<tr>
<th>Forest growth metrics (m $m^3$fo)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross growth of standing forest</td>
<td>9.5</td>
</tr>
<tr>
<td>Natural losses and pre-commercial thinning</td>
<td>-1.3</td>
</tr>
<tr>
<td>Available growth of standing forest</td>
<td>8.2</td>
</tr>
<tr>
<td>Annual harvesting</td>
<td>-5.2</td>
</tr>
<tr>
<td>Annual net increase of standing forest</td>
<td>3.0</td>
</tr>
</tbody>
</table>

**Real growth rate of 3.5%** (in relation to the standing volume of 232m $m^3$fo)

**Current cash flow**
New harvesting plan every 8-10 years
Harvesting increase to >7m $m^3$fo in 2114

**Future cash flow**

Note: 1) Corresponding to approximately 4.3m $m^3$sub.
Improved practices has increased growth

Source: SCA measurements and estimates.
Note: Taxation = forest inventurisation. Lodgepole pine = Pinus contorta.
Young forests and lodgepole pine drive biological growth

High share of young forests currently in a strong growth phase

Age classification
Standing volume, %

- 0-20: 1%
- 21-50: 33%
- 51-80: 18%
- 80+: 51%

Strong growth phase
33% of volume
61% of growth

Tree species
Standing volume, %

- Spruce: 36%
- Pine: 40%
- Deciduous: 15%
- Lodgepole pine: 9%

Note: Lodgepole pine = Pinus contorta.
Planning, planning, planning

Planning key to increase growth

Frequency

1. **Calculation of sustainable yield – 100+ years**
   - Inventories, recalculations every 6-10 years

2. **Ecological landscape plans – 100+ years**
   - Set aside areas, areas for special management

3. **Stand selection for harvesting plans – 10 years**
   - Estimations of volumes and qualities

4. **Road construction – 5 years**

5. **Operational field planning for harvests – 1-3y**
   - Seasonal adoptions, consultations reindeer herding

6. **Supply planning – month, week, day**
   - Balancing harvesting, wood transport and industry supply
Improved seedlings

- The world’s largest forest tree nursery with capacity to produce 100 million seedlings per year
- Selective breeding bring seed with higher quality, survival rate and growth
- On site R&D to improve growth and protection
- Innovative seedling systems

>25% faster growth potential than natural regeneration
Global climate change

Increased growth in northern Sweden

- Significant longer growth period – earlier in spring, later in autumn
- 25-30% increased growth by the end of the century

Global warming will have a significant impact on the climate in northern Sweden

3-4°C increase in temperature by 2100

Increased risk

- Increased risk for storms, fire, infestation and snow damage
- Damage to soils and water due to shorter period of ground frost

Source: Skogsstyrelsen.
Note: Based on base case which includes a significant decrease in emissions. Areas furthest from the equator will receive the largest changes.
Increase in both standing volume and harvesting level

Harvesting from own forest (m $m^3\text{sub}$)

- +165%

Standing timber volume (m $m^3\text{fo}$)

- +75%

Increasing cash flow
Growing asset base

Note: Historic growth based on Tax I-VIII. Current growth and forecast based on Tax IX (2013) and current practices.
Nature conservation impacting current harvesting level

Forest holding by age class (by area – ha)

Large share of the forest in harvestable age is saved for nature conservation

High share of young forests currently in a strong growth phase
• Harvesting will rise when the younger forests reach harvestable age around 2035
### Responsible forest management

<table>
<thead>
<tr>
<th>Nature conservation areas</th>
<th>% of productive forest land</th>
<th>FSC requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary set-asides</td>
<td>5-8%</td>
<td>≥5%</td>
</tr>
<tr>
<td>Nature considerations during harvesting operations</td>
<td>10-15%</td>
<td>~5-10%</td>
</tr>
<tr>
<td>Alternative forms of forest management</td>
<td>3-5%</td>
<td>–</td>
</tr>
</tbody>
</table>

**Sum (over the rotation period of the forest):**

- **~20%**
- **~10-15%**

21% currently excluded from harvesting
Technological and organizational development drives productivity

1. Technical development
2. Instruction, training and feedback
3. Ownership structure
4. Coaching and business development

Graph:
- Productivity development (m³ sub/ day’s work)
- Organizational development
- Technical revolution
- Storm felling
Efficient wood sourcing organization secures wood supply

Europe’s largest private forest owner

2.6 m ha

Wood sourcing to industries

10 m³ sub

Control of infrastructure

8 timber terminals

50% self sufficiency

Terminal
Industry (pulp wood)
Industry (saw logs)
Forest district
Wood supply unit
Plant nursery
Train/truck boarder
Railway
SCA’s forest holding
Attractive offering for local forest owners

- **i** Harvesting services – leading cost position
- **ii** Silviculture and advisory services
- **iii** Strong financial and industrial partner
- **iv** Skogsvinge™ – a digital tool

Relationship with 14,000 forest owners
Europe’s largest private forest owner

- Sustainable forest management
- Significant growth through young forest and active management
- Stable and long-term increasing harvesting rate
- High productivity and efficient value chain
- Securing timber and biodiversity for future generations
Increased value from each tree
Toby Lawton, CFO
Capital allocation

Creating Shareholder Value

Strategic Investments

- High return projects
- M&A
- Investment Grade Rating

Capital Structure

- Net Debt to EBITDA
- Integrated value chain

Forest Asset

- Real growth of 3.5%
- Supported by strong cash flow

Dividend

- Stable and increasing

High return projects

Integrated value chain
Value creation for the forest owner

Saw logs
- Price: ~510
- Revenue: 63%
- Volume: 48%

Pulp wood
- Price: ~280
- Revenue: 37%
- Volume: 52%

Note: Price in SEK/m³sub.
Integrated value chain creates significant value add from one tree

**Wood raw material**

(m m³sub)

~9

**EBITDA margin**

22.6%

**Industrial ROCE**

13%

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**Income / m³sub**  
Saw logs ~510  
Pulp wood ~280  
Forest owner ~390  

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- Wood products
- Pulp
- Publication paper
- Kraftliner
- Chips
- Pellets
- Wind power
- District heating
- Green electricity
- Combined logistics

**SCA**  
2,000+

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Investment in value chain drives profitability

- **Increased value from each tree**
  - Growing forest asset

**Value Chain Timeline**

- **2015-2018**
  - Östrand expansion
  - SEK 7.8bn investment
  - Start-up in June
  - Further growth potential

- **2018-2019**
  - Increase share of WT Kraftliner
  - Agreements signed for construction in 2018-2020

- **2020**
  - 5.0 TWh wind power on SCA land

- **2019-2021**
  - HVO production from CTO
    - Joint venture with St1 signed
  - Kraftliner expansion
    - Pre-project to prepare for expansion at Obbola
  - SEK 50m pilot plant
  - Environmental permit

- **2025?**
  - Biorefinery optionality

**Increase value add**

**Utilization of land**

**Increase value from byproducts**

**Time**

- 2019-2021/22
Forest seasonality

Net sales (SEKm)

EBITDA (SEKm)

Harvesting of own forest (k m³ sub)

Revaluation of forest – lower revaluation when harvesting from own forest is high

High level of harvesting from own forest in Q2 and Q4
Factors affecting relative profitability

- **Price to industry**
  - Market prices, externally sourced wood sold at cost

- **Harvesting efficiency**
  - Industry leading cost position

- **Young forest currently in a strong growth phase**
  - Lower harvesting level
  - Higher level of thinning and share of planted forest

- **Gains from wood swaps**
  - Attributed to industry

- **Capital gains on land swaps and land sale**

**Incomes**

<table>
<thead>
<tr>
<th>Age (y)</th>
<th>Thinning</th>
<th>Final harvesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>80+</td>
<td>Income / m³</td>
<td>Index</td>
</tr>
<tr>
<td>Price</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Harvesting cost</td>
<td>-40</td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td>40</td>
<td>75</td>
</tr>
</tbody>
</table>

**Costs**

- Pre com. thinning
- Fertilization
- Road construction
- Silviculture

**Forest holding by age**

- Increased profitability as fast growing young forest reaches harvestable age

**Note:** Forest holding by hectare.
Supplies industry segments with wood

Sold at market price
- Prices based on market prices in SCA’s region

Price premium for certified forest

No EBITDA contribution from externally sourced wood (sold at cost to industry)
- Östrand investment will increase Forest’s sales but not EBITDA

(SCA wood sourcing, SCA wood usage, Wood sourcing 2017, Wood sourcing post Östrand)
Leading cost position

1. Optimization and efficient forest management

2. Industry leading cost position

3. Economies of scale
   - Europe’s largest private forest owner
   - Relationship with 14,000 forest owners

The graph shows the harvesting cost (index) over time, compared to the consumer price index and storm felling events. The harvesting cost is indexed to show trends and comparability over the years.
Forest portfolio optimization through buying and selling land

1. Move forest closer to the industry
2. Improve forest consolidation
3. Swap of land for nature reserves

SCA’s land purchases

<table>
<thead>
<tr>
<th>Volume (thousand m$^3$fo)</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,655</td>
<td>185</td>
<td>123</td>
<td>261</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Price (SEK/m$^3$fo)</th>
<th>2014</th>
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<th>2016</th>
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<tbody>
<tr>
<td>264</td>
<td>273</td>
<td>263</td>
<td>259</td>
<td></td>
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</tbody>
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<table>
<thead>
<tr>
<th>Value (SEKm)</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
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<tbody>
<tr>
<td>437</td>
<td>50</td>
<td>32</td>
<td>68</td>
<td></td>
</tr>
</tbody>
</table>

SCA’s land divestments

<table>
<thead>
<tr>
<th>Volume (thousand m$^3$fo)</th>
<th>2014</th>
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<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,405</td>
<td>270</td>
<td>176</td>
<td>385</td>
<td></td>
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<tbody>
<tr>
<td>322</td>
<td>310</td>
<td>274</td>
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<tr>
<td>452</td>
<td>84</td>
<td>48</td>
<td>104</td>
<td></td>
</tr>
</tbody>
</table>

Stable price at ~270 SEK/m$^3$fo

Legal restrictions

- Prevailing law in Sweden prohibits legal entities from the net purchase of forest land from private individuals
Improving forest consolidation

Forest land swaps

- SCA’s forest land
- SCA gains
- Counterparty’s forest land
- SCA gives to counterpart

Acquisition of land to create larger consolidated areas

- Forest ownership in Roggsjön 1955
- Forest ownership in Roggsjön 2017
Wood swaps drive both financial and environmental gains

- Wood swaps totaling 1-1.5m m³ sub annually
- Cost saving from lower transportation costs
- Reduced emissions
- Collaboration with several large forest owners

SEK 60m annual saving
IAS 41 valuation

Accounting valuation and regulations

Forest valuation is divided into two components

- Actual land – IAS 16 Property, plant and equipment
  - At acquisition cost (acquired long ago) and road investments
- Growing forest – IAS 41 Biological assets

IAS 41 principals

- Calculation based on existing harvesting plans, growth assessments and technology
- No global warming effects included
- Environmental restrictions taken into account
- Latest forest survey conducted in 2012-2013
- New assessment approximately every 8 years

Assumptions

- WACC 5.25%
- Price and cost based on 5 year averages
- 2% price and cost inflation
# Market valuation of forest assets

## Assumptions
- WACC / required return
- Price

## Forecast harvesting plan
- Growth and harvesting
- Improved seedlings
- Silviculture and fertilization
- Technical development
- Climate change

## Land value
- Land value not included in IAS 41

### Value of forest land (2017, SEK/m³fo)

<table>
<thead>
<tr>
<th></th>
<th>Book value</th>
<th>SCA purchases</th>
<th>SCA divestments</th>
<th>LRF northern Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (2017)</td>
<td>135</td>
<td>259</td>
<td>270</td>
<td>276</td>
</tr>
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</table>
Concluding remarks

Ulf Larsson, CEO
## Profitable growth strategy

1. Forest – the source for value creation
2. Paper – Kraftliner expansion
3. Pulp – start-up of a SEK 7.8bn investment
4. Renewable energy – the next value creator
5. Wood – moving forward in the value chain

**Increased value from each tree**

**Growing forest asset**
This presentation may contain forward-looking statements. Such statements are based on our current expectations and are subject to certain risks and uncertainties that could negatively affect our business. Please read SCA's most recent annual report for a better understanding of these risks and uncertainties.