

**SCA**  
**Year-end Report 2015**  
**Moderator: Magnus Groth**  
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**10:00 A.m. ET**

Josephine Edwall: Hello, and welcome to SCA's Year-end Report conference for 2015. My name is Josephine Edwall, head of communications for SCA.

Today, our President and CEO Magnus Groth will, together with our CFO Fredrik Rystedt, go through the report, followed by a Q&A session. So, with this, I hand over to you, Magnus.

Magnus Groth: Thank you, and welcome.

To summarize 2015, we had the good organic growth in sales and in operating profit, and especially strong growth in emerging markets, 11% organic; a good cash flow and continued contributions from efficiency savings, so on a similar level to 2014.

The Board of Directors have proposed an increase in the dividend of 9.5% to SEK 5.75 per share, and we'll talk more about this in a second.

Looking at the year in full, we had organic sales growth of 5% and an operating profit increase of 8%. The year 2015 very much was influenced by very high raw material headwinds, primarily relating to currency changes that affected then the raw material prices.

So actually, the raw material prices increases that we have mitigated over the year amount to well over SEK 2 billion, approximately SEK 2.3 billion. So we have worked very, very hard with price increases, volume growth and with efficiency improvements, in order to mitigate these raw material headwinds.

Operating margin, in spite of these headwinds, improved by 20 basis points and earnings per share by 6%. Excluding items affecting comparability, the increase would be 11%.

A very strong cash flow; improving 16%.

This sums up to an improvement in return on capital employed. As you know, we have a target of 13% -- of 12% for the full year of 2015, which is then an improvement with 0.8% compared to 2014. So we are moving in the right direction, but we still have a way to go to achieve our target of 13% return on capital employed.

The dividend. Again, an increase by 9.5% is the proposal. That equates to SEK 5.75. This is then based on the improvement in profit and cash flow over the year.

Moving over to the fourth quarter and Fredrik will, in a minute, talk more about this, we continued to see good organic sales growth of 4%, to be more exact 4.3%, and an operating profit improvement of 5%.

Looking at the earnings per share it looks like a huge pickup, but included in this is the sale of the Industrivärden shares during the fourth quarter and also a tax provision related to Spain. Excluding this and items affecting comparability, the increase would have been 6% in earnings per share for the fourth quarter.

So, a continued growth in earnings per share also in the fourth quarter and continuing a strong cash flow. The fourth quarter last year was very, very strong in all these respects as well, so we continue to improve on that.

Important events, and I will not go through all of these, but highlight a few. The first one, the decision to acquire Wausau Paper Corporation makes us a strong number 2 in the Away-from-Home category in North America. So it's a very important step for us in the North American market.

I'm very happy that on January 21 we were actually able to close this acquisition, so very, very quickly. The integration work has started with full steam and the full integration effects we expect to see in three years' time. But there's a very, very positive sentiment and we're all very excited about now working together as one team in North America: SCA and Wausau. So, very nice progress there.

The other bullet point I'd like to highlight is the decision to divide the Group into two divisions: the hygiene division and the forest products division. What we have communicated is that beginning of next year we will give more information around the forest products division, more detailed financial information.

We are right now working very hard to look at different options for this division into two divisions. It's complicated; there are different possibilities and opportunities with different tax effects and different legal implications and so on. So this is something we will work with during the year.

The strategic priorities are unchanged. So we continue to execute in all these three areas.

When it comes to profitable growth one thing that has been very important for us during the previous year is to go for fewer and bigger bets, primarily in emerging markets but also in some of our mature markets.

This we will definitely continue with during this year, and we see further opportunities to either improve or move out of markets or categories that are - or categories in markets that are unprofitable, and where we don't see an opportunity to improve and turn this around within the next 18 months.

So that will be a very, very important part of the profitable growth part of our strategy also, in 2016.

In efficiency, we have launched our new hygiene organization, on January 1, and it's already in full force. It seems to be a very, very natural fit with how we are working.

In this organization, we now have two supply chain organizations. One for tissue and one for personal care, with full responsibility for efficiencies, quality, service levels. I have high expectations that these two organizations will really, really contribute to efficiency improvements also, going forward.

We're also specifically looking into logistics this year, both in Europe and in Forest Products, to look at efficiency improvements in this area.

The third, but maybe most important strategic area, is innovation of course, because this underpins both growth and price mix, and market share improvements.

During the year, as I mentioned, we launched 30 new products, and in the fourth quarter, which typically the slowest when it comes to product launches, we had two, both in Tork. This is because in the retail area, we don't launch new products in the fourth quarter, this we typically do in the second and third quarter.

We have them here behind me. This shiny one is not only no touch, it also is equipped with sensor technology. So the increasing amount of customers who are now deciding to buy Tork solutions, that measures actually the level of tissue inside the dispenser, they can now choose this option. Of course, this helps the facility managers in seeing the consumption pattern in the washroom, and also when the sensor needs to be -- or the dispenser needs to be refilled.

The other product is a very rugged product, with high capacity, that is used in arenas and other areas where you have a lot of traffic in a short time. So with a compressed tissue inside, so that we can fit in twice as much tissue as we could previously. So the need for refill again, an efficiency improvement for the facility management companies.

When it comes to number of launches, 30, we are happy with that number, and expect a similar number next year, or this year.

However, what's very, very important, that we're working with, is to make these launches bigger, more global, and also to execute faster on the launches,

so we don't have product launches starting in one market, and then rolling out slowly.

So this is something we're working very hard to improve, going forward, and there's a potential here, definitely, in getting more bang for our bucks, when it comes to innovation.

With that, I'd like to hand over to you Fredrik, to talk about the financial in more detail.

Fredrik Rystedt: Yes, thank you, Magnus. I will give you some more insight into the fourth quarter.

Starting with net sales here, you can see that our organic growth, was just over 4%, so 4.3% for the quarter. This is, in this quarter, mainly driven by volume. It's a little different to the previous quarters, where we've had bigger price components.

Volume was really strong, particularly in Personal Care, across the board, in all categories, and also reasonable on the Tissue side of our business.

Look at the pricing side, here, of course, the price increases that we've talked about before, in Consumer tissue in Europe and Away-from-Home on the tissue side, they, of course, impact the growth here, that you can see.

Latin America, we have previously increased prices quite a lot, as you know, and some of that was actually made in the fourth quarter of 2014. So from a comparable basis, they are now sort of into the comparable numbers that -- from last year. So, in essence, we have slightly less impact from price in these numbers.

If you look at the full years, we've had this growth momentum, so around 4% to 5%, pretty much throughout the year. As previously, this is driven by innovation.

We have new customers. We've reported on that for instance, in the European baby business, but we have also of course, been, to some degree, helped by

currency-driven price increases that we've made in Russia and Latin America, etc.

So it's been a good momentum and, of course, not to forget here, Vinda continues to contribute also, in the fourth quarter.

If you look at the operating profit side, here again, we have -- and I'll come back to this in a second. But, again we have a very, very strong material, raw material impact, a negative impact, as you can see. This equates to close to 2% of margin, just for this quarter alone, for the Group as a whole. We have compensated this through price mix and on the volume side.

So if you look at the price and mix, a lot of this on the pricing side is actually coming from tissue this time. A little less from personal care, because of the comparables, but we have continued to increase prices, largely for tissue, as we have communicated.

If you look at the volume, just the opposite, Personal Care continues to grow quite significantly, in most areas. But also Tissue has growth.

Raw material here, as before, a very significant portion is actually on the tissue side, so if you take the total number there of SEK 530 million, or SEK 529 million, SEK 450 million actually comes from Tissue, and the rest is Personal Care.

In Personal Care, we have a slight positive impact from oil-based materials in this quarter, but the actual currency impact, because of Latin American currencies, is actually more than the 100% of the impact.

The other number here, minus SEK70 million, this is a combination of a lot of different things. We continue to generate efficiency savings, pretty much to the tune we did last year. So we keep that pace, but we've also spent more in terms of A&P. We've spent also more in terms of sales costs primarily. And, we have the ordinary salary inflation, within these numbers.

If you just -- this is maybe something you are quite aware of, but it's actually quite interesting to look at the currency, because we have repeated this discussion pretty much every quarter this year, or for 2015.

This gives you a little bit of the impact on the different individual currencies. These are just examples. Of course, the main impact comes from the euro/dollar movement, and the purchases of pulp we made -- make in consumer tissue.

But if you look at some of the other currencies there, US dollar/ruble or reals in Brazil and Mexican peso, if you look at those, what you can see there is they have a very, very significant impact on the purchases of raw material.

What's more noticeable here, this weakening of these currencies, or put it differently, perhaps strengthening of the US dollar, has actually continued. So we keep on seeing these negative trends and that's why you see pretty much similar numbers in every quarter for raw materials. So the underlying trend is not necessarily negative for the raw material as such, but the currencies keep on moving in the same direction.

We talked about price increases at the early part of this year, or throughout this year, and the attempt to compensate. This picture actually gives you a little bit of the feeling of how we have done in these different areas. If you take a look at the upper right, Personal Care, the raw material costs have been 200 basis points, or 2%, in margin for the full year.

We have actually, through price and mix, and this is important, a considerable part is actually mix improvement, but we've also compensated a significant portion in price. So the net impact on Personal Care is actually positive. Hence, you see as a consequence a higher margin.

If you look at tissue, a tougher challenge, but we have compensated in, primarily, price on the tissue side. So we still have a net impact and that we have compensated with, primarily, efficiency gains.

Forest Products is a different story. There, of course, the price and mix has been very positive because the weakening Swedish crown and the

strengthening euro, if you take it versus last year, has had a positive impact, but the underlying pricing of the products has actually been down, so quite the opposite there.

One thing, we have showed this before, this is our different businesses in the market compared to mature. As you can see on the table in the middle here, we have continued to improve in the mature markets, and that we have done for several years. This is, of course, innovation driven and it's also efficiency driven.

We continue to have a larger share of our sales now in emerging markets. Now, we're at 32%. In 2013, we were 24%, as you can see. But margins are still down. If you look at markets such as India and such as Brazil, we continue to have investments and high cost ahead of us.

Of course, as an example Brazil, there we have taken a decision this year to establish production capacity, which will take the cost down eventually. But we continue to invest and, of course, that has a big impact on the overall margin for the Group, and especially as the portion of the D&E markets continue to grow.

Finally, just a couple of words on the cash flow side. We're quite pleased with the performance this year. If you look at the operating cash surplus, that has, of course, increased quite a lot; actually, more than the EBIT increased.

This has to do with the fact that in 2014, we had currency swaps included in -- not currency, sorry, forest swaps included in the EBIT number. That's not cash flow. In essence, in 2015 we don't include that, so the improvement in cash flow is actually bigger than what you see on the EBIT line.

We've continued to strengthen our position in working capital. If you actually look at the exit working capital in percentage of sales, it was just over 7% in 2015, compared with approximately about 8% in 2014. So it's been a good year in terms of cash flow.

Finally, on the strategic and maintenance capital expenditure, there we have a big increase. This is, to a large degree, if you look at the full year, related to of



course Östrand. We took -- we actually did part of the Östrand investment already in the fourth quarter, so that's why Capex is slightly higher in the fourth quarter.

But we've also taken pretty big capital expenditure also for Brazil, as an example.

So with those words, Magnus.

Magnus Groth: We move over to a closer look at the different categories. Personal Care to start with. As mentioned, in the fourth quarter continued growth, both in profit and in margin. This comes from all areas: better price/mix, higher volumes, cost savings.

Our target when it comes to return on capital employed for personal care is 30%. So we have a quarter where we're actually above our target. Of course, we want to do even better, but this is a positive development. This actually comes both from mature markets and emerging markets. We have a 7% growth in mature markets and 11% in emerging markets.

Looking at the categories, incontinence products is worth mentioning because we see an improvement here year over year now and quarter over quarter. The reason behind this is that we have been successful in growing market share in Europe, and also slightly in North America in the healthcare part of our business, which is the biggest part of our incontinence care business.

While in the retail part, where we have been losing some market shares, due to the entry of Procter & Gamble and high competition from retailer brands over the last year or so, we have stabilized market shares now. We are expecting to turn around in retail in Europe during this year.

When it comes to retail, North America, we are still challenged. We're working very hard with a turnaround plan for that part of the incontinence care business, but that's a tiny part of our incontinence care business.

As you can see, feminine care is really, really continuing to grow quarter over quarter.

A slightly lower growth in baby diapers is partly reflected by our effort to cut out smaller positions, like we've done in Brazil, in Mexico, in Thailand. Most of this then growth comes from Western Europe.

Tissue, where we have growth but a slight decline in operating margin. Again, significant raw material headwinds, compensated by price/mix, volumes, cost savings. Our target when it comes to return on capital employed is 15%, so still some way to go here.

Digging into the geographies, we had a tiny growth actually in mature markets. There are some reasons for this. We have been pushing for price increases very, very -- I think throughout the year. When there's been a choice between volume and price, we've been pushing for price. This is partly then reflected also in the volume growth in mature markets.

Also, in the fourth quarter last year we had quite significant customer pre-loadings in Away-from-Home in Europe, which we haven't seen to the same extent this year. That was a tough comparable for us.

The emerging markets continue to grow, 10%. As you can see at the bottom there, to the right, Asia, Latin America, Russia, all continue to show good organic growth, in spite then of the pressure on purchasing power for the consumers in these countries, because of the depreciations of the currencies, but they still continue to increase the purchase of our tissue categories.

The difference in growth between Consumer tissue and Away-from-Home also reflects the fact that most of the growth in emerging markets is Consumer tissue. In Away-from-Home tissue, specifically in Europe, we had this pre-loading last year.

Finally, Forest Products, where we had a slight decrease in operating profit and a decrease in the operating margin, in spite of lower raw material costs and energy costs and some higher volumes. The effect here comes, to a large extent, from price. This is in sawn wood products, in pulp, and, to some extent also, in printed products.

We also have here an impairment loss of trade receivables in Egypt, which amounts to approximately SEK 40 million. This relates to currency restrictions imposed in Egypt January 1, 2015. These receivable have now become overdue, and that's why we are prudent and impairing for them.

So overall an operating margin of 14.8%. In this, we also have a positive effect now from the depreciation that we've made of the Ortviken mill at the end of last year, I think in September, Fredrik?

With that, to sum up, overall, quarter over quarter, we continue to have good organic growth in sales and operating profit. We have taken several strategic initiatives that we continue to execute this year.

With this, I'd like to hand over to Josephine. Thank you for listening.

Josephine Edwall: Okay, let's start with the Q&A. Shall we start here in the front row, Linus?

Linus Larsson: Linus Larsson, SEB. You've made changes to your financial targets, and I assume something has changed. But exactly what changes have given you reason to change your financial target?

Magnus Groth: Yes, the reason, and I'll hand over to you, Fredrik, for the technicalities that we're doing this, and not really saying much about it, as you can see, in this presentation is that it's a modernization. We've had the same target for many, many years.

At that point when they were put in place we were mainly a forest products company with a smaller part in hygiene. Now, we want to relate and modernize the targets and actually relate them to our investment rating. Fredrik, maybe you want to --?

Fredrik Rystedt: No, I think you're absolutely right. If you look at the capital restriction, if I put it that way, it's actually based on the previous. The previous was D&E ratios, so debt to equity ratio. Of course, the primary purpose of a restriction like that is to have a safe and secure access and favorable terms to the capital market, so the funding side of things.

Of course, as you know, the rating agencies and funding institutions, they wouldn't typically look at the D&E; they're more cash flow-related. We think it's much more modern and appropriate to tie our capital structure to the rating agency logic, if I put it that way. So it's not a change in behavior, it's much more a modernization.

Then when you look at the dividend policy, it was set I think in 1997 or something like that. It was related to a measure, which has not been followed for, I think the last 10 or 15 years. So we're basically just updating. It's not a change of behavior, Linus; this is just a modernization.

Linus Larsson: Very good. Thank you. May I follow up on the personal care side? You have pruned your asset base; made changes in Brazil, Mexico, South Africa. Could you say something about the significance of that in the results? How much is already reflected in the fourth quarter operating profit and how much is still to be reflected?

Magnus Groth: These changes have an impact in the fourth quarter already, some of them. Some of them we'll see coming in the first quarter, but they are -- the ones that we see now going forward are quite small compared to the ones that were already reflected in the fourth quarter actually.

Linus Larsson: Finally, if I may, just one last question regarding the reorganization that you're planning into two divisions, beginning of next year. You said that you're looking at different options. Could you please elaborate?

You talked about legal and tax implications. Could you say a bit more about that? What potential outcomes could there be?

Magnus Groth: The reason why it's complicated is, from an organizational perspective, Forest Products are working very much in their business unit already today. But from a legal structure, actually, our forest assets are split in different legal entities, and a large proportion is in the parent company.

Also, actually, some of the ownership of the actual industry is in different companies.

So that's why we're looking, is it possible to also make a legal split. How long will that take? What would be then the stamp duties, for instance, that you would have to pay, or other tax implications? Those different options we're right now exploring so it's too early to say what the different options could be.

Linus Larsson: Thanks.

Mikael Jåfs: Mikael Jafs, Kepler Cheuvreux. You showed us a slide there how effective you have been in taking back, or clawing back the higher raw material costs, and this was very successful on the Personal Care side but then not so successful in Tissue. Could you talk a little bit about the differences and the future there?

Magnus Groth: There's partly a geographic explanation to this, because we are heavier, relatively, in Personal Care in the emerging markets where there's a higher acceptance to price fluctuations and price changes, and where many of our competitors are in a similar situation also. While the Tissue business is very heavy towards mature markets, and specifically Europe, where we, of course, are negotiating with all the big retailers and where it's more difficult to achieve price increases year over year.

But we're very happy with the progress we've made in Europe in a tough general climate, and where we'll continue to work with all of the different levers; so price mix, efficiency improvements, and also balancing that with volume growth, of course.

Mikael Jåfs: Thank you.

Stellan Hellström: Stellan Hellström, Nordea. To touch upon that question again, maybe also, I think previously you have said that you were hoping for price increases in Away-from-Home tissue in the beginning of this year. Now, you're saying that there is no pre-loading. Does that have any effect on that?

Magnus Groth: We actually have put in place some price increases for this year in Away-from-Home Europe. But we've tried to do it in a way to avoid the same pre-loading effect that we had last year.

But yes, you're right; but, of course, it's just a balance. With massive price increases, you get big pre-loading. So there's a balance.

Stellan Hellström: Very good. Also, reflecting on your strong volume performance here in Personal Care and the improvement in incontinence care, you've had increasing A&P spending in 2015. Do you feel the need for continuing doing that in 2016 or actually maybe even in decreasing?

Magnus Groth: The A&P spending. Yes, partly from incontinence care. Again, the fight with P&G, which actually had had a very, very positive volume effect, so it's not all bad, it's also been helping us in several areas.

It comes from India, which is an entirely new business that we're building from scratch; and also from China and Vinda, where they have been pushing very hard to actually grow more than 50% of the market growth, and probably about 60% of our overall market growth in the Chinese market. So they have taken the opportunity, if you look at the market dynamics, to really capture some growth and to improve their market position.

Going forward, I think that, in some areas where we are spending more, also like in feminine care, for instance, it has a huge payback. So you have to look at, of course, the margin improvement in the end. And, in other areas, we have to balance it; so it's always a trade-off.

But there's nothing wrong with increasing A&P, of course, in categories where you have very high gross margin, so that you also have a high EBIT margin. Those are the categories we want to grow.

Stellan Hellstrom: Sure. Also reflecting on the headwind that you had on the raw material here. Can you say something on how you see that going forward? Particularly in light, I guess, of the lower oil price and the effects of that.

Fredrik Rystedt: Yes, Stellan, I showed before the currency graphs that you saw, so of course we'll continue to have negative currency implications.

If you look at the oil-related materials, we had a positive impact in Q4. It was actually not that big, but it was there. We'll have that as we continue if oil

prices -- or actually, plastic indices stays where they are at this point, we'll have a benefit in Q1 and onwards.

But, of course, if you look at the different units, starting with Personal Care, it's actually difficult to forecast, because of the very significant movements you have here in the currencies. But it should be pretty much on par with last year in that sense. So we'll compensate some of the raw material with oil-based material benefits.

If you look at Tissue, it will be still continuing a higher cost than Q1 of last year, of 2015. But not as big, hopefully, as you've seen this quarter.

Stellan Hellström: Very good, thank you.

Josephine Edwall: Any more questions from the floor? So then, operator, let's open up for questions from the telephone, please.

Operator: (Operator Instructions). Celine Pannuti.

Celine Pannuti: My first question is on pricing. You mention the pricing element in Away-from-Home. Where is the rest of the negotiation in Tissue?

Likewise, in personal care, you just mentioned that FX continues to be an issue. Shall we expect to see a further pricing to recoup that FX witnessed in emerging markets, or same question, pricing outlook on personal care, please?

Magnus Groth: Starting with away-from-home. Typically, the negotiations are annual then, with a price change from January 1, and this is what we are seeing this year in away-from-home Europe. We don't have any major price changes in North America. So that's the price increase in away-from-home.

In consumer tissue, it's more of a rolling process, depending on the contract structure and depending on the customer. Of course, we are pushing very hard to continue to compensate for raw material headwinds in consumer tissue, in mature markets. Again, in emerging markets it's easier, because there's a higher acceptance of this.

Personal care, finally. Yes, we are planning for price increases in emerging markets in personal care during the first quarter, so this is something that we're working with right now.

Celine Pannuti: Is there any magnitude? Should we expect something the likes of the same level as we've seen in 2015?

Magnus Groth: It's very difficult to say because of the volatility in the currencies and the raw materials. One thing we learned last year, and you can see it, for instance, in the ruble graph previously, is that these currencies swing back and forth, and you have to time this correctly. I think we did it quite successfully. So it's very difficult to say something about the magnitude.

Fredrik Rystedt: Celine, we can say, as we did last year, we'll promise we'll really, really try to increase prices, but we cannot promise the impact. So it will depend on the competitive situation and, of course, a lot of other factors such as demand, etc.

Celine Pannuti: All right. And then, the other question I had was on these strategic priorities, when you mentioned that you have moved out of some countries and categories and that there is more to be done. First of all, can you quantify what impact this had on Personal Care in the fourth quarter?

And as you look at 2016, when you said there are still opportunities, what is the percentage of your business that you think needs to be fixed? Or is it in that category -- the magnitude of the work you have to do there?

Magnus Groth: We're in the middle of that work now, so obviously it's very difficult to give any specific numbers. It could also change over time. So I can't give you any numbers on that.

And regarding fourth quarter of last year, I don't know, Fredrik, do you?

Fredrik Rystedt: Yes, it's actually quite small. As you know, it's Thailand had an impact, but it's relatively small. It's positive, but it's small in comparison of the totality. South Africa was pretty much executed during the quarter, and the impact is very small in Q4. And then, finally, Brazil, which is just pretty much closed at the end of the quarter. So it had a small impact.



Celine Pannuti: All right. Thank you.

Josephine Edwall: So, next question please, operator.

Operator: Oskar Lindström.

Oskar Lindstrom: I have three questions; I can go ahead and pose. The first one is a bit of a follow-up on the question from Linus earlier about the options, as you expressed it, for the Forest Products subsidiary, and especially around the timing of the move of the legal ownership of the forest lands. Will that be completed by the end of this year?

And then on that also, can you be more specific about how you plan to avoid capital gains, tax or stamp duty if you make such a transaction?

Magnus Groth: Sorry, but I can't be more specific. We are evaluating those options now, so it's too early.

Oskar Lindström: All right. How about the timing of the move of the forest lands from the parent company?

Magnus Groth: That's also too early to give any further.. (multiple speakers).

Oskar Lindström: Okay. Move on to my second question. That's fine. It's regarding organic growth in emerging markets that we've seen in 2015 has been very high. How much of this has been volume and how much has been price?

Magnus Groth: I don't have the exact number. It's been a good mix of both actually. Of course, it's a lot of price in it, due to the currency fluctuations. But there's also good underlying volume growth in almost all markets.

Do you want to be more specific there, Fredrik?

Fredrik Rystedt: No. It's exactly as you say; we have really good volume, but of course, we've raised prices. If you take Latin America, as we've already alluded to, we have raised prices a lot and Russia. But pretty much on all, and I think you

mentioned it, in all categories, in Personal Care, in most or pretty much every geography, we've had good volume growth.

Magnus Groth: And this helps us also from a cost perspective, because we're seeing much better capacity utilization in our plants, so -- and this, of course, helps for return on capital employed, so it's a positive element.

Oskar Lindstrom: And to follow up on your answer here, on balance then between better capacity utilization and your plants in emerging markets and the ongoing investments, both in Vinda and India, and maybe some other markets, should we expect margins in emerging markets in the hygiene side to improve or what kind of --?

Magnus Groth: I think it's important that we, as the management, really balance that, so that we don't end up with having too much D&E markets with low margin. So this is the balance we have to make.

The big bets that we're making right now, like Russia, we're in since many years, but if you take Brazil and India, are -- I mean the positions, and China, of course, that's developing very promisingly, those are the bets that we have made.

Then the other positions we're looking at, it's more to see how can we improve profitability.

Fredrik Rystedt: Maybe we can also complement because what we're doing when we make these big, especially organic bets like you see in Brazil and India, we work with fairly rigid business plans and if you look at that, it's actually value creative.

So we look at creating value in the end, but that actually means that we need to invest over a period of time. So as the utilization in India, as an example, is very small at the outset when we build the machinery and the equipment and we don't have the market. But then, we also build the sales organization, so it takes time to build that up and as we go along, we increase the asset utilization.

Same thing for Brazil basically. There, we import at very high cost and as we put the plant into work, of course, our cost position, over time, will increase.

So we keep very, very tight control. Yes, it will improve, and -- exactly. So we keep very tight control of the business plans that we've made.

Oskar Lindström: All right. My final question links on to this one and it's about your strategic investments. And if we look at the two big ones recently have been Wausau Paper on the tissue side and, of course, the ongoing investment in Östrand on the forest products side.

Do you feel any sort of urgency to make larger strategic investments on the Personal Care side? You are making some organic investments, but the financial size of those seems significantly smaller than what you've done in Tissue and are doing in Forest Products.

Is it difficult to find good acquisition targets in Personal Care? Is that one of the limiting factors?

Magnus Groth: We're continuing to -- working hard. We're looking at acquisition opportunities, but you never know when they arise and it's difficult to find the right opportunities, I'd say, in any category. So it's not specifically for Personal Care; I wouldn't say so.

The positive side of personal care is that it's much less capital intensive. Last year and this year, we're putting more new personal care machines, I think, into our plants than we've done for many, many years.

Over the last three years, we already made important upgrades of the baby business in Europe, with a very, very positive effect on profitability and growth. We've also been doing this in incontinence care, that we're continuing to invest in.

With the very high returns in these categories, we actually do a lot of investments, but they don't show as much on the balance sheet, which is a good thing, of course. But, we also continue to look at M&A opportunities.

Oskar Lindström: All right. Thank you. Those are all my questions.

Operator: Iain Simpson.

Iain Simpson: Just a couple from me if I can. Diaper business in Western Europe is clearly going very well. Is that just share gains in Spain? Has that ramped up or are there wider drivers of performance there?

And then on forest, just wondered if you're able to provide any commentary on the likely outlook of pricing for 2016, considering FX and that sort of thing, and how we should think about that impacting on profitability?

And then just lastly, when you're talking about forest and your potential options when it comes to legal ownership shift, I can see the benefit of shifting the organization and running these things as divisions.

But what's actually the benefit of shifting the legal ownership structures? If you're having to think of ways to get around stamp duty and all that sort of stuff, why not just leave the legal ownership as it is? What upside do you see? Thank you very much.

Magnus Groth: Okay. I didn't hear clearly, was your first question regarding baby in Europe specifically?

Iain Simpson: Yes, exactly. The drivers of the share gain you're seeing there.

Magnus Groth: We are gaining share in most markets, both where we have our own brands, the Libero in Northern Europe and in Russia; and our private label partners in most of the big European countries. So a very positive momentum, and this is because of the fact that we have a very, very good product assortment now that's very, very competitive.

Also, we continue to ramp up the big contract that we won over a year ago now, but this takes time to ramp up, but we actually just finalized that, you could argue. So it's a good combination of growing market shares in private label, in brands and ramping up this contract.

Then when it comes to forest and price outlook, Fredrik?

Fredrik Rystedt: Yes, thank you, Magnus. It's actually quite challenging, but if you look at -- let me just start with pulp.

You've seen that the underlying prices, as expressed in dollar, have come down a lot. So we'll see it's around the \$800 level or slightly there below. Of course, what's also happened is that the softwood and hardwood pulp have come together, so the gap is now very narrow. So it would be likely, yes, that you'd see a more positive underlying US dollar-based pricing on pulp or softwood pulp as we go forward, but it's really, really difficult, of course, to estimate.

We look at sawn timber. There we've had, you can say continuously the last several months, or several quarters, we've seen an underlying price movement downwards. Good volumes, really good volumes, but we've seen a price movement downwards and hopefully that will stabilize as we go along.

Of course, publication paper for the time being relatively stable. But, over time, as you know, publication paper has a demand issue, and therefore pricing should be at risk there as it has been before.

Then the rest is, of course, currency. Now, we've seen in comparison to last year, a slightly stronger Swedish crown, that's a negative in price. So on balance of all of this thing it's actually quite difficult, but it should be slightly either flat or slightly down.

Magnus Groth: And then the third question was regarding our work to divide the Company into two divisions. What we want to create is a very, very strong Forest Product company that's integrated and where we create the most value for our shareholders, of course, in putting together forest land with forest assets that then monetizes, creates cash flow, from this forest land. So that's why we're looking also at different legal options.

Iain Simpson: Thanks very much.

Operator: Kartik Swaminathan.

Kartik Swaminathan: Kartik Swaminathan, Bank of America Merrill Lynch. The first I had was some additional color on what happened to central costs during the fourth quarter. I was under the impression that the third quarter's cost level might have been artificially depressed and you should see some level of normalization towards the said SEK 250 million per quarter range. So if you could provide a little bit more color as to what kept it so low and how to extrapolate that going forward?

Secondly, I think we've had quite a lot of commentary on raw materials, but if you could kindly clarify. With what kind of time lag should we expect the declining oil price which has fallen off a cliff since you last spoke, and pulp which has been consistently declining across both grades, begin to come through into COGS, gross margins and profit.

And then finally, it was a quick follow up on the question on return on capital. So, as I understand it your major cost cutting programs have ended as of 2015. You've hinted at new initiatives to come in logistics and some areas of Tissue in Europe and, clearly, the emerging market side of the business remains a very big gap to where developed markets is.

But you've also given some commentary of the idea that you want to expand areas, like Personal Care further, but at the same time emerging markets may be capped and never reach the level of developed markets. So what I wanted to understand was how does that equation play out in order to get you to your 13% Group return on capital target? Thank you.

Fredrik Rystedt: Central costs. If we look at the development there, what's now less of costs, of course, relates to the Team SCA effort that we've done. So we've lowered the costs a little bit, whilst we previously had a bid over SEK 800 million. If we look forward we should see around SEK 700 million for 2016 or thereabout.

The reason why it varies, it does because we have typically project costs that we may undertake during individual quarters so there'll always be some fluctuations on that as we go forward. But if you use that level roughly for 2016 of SEK 700 million or in that vicinity, you should get it approximately right for the full year at least.

If you look at the oil price, I think I alluded to it before slightly. We had a positive impact in Q4 of 2015 and we'll see a little bit more than that in 2016. So Q1 will be positively impacted. That's why I said that if you look at personal care as a whole, we'll see raw material roughly on par with last year.

If you look at tissue, of course, still very negative, because we don't have the oil-based component in there.

I think the last question you had on raw material was there on pulp and its declining pulp prices, but if you actually look at the underlying pulp prices, it's not declining. What is actually declining is the softwood pulp, but if you look at the hardwood side we have an increase of price.

So the net impact for the Group is actually not positive, and there is a real simple reason for it. We -- if you take tissue in general, we use a lot of both of these, and over time as we had a big gap between soft and hardwood, we've used an increasing percentage of hardwood pulp into our product. So actually the impact from the underlying US dollar-based pulp prices has not been positive.

Magnus Groth: And finally, if I start and you fill me in Fredrik, there are around how would we manage now cost efficiencies and growth and so on to achieve our target of 13% return on capital employed?

Starting with efficiencies. If you look at our overall cost structure for the Group, 75% of sales is cost of goods sold, and that's why I emphasized the supply chain units that we have put in place and how important they are for really, really finding the savings in this 75% of our cost base.

Behind those 75% a big part is raw material, where we are improving both in, of course, procurement, but also in raw material rationalizations in our products; in designing new products, so that they can use less material, and so that we have less waste in our processes; in improving machine efficiency; and, of course then, in the whole chain, including logistics and so on. So that's why I really emphasized that area.

This is also one of the reasons why it's unlikely that we would announce that we would make a big investment in another emerging market this year organically, because it has the drag on margins. We've made our big bets now and we work very, very, hard to deliver according to the plans and create a lot of value, actually, for the shareholders.

But don't expect that we've put the flag in another country big time with very negative margins, because we want to keep that balance. Of course, our overall target is to improve margins year over year, so we're very much focused on that. That's a restriction to how much we would invest in lower-margin activities.

Kartik Swaminathan: Thank you.

Operator: Cole Hathorn.

Cole Hathorn: Just continuing on from pulp prices, we've seen the pulp prices go down in China, at the moment. I know you've talked about hardwood pulp prices in dollars rising in 2015. But your outlook into 2016, is there a possibility of potential surprise on margin side in the Tissue business? And are you pushing for lower pulp prices there?

And then secondly on kraftliner prices, there's a ramp up from one of your competitors at the moment, what is your outlook for 2016 kraftliner prices?

Magnus Groth: If I do China. You do kraftliner. I take the easy questions.

So in the fourth quarter we had a negative impact in China from the devaluation of the Chinese currency, so that had a negative impact on the raw material purchases in China.

Going forward, depending on what happens with the Chinese currency, we'll decide what happens then to the cost for raw materials. While, actually, you're right, that the underlying cost for pulp in China is coming down slightly.



Fredrik Rystedt: Kraftliner, I think it's an absolutely valid point. We have new capacity that's now come on stream. Right now, it's actually not impacting. But it's likely to believe that that could impact us as we go forward.

Cole Hathorn: Thank you.

Operator: (Operator Instructions). Robert Waldschmidt.

Robert Waldschmidt: Just wanted to come back on your financial targets; you're targeting investment grade. I believe right now you're at investment grade. Didn't know if you have any targets for the ultimate debt rating that you will have for the Group.

And then two, in terms of dividend policy in particular, you target a stable and rising dividend. Does that imply a potentially fixed payout ratio? Will dividends grow in line with earnings? Or is there a different translation for that statement?

And then am I to understand that if you're unable to find organic investment opportunities and/or M&A, that you would return excess cash via special dividends?

And then also can you clarify how you see the tax rate evolving in 2016 and go forward. Clearly, we have the provision for SEK300 million of Spanish clawback for quite old implications. But I suspect to go forward your tax rate will be more around the 25% rate. Is that correct?

Fredrik Rystedt: Yes. I'll take the last question first. It should be around there. So of course, the Spanish issue is a temporary one-off thing. So you're right. It's approximately thereabouts in the 25% to 25.5% range, so somewhere around there.

You had a number of questions on the financial policies. If you look at the first one, it's actually solid investment grade. It's not investment grade, solid investment grade. And then if -- we don't have a specific debt to equity ratio as we've had in the previous policy. The simple reason, I mentioned it previously, we are targeting the credit market in the rating environment if I

put it that way, and their debt-to-equity ratio is not a major parameter. It's much more free funds from operations and those kind of things.

Of course, these measures will, over time, vary. So that's why we trigger, or aiming at, a solid investment grade, whatever that takes. We're A- today, so we're, in fact, well into that arena.

I think your second question was on the dividend ratio. No, there is no such thing as a fixed percentage of net profits or cash flow. It is exactly what we say: we aim towards a stable and rising dividend. That may vary of course how much the dividend will actually be. The major difference there is, of course, we also consider the capital structure, which is also said in the statement.

The final thing, of course, there is an intention in these different statements and that is that, first and foremost, we would like to invest into share value-creating activities or investments, that's our first and foremost ambition. If that is not -- then, of course, we'll distribute in accordance with the policy.

Should we not have anything to invest in, then of course we would be in a position to repatriate and that -- needless to say, we would do that. But, of course, we are first and foremost looking for good opportunities to invest.

Robert Waldschmidt: Just to be fully clear on the actual target for capital structure. You say solidly into investment grade; does that mean that we should expect that, over time, you intend to improve further your existing rating.

Fredrik Rystedt: No, no, it's a solid investment grade. In the rating environment, that actually means BBB+ or higher. We're now in A-, so, the capital policy therefore would stipulate, actually, a lower rating than we currently have so, we have that flexibility.

But we already have that today, so that's what I said: it's not a behavior change; it's pretty much exactly what we have today.

Robert Waldschmidt: Thank you.

Operator: Rosie Edwards.

Rosie Edwards: Just a question on pulp. Can you just remind us of your exposure now, I think you used to say it was a 50/50 split between soft and hardwood, although based on comments just earlier, it seems like that will have increased towards hardwood.

As much as you can say, is the increased exposure to hardwood something you're seeing across the industry? Have manufacturers moved towards that, or do you think you would stand out from the crowd there?

Fredrik Rystedt: No, again, I think we all adjust and work with different materials, so this is not unique to SCA; everyone does this. Of course, the point is here, is that we have one pulp, in this case, softwood that has come down and there is also hardwood that's come up, so they net each other out. That's the main point of the statement.

Magnus Groth: We will continue to optimize between hardwood and softwood always, depending on how the price has developed to minimize our overall costs.

Rosie Edwards: How's the mix --?

Magnus Groth: We have that flexibility and so that's the industry, so it's something we would be working with continuously.

Rosie Edwards: So, is it still 50/50 or -- in terms of the split between the two?

Magnus Groth: 61/39 to be exact now.

Rosie Edwards: And that's 61 hardwood?

Magnus Groth: Yes.

Rosie Edwards: Thank you.

Operator: Jeremy Fialko.

Jeremy Fialko: Redburn. A couple of questions. The first one is on the promotional environment in personal care. I remember that in Q3 you talked about how you benefited from some competitive promotions and the phasing of them. If you could just talk about what's going on there?

The second question is on tissue capacity, could you talk about the outlook for tissue capacity and where you see utilization going in some of your main markets in 2016? Thanks.

Magnus Groth: When it comes to the promotional environment it actually changes quarter over quarter so it's very difficult to say something about an outlook. So there could be a comment at the end of a quarter that it happened to be one way or the other. But it's very difficult to say, because it has to do with everybody's launch plans and different tactics between the different competitors. So no more information, really, to add there.

When it comes to tissue capacity, there are some good news and that's that the big increases of tissue capacity in North America seems to have now, more or less, all be on stream and prices are still at relatively good levels. There are some indications in some parts of the North American tissue business that prices are also trending up.

In China we also have some encouraging news that the risk that we saw for a very, very strong supply increase with a lot of new machines coming into the market has not materialized. So there's much less new capacity coming into China than the plans that had been announced by the different players. At the same time, we continue to see all the inefficient unsustainable capacity going out.

Of course, then there are other challenges in China. They're still a very competitive market and there's the whole, now, change from that produces the overall growth even though the change is to more internal growth, which is actually good for our category.

Then, in Europe, we have seen some more capacity coming into the market in some countries this year. Of course, that makes it more difficult to increase

prices. But, in spite of that, we have been successful, as presented, over last year.

Jeremy Fialko: In terms of Europe in 2016, do you see any increases coming on in 2016?

Magnus Groth: As I already mentioned, in Away-from-Home, there were some price increases.

Jeremy Fialko: Sorry, capacity?

Magnus Groth: In consumer tissue we are always negotiating with the retailers. It's a tough environment, but we're working very hard, of course, to recover the cost increases that we have from raw materials.

Jeremy Fialko: Sorry, no, I was just asking about capacity in Europe in 2016, whether you're - - what your expectations are in terms of the new capacity to come on in Europe?

Magnus Groth: There has been some new capacity coming into Northern Europe, so on the border of Poland and Germany, and also in France, and that's more or less already happened. What we're seeing now is more capacity in Spain and Portugal, which has been under supplied, so there's quite a lot of tissue imported into this market before. But that's a local phenomena that we're seeing right now. That's the overall situation.

Jeremy Fialko: Okay, thanks very much.

Magnus Groth: Thanks.

Operator: Oskar Lindstrom.

Oskar Lindstrom: It's about your raw material exposure. I remember about a year ago you said that -- and that was referring to 2014, you had total raw material costs of SEK27 billion, of which SEK13 billion were for pulp outside of North America, and then SEK7 billion was for oil-based products. Could you provide an update on what those numbers were for 2015?

Fredrik Rystedt: Yes, I don't actually have that, Oskar, exact numbers. But, of course, needless to say, this was expressed in Swedish crown, since the dollar has increased, the numbers have also increased with the corresponding amount. So they are slightly higher now than they were, but I don't actually have the exact numbers.

Oskar Lindstrom: A follow-up on that also, when I look at my model for oil-based products and how those -- the costs should develop for those. It seems the costs in reality are not coming down as much as my model.

So I was wondering: is this something that is surprising you or is my model too rough? Have we seen -- are the producers of these oil-based inputs expanding their margins? And what's the kind of feeling for 2016 on this?

Fredrik Rystedt: Yes, we've had this issue before. If you look at 2015 what you saw was that the plastic industries came down at the early part of last year, quite a lot, and that was on the back of the oil price coming down.

So we got a four to six-month lag when you translate the plastics indices into non-woven, or sap, or whatever it made, back sheet or those kind of things that we use.

That meant that we had a positive impact in Q2 of last year, as you may recall. Then prices went back up again, and the plastics industries started to go up in March timeframe last year, and this was on the back of, and you may remember, this shortfall of production capacity, there was a force majeure in a plant in the United States etc., lots of things; so, basically supplier issues.

Then we see now during the fall that plastics indices had fallen once again, and then after that basically stabilized on a lower level, despite the fact that oil prices have come down. So if you look at that, we have a slight benefit in Q4, we'll have a Q1 benefit and that will continue. If everything stays as it is right now, we'll have a slight benefit also in the following quarters.

So unfortunately the math, the way it works is the plastics indices if that falls by 10% then we get an average -- a benefit of 3%, that's the kind of relation you have.

Then it's up to you to define what's the relationship between plastics indices and oil prices. They have been over time very correlated, but as I just talked about in the last year or so, oil prices have come down a lot, plastics indices have not; so, the impact is much less than what it appears to be just by looking at the oil price.

Once again, we don't know. I think we'll see some benefit, but that's it.

Josephine Edwall: With that, sorry, Oskar, but we need to make that our last question. We need to conclude this conference. Thank you all and any final word from you, Magnus?

Magnus Groth: Well, the final words are that we continue to move forward executing on our strategy. This year it's very exciting, because we have a number of major projects that we initiated last year that we are executing this year, and we continue relentlessly then in all the different areas that we have just presented and discussed.

Thank you very much for listening.

Josephine Edwall: Thank you and goodbye.

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