

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

Investor presentation  
May 31, 2017





# Today's agenda

08.00 – 08.30	Registration and coffee
	Introduction to SCA – Ulf Larsson, CEO
	Financial overview – Toby Lawton, CFO
	Forest – Mats Sandgren, President Forest
10.00 – 10.15	Coffee break
	Wood – Jonas Mårtensson, President Wood
	Pulp – Ingela Ekebro, General Director Project Helios <sup>1)</sup>
	Paper – Mats Nordlander, President Paper
	Concluding remarks – Ulf Larsson, CEO
12.00 – 13.00	Q&A
	Lunch
	Site visits – followed by transfer to the airport



# Investor presentation 2017

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.



A photograph of a forest with many tall, thin trees and a lush green undergrowth. A dirt path winds through the forest. On the left side of the image, there is a large blue geometric shape that overlaps the forest scene.

# Introduction to SCA

Ulf Larsson, CEO



# Executive Management



*From left to right.*

**BJÖRN LYNKFELT**  
SVP, Communication  
*Employed since: 1986*

**JAN SVEDJEBRANT**  
SVP, Legal  
*Employed since: 2001*

**TOBY LAWTON**  
CFO  
*Employed 1995-2014,  
CFO since 2017*

**ULF LARSSON**  
CEO  
*Employed since: 1992*

**MATS SANDGREN**  
President, Forest  
*Employed 1982-2002  
and since: 2008*

**MAGNUS SVENSSON**  
SVP, Purchasing  
and Logistics  
*Employed since: 1993*

**ÅKE WESTBERG**  
President, Pulp  
*Employed since: 1974*

**OLE TERLAND**  
SVP, Strategic  
Development  
*Employed 1987-2007  
and since: 2016*

**INGELA EKEBRO**  
General Director  
Project Helios <sup>1)</sup>  
*Employed since: 1986*

**MATS NORDLANDER**  
President, Paper  
*Employed since: 2015*

**JONAS MÅRTENSSON**  
President, Wood  
*Employed since: 2005*

**MIKAEL KÄLLGREN**  
President, Energy  
*Employed since: 2015*

**STINA DANIELSSON**  
SVP, HR  
*Employed since: 2005*



# Key rationale to the split

Increased strategic focus

Well-positioned stand-alone company

Increased shareholder value  
in the long term



# Strong and integrated value chain

Europe's largest private forest owner

World class wood operation

Erecting world's largest softwood pulp line

Leading Kraftliner producer

Maximizing energy potential





# Global trends favoring fiber based renewable materials

Increased demand for renewable materials

E-commerce

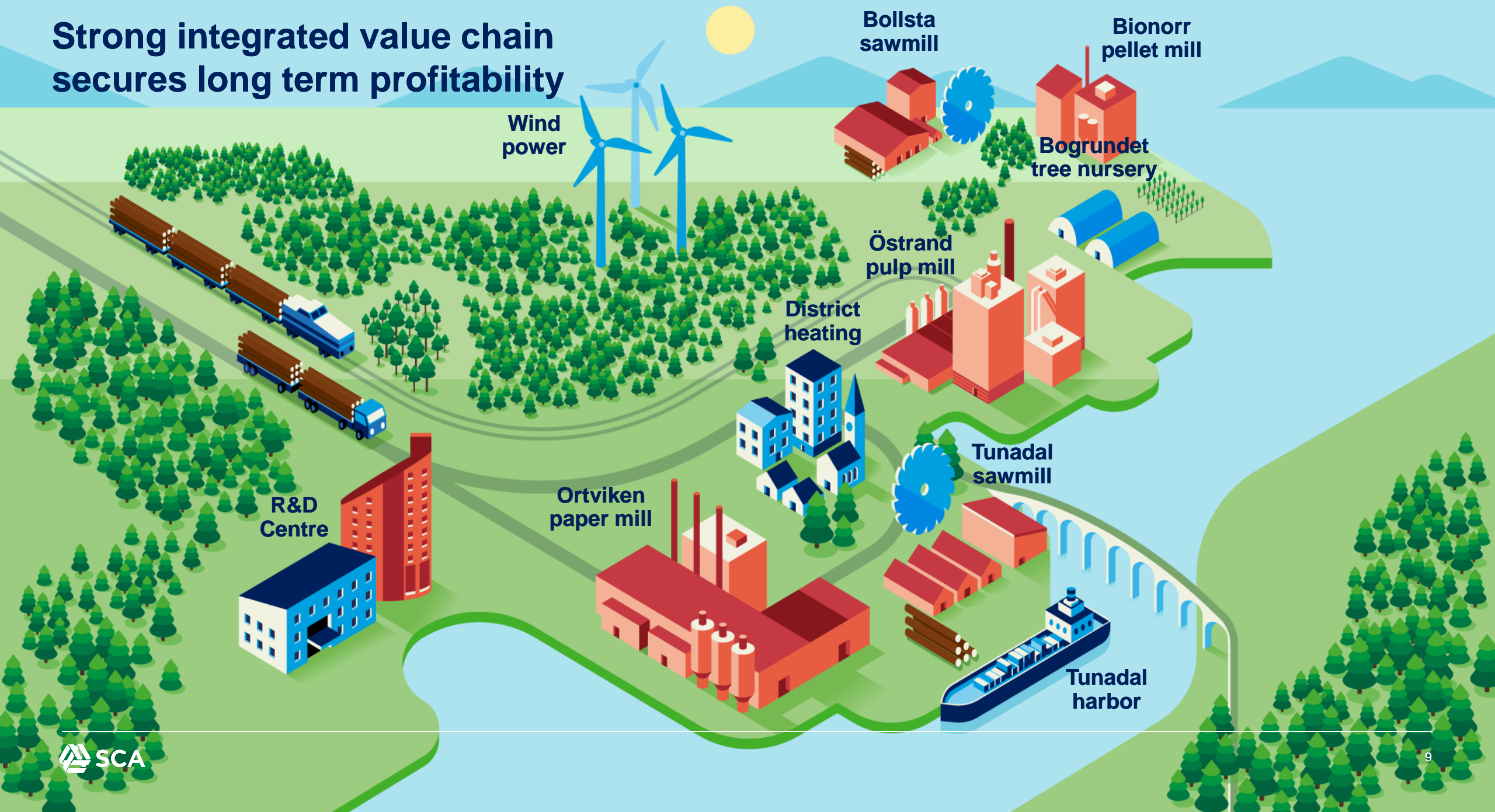
Growing demand for virgin fiber

More packaged goods

Eco-awareness



# Strong integrated value chain secures long term profitability





# Strong integrated value chain secures long term profitability

The base for all our business and operations is the forest. On this unique natural resource, we have built an entire industrial ecosystem.

## **The forest**

Our forests are responsibly managed. We manage our forests so that they will harbor as much timber, nature qualities and experiences in the future as today.

## **Bollsta sawmill**

From a pine tree, the big logs go to Bollsta sawmill, where they are turned into quality wood products. The bark is used for energy production, the chips for pulp and the sawdust for pellets.

## **Östrand pulp mill**

The smaller logs from the pine tree are delivered to Östrand pulp mill in Timrå, where it is used, together with saw mill chips, for the production of kraft pulp.

## **Tunadal sawmill**

The big logs from a spruce tree go to Tunadal sawmill. The bark is used for energy production in the nearby Ortviken paper mill. The chips are used in the Östrand pulp mill. Every part is put to good use.

## **Ortviken paper mill**

The small logs from the spruce tree is delivered to Ortviken paper mill for the production of mechanical pulp, which together with kraft pulp from Östrand is used for the production of top quality publication paper for magazines, catalogues and commercial print.

## **Bionorr pellet mill**

At the Bionorr pellet mill in Härnösand, sawdust is turned into fuel pellets for household heating or for larger boilers, such as the chemical recovery system at Östrand pulp mill.

## **District heating, Sundsvall-Timrå**

Apart from forest products, Ortviken paper mill and Östrand pulp mill deliver heat to the neighboring communities. Both Sundsvall and Timrå district heating are supplied with energy from SCA.

## **Wind power**

On our forest land there are numerous good wind sites. 320 wind turbines produce 2.5 TWh of green electricity per annum on SCA land and there is potential for much more.

## **SCA R&D Centre (and The Mid Sweden University)**

Our R&D Centre is located at the campus of the Sundsvall university and cooperates to develop new products and businesses.

## **Tunadal harbor**

Our forests and mills are located in northern Sweden, but our customers are found all over the world. Efficient transport solutions are essential to our business and from the Tunadal harbor we reach the whole world.



# The forest is our source for value creation





# Highly efficient wood operations with profitable growth for more than 20 years

Attractive market outlook with strong global softwood demand

Driving demand through innovations and value added products

Close cooperation with customers

Well invested sites with world class efficiency





# Östrand – world class pulp operation to meet increasing demand



Meeting long-term growth in tissue and white packaging

World-class competitiveness

Cost efficient supply of raw materials

Increases value of the forest



# Publication paper – focus on innovation and cash flow

Operational excellence and cash flow focus

Fast product renewal – 35% of current products did not exist 5 years ago

Upgrade product portfolio and grow key products in selected segments





# Leading Kraftliner producer focused on high quality fresh fiber

No.1 independent producer  
of Kraftliner in Europe

Increasing demand for packaging  
solutions and fresh fiber products

Improved product mix

Strong focus on creating customer value  
through innovation and close collaboration

White top



Wet strength



Heavy duty





# Energy, biofuel and green chemicals offer additional growth opportunities

One of Europe's largest supplier of forest based biofuels with 9 TWh produced in 2016

320 wind turbines on SCA's forest land with an average annual production of 2.5 TWh

Future growth opportunities within liquid biofuels and green chemicals





# Paving the way for a renewable future

Responsible forest management

Net forest growth binds ~4m tons CO<sub>2</sub> annually

Mitigating climate change

Carbon dioxide emissions from fossil fuels reduced by 60% over the past 5 years

Our forests will be as rich in timber, biodiversity and nature experience as today





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

**Rising demand for renewable fiber-based products**

**Efficient integrated value chain close to the forest**

**Well-invested asset base positioned to capture growth opportunities**

**People behind the results**

**Strong and stable cash flow**



# Financial overview

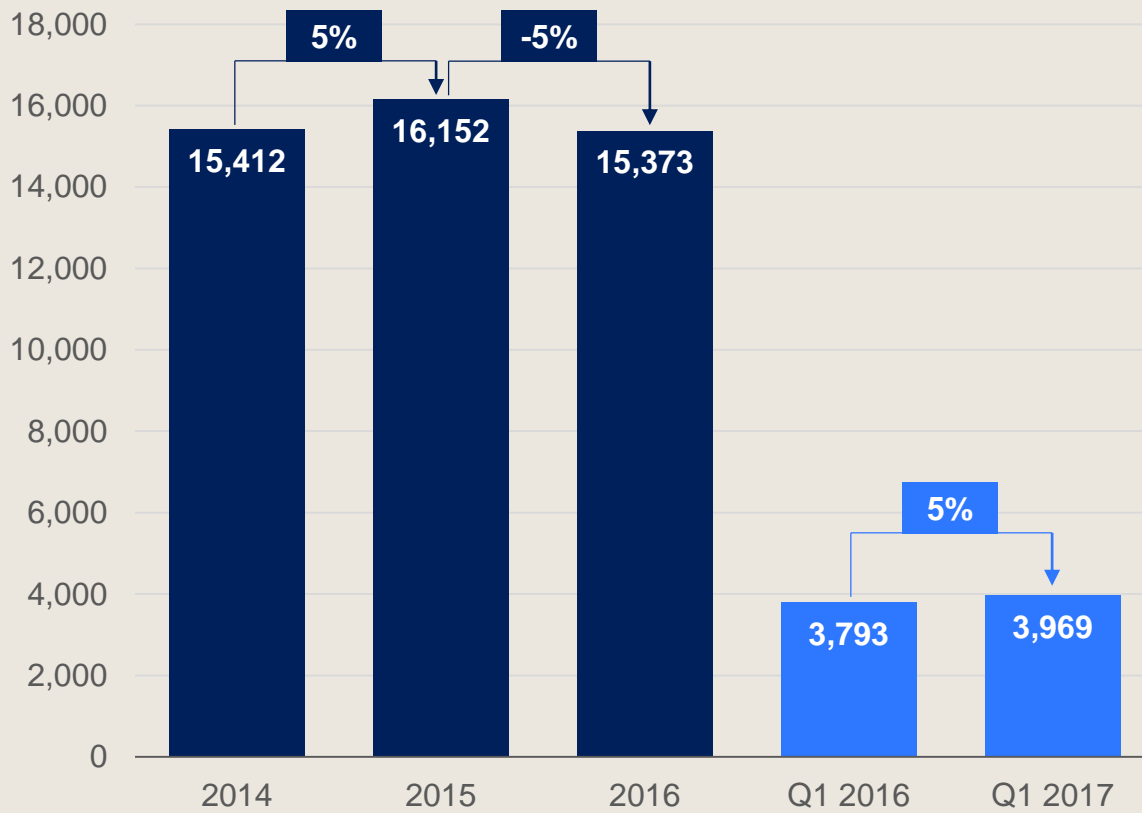
Toby Lawton, CFO



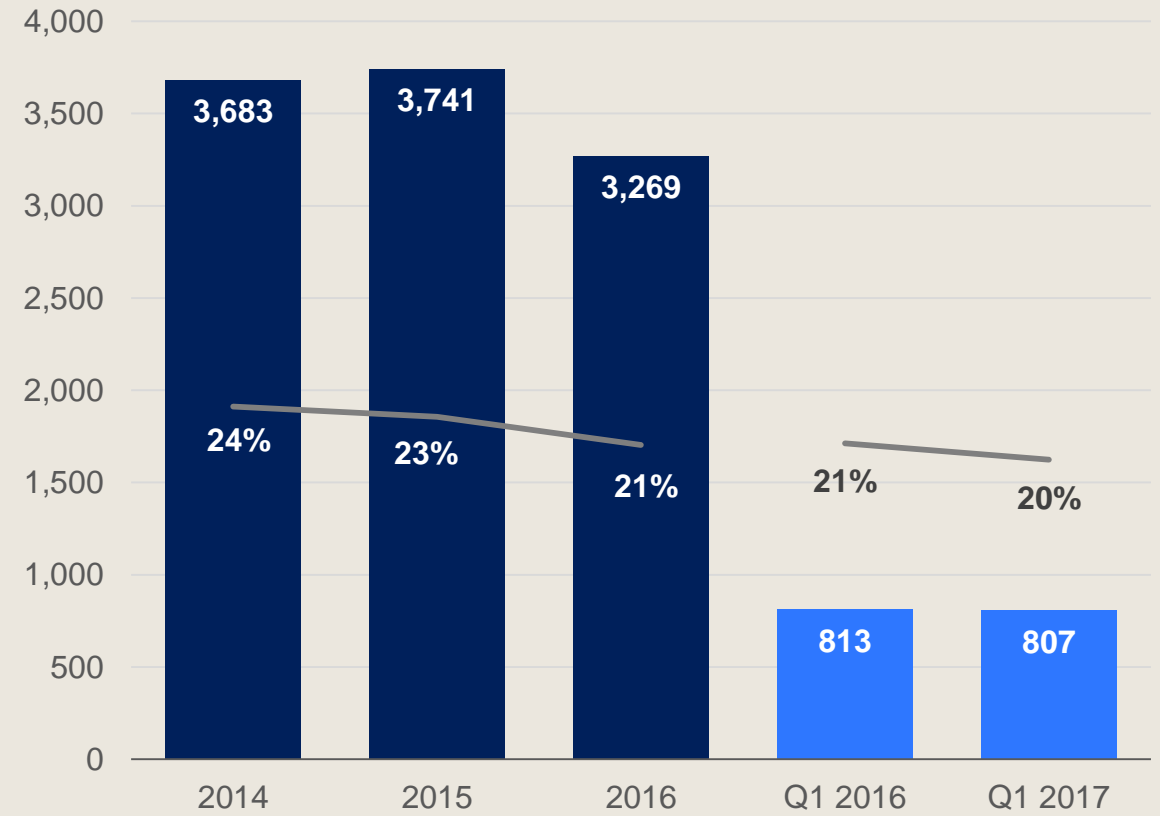


# Strong and stable performance

Net sales (SEKm)



EBITDA (SEKm) and EBITDA margin <sup>1)</sup>

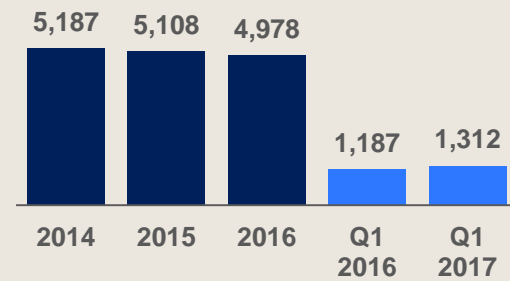




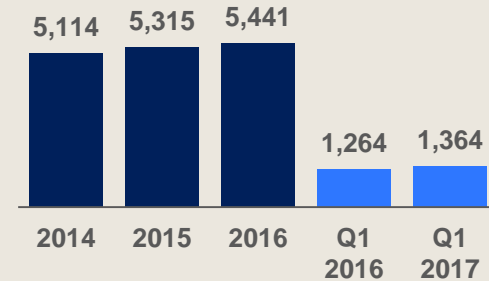
# Contribution by segment

## Forest

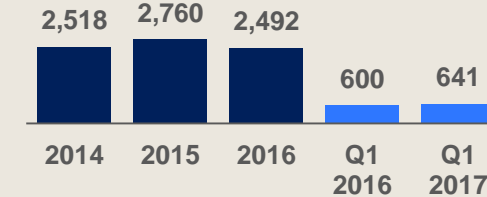
Net sales (SEKm)



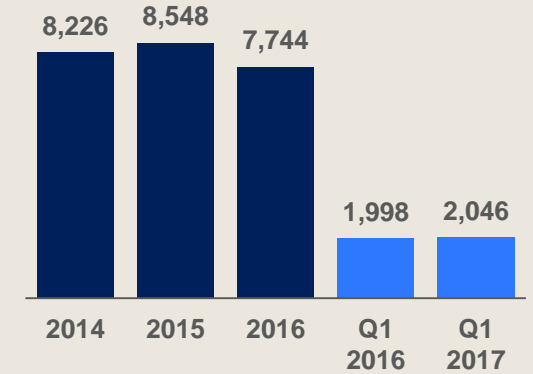
## Wood



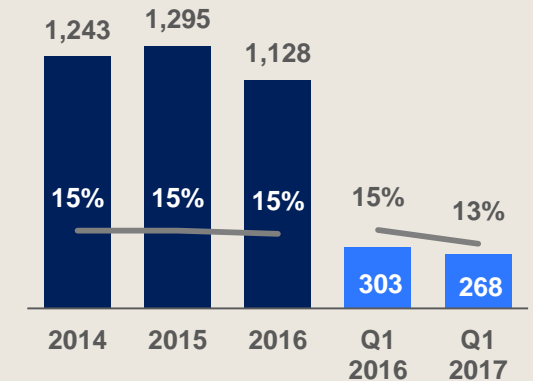
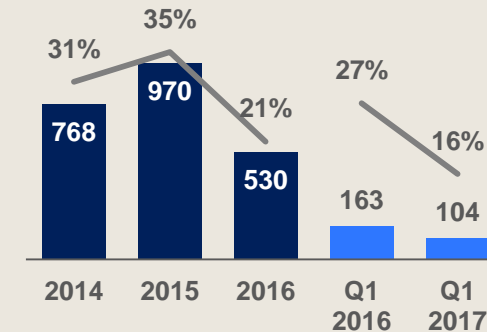
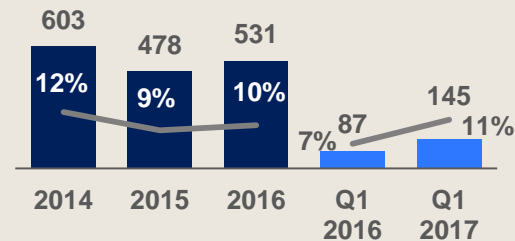
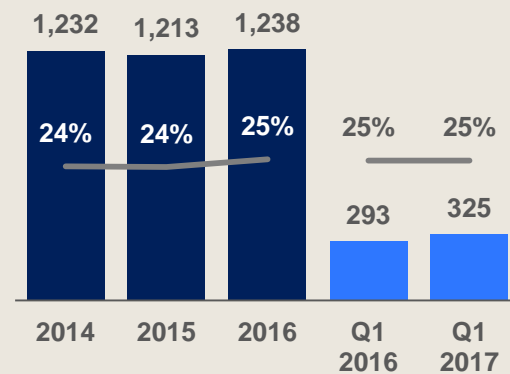
## Pulp



## Paper



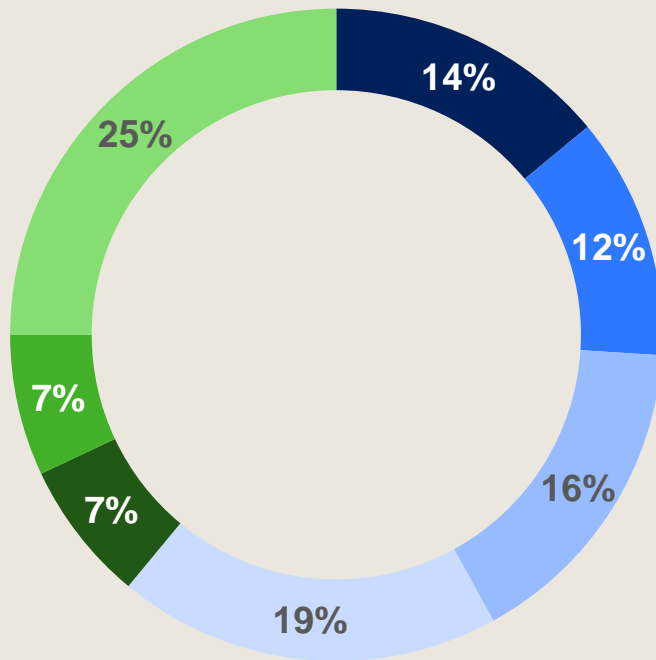
EBITDA (SEKm) and EBITDA margin <sup>1)</sup>





# Stable cost structure

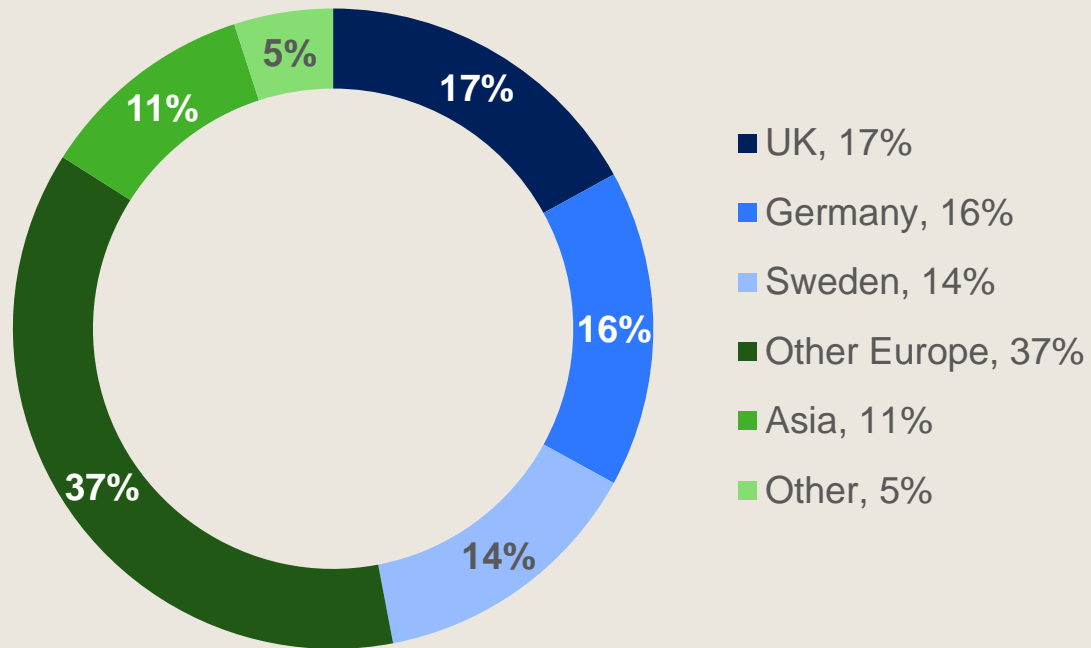
2016



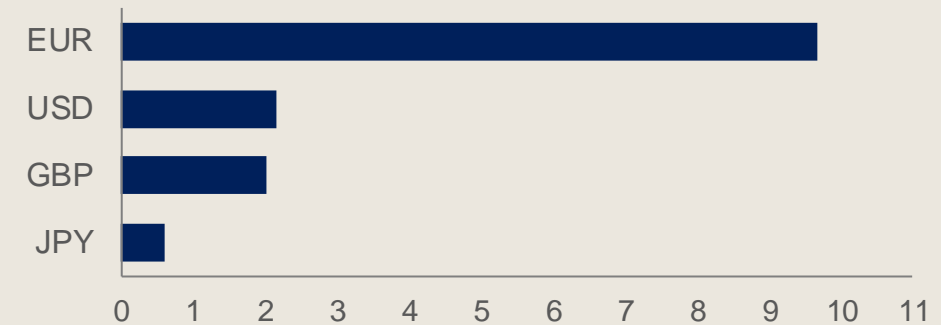
- Timber, Chips, Recycled fiber, 14%
- Other raw materials and consumables, 12%
- Personnel, 16%
- Transport and distribution, 19%
- Energy, 7%
- Depreciation, 7%
- Other costs <sup>1)</sup>, 25%

# Currency exposure

Sales by country (2016)



Net currency inflows (major currencies, 2016) <sup>1)</sup>  
SEKbn

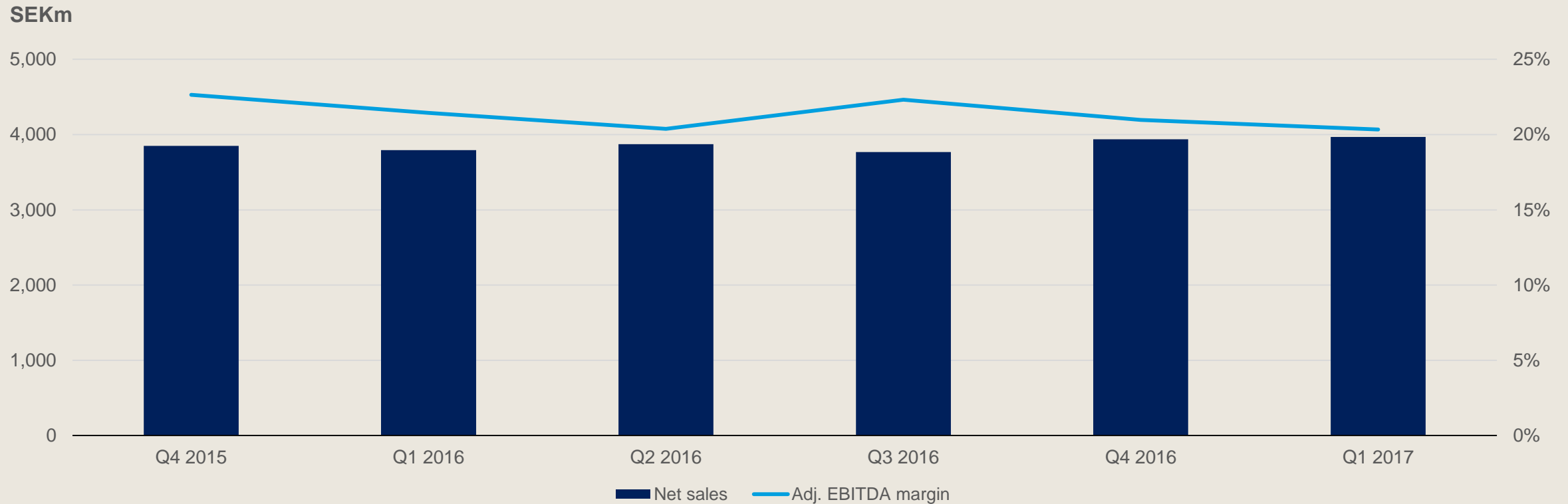


Sensitivity analysis

Currency	Change vs SEK	Effects on earnings (SEKbn)
EUR	10%	1.0
USD	10%	0.2
GBP	10%	0.2
JPY	10%	0.06



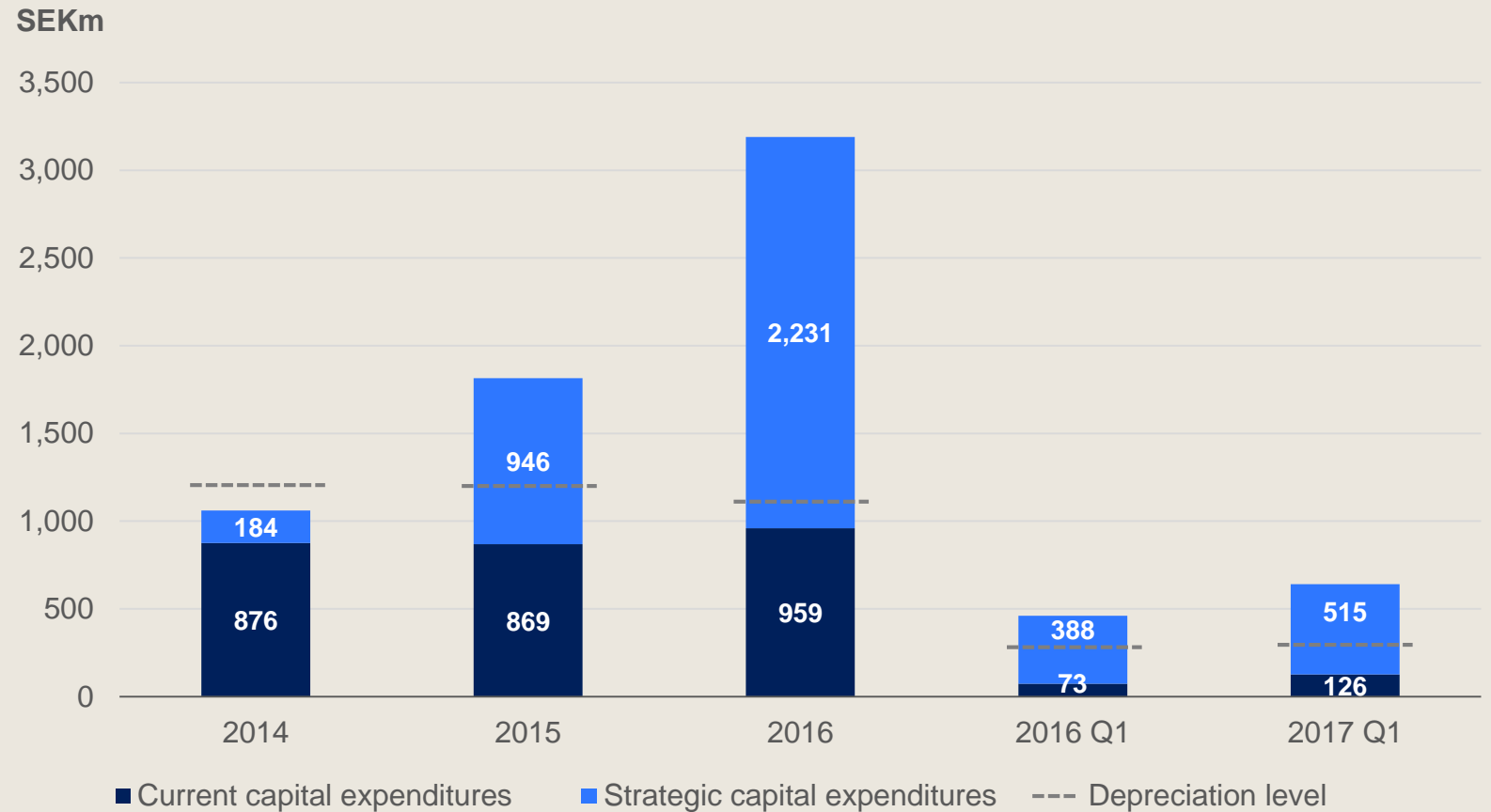
# Limited seasonality effects



- Largest maintenance stops usually occur in Q2
- Forest division sources more wood externally during the winter season

# Well invested asset base with low maintenance capex

- Increased capex in 2015 and 2016 primarily relates to the Östrand investment
- Stable maintenance capex





# Östrand investment on track

## Investments

- Planned start-up in June 2018
- SEK 3.1bn invested as per Q1 2017, out of SEK 7.8bn in total

## Extended stop in 2018 (preparing for start-up)

- In 2018, lost production volumes by extended stop compensated by higher capacity after planned start-up in June

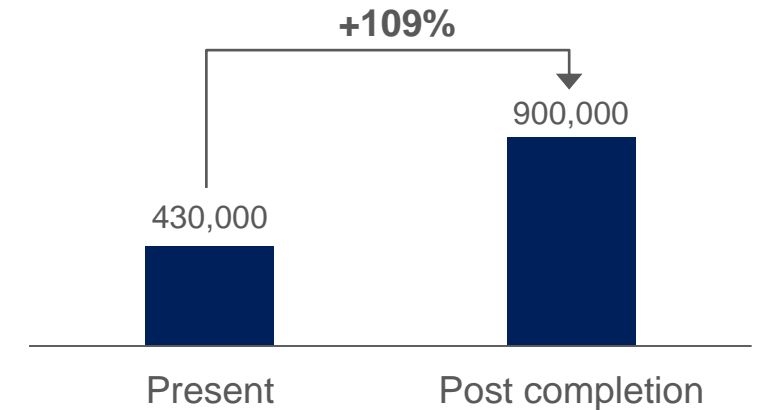
## Ramp-up period

- Normal ramp-up period of 12-18 months from start-up, 2020 first full year with new capacity level

## Depreciation

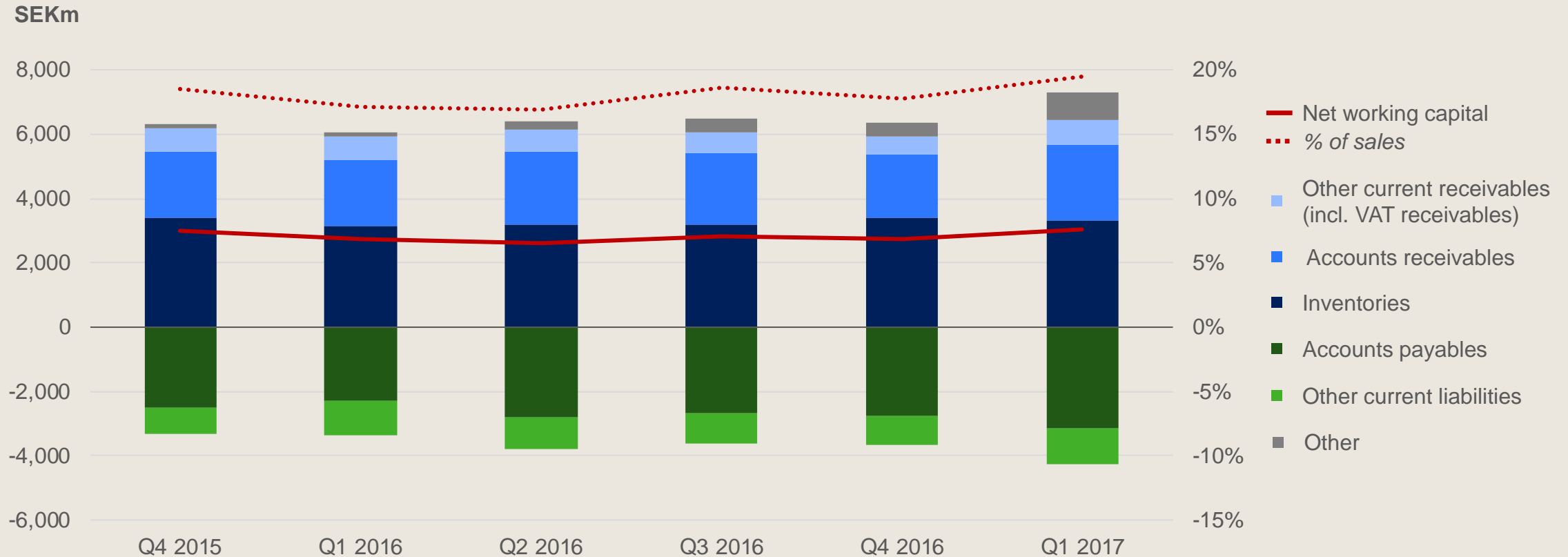
- Project increases depreciation level by about SEK 300m, full year effect from 2019

## NBSK capacity (tonnes/year)



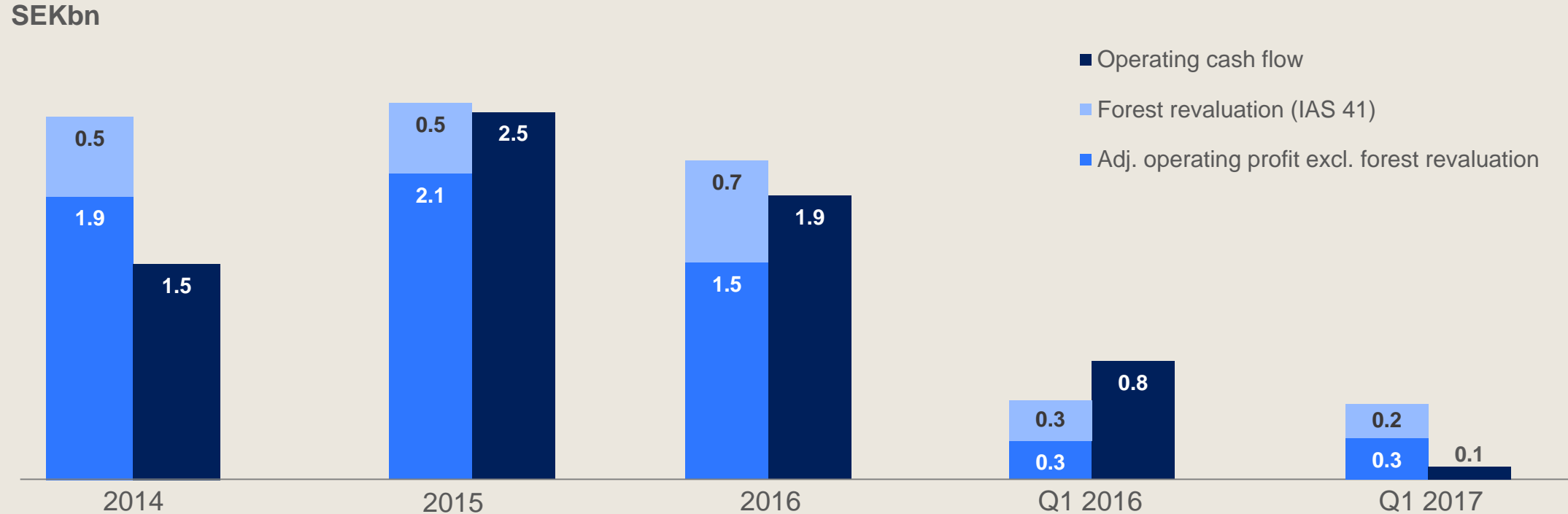
One-off costs (SEKm)	2016	2017e
Additional operating costs	30	100
Depreciation of old assets	45	50
<b>Total</b>	<b>75</b>	<b>150</b>

# Working capital throughout the year





# Strong operating cash flow



- Track record of delivering operating cash flow ahead of operating profit excluding forest revaluation

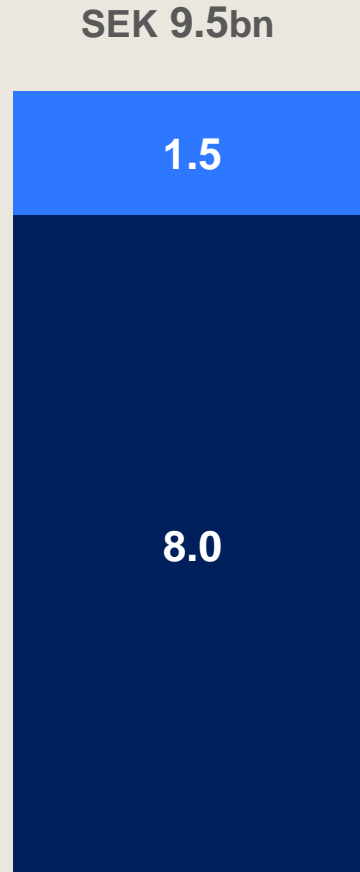
# Balance sheet structure

SEKm	Dec 31, 2016	March 31, 2017
<i>Forest assets (gross value before deferred taxes)</i>	30,770	31,001
<i>Deferred tax relating to Forest assets</i>	-6,769	-6,820
Forest assets, net of deferred tax	24,001	24,181
Working capital	2,740	3,031
Other capital employed	13,386	13,601
<b>Total capital employed</b>	<b>40,127</b>	<b>40,813</b>
Forest	26,518	
Wood	2,898	
Pulp	4,797	
Paper	7,199	
Other	-1,285	
<b>Pro forma net debt after reallocation</b>	<b>5,000</b>	<b>5,376 <sup>1)</sup></b>
<i>Net debt/EBITDA</i>	1.5x	1.6x
<b>Pro forma equity after reallocation of net debt</b>	<b>35,127 <sup>2)</sup></b>	<b>35,437 <sup>2)</sup></b>
<i>Net debt/Equity</i>	14%	15%



# Financing arrangements

- Two financing agreements amounting to SEK 9.5bn
  - A syndicated revolving credit facility with four Swedish banks with a total financing of up to SEK 8.0bn
    - Maturity of 3 years (SEK 4.5bn) and 5 years (SEK 3.5bn)
    - Handelsbanken, SEB, Danske Bank and Swedbank
  - A credit facility with Svensk Exportkredit amounting to SEK 1.5bn
    - Maturity of 5 years (SEK 0.5bn), 6 years (SEK 0.5bn) and 7 years (SEK 0.5bn)
- Rated BBB by S&P (investment grade)
- Financing includes a credit reserve corresponding to 10% of annual net sales



# Forest

Mats Sandgren, President Forest





# Europe's largest private forest owner with 6% of Sweden's land area

Net sales (SEKm)

4,978

Adjusted EBITDA (SEKm)

1,238

Capital employed (SEKbn)



## Forest holdings

2.6 m ha  
Total land  
acreage

2.0 m ha  
Productive  
forest land

230 m m<sup>3</sup>fo  
Standing  
timber volume

## Growth

9.5 m m<sup>3</sup>fo  
Annual gross  
growth

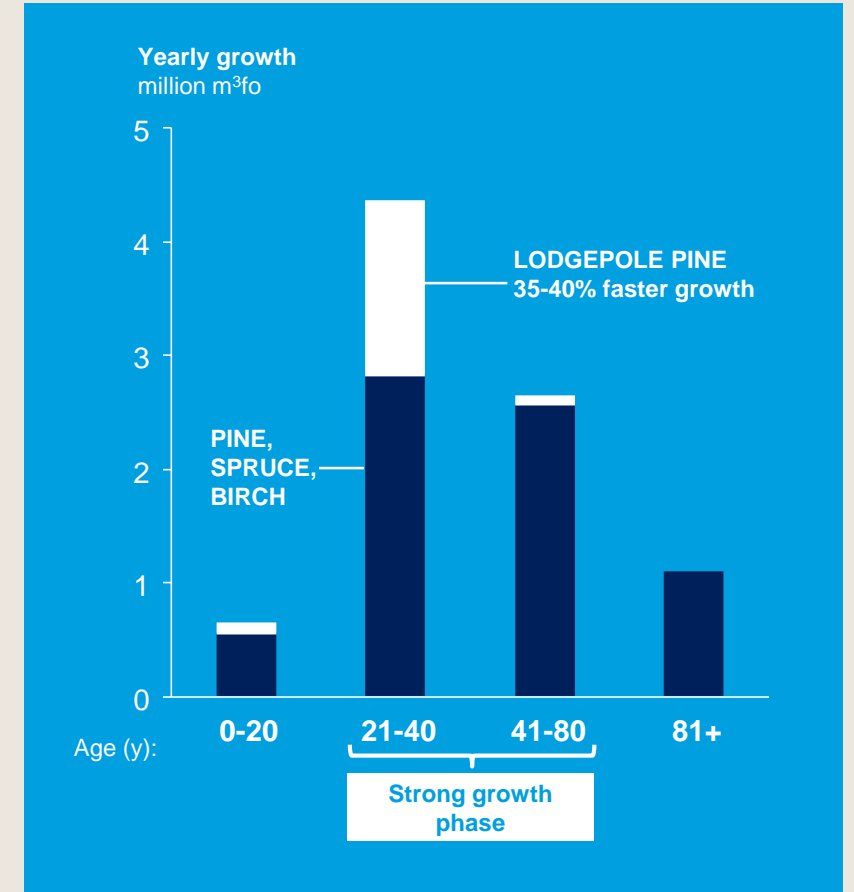
3.0 m m<sup>3</sup>fo  
Annual net growth

## Harvesting

4.3 m m<sup>3</sup> sub  
Annual harvesting

50% Self-sufficient  
on wood

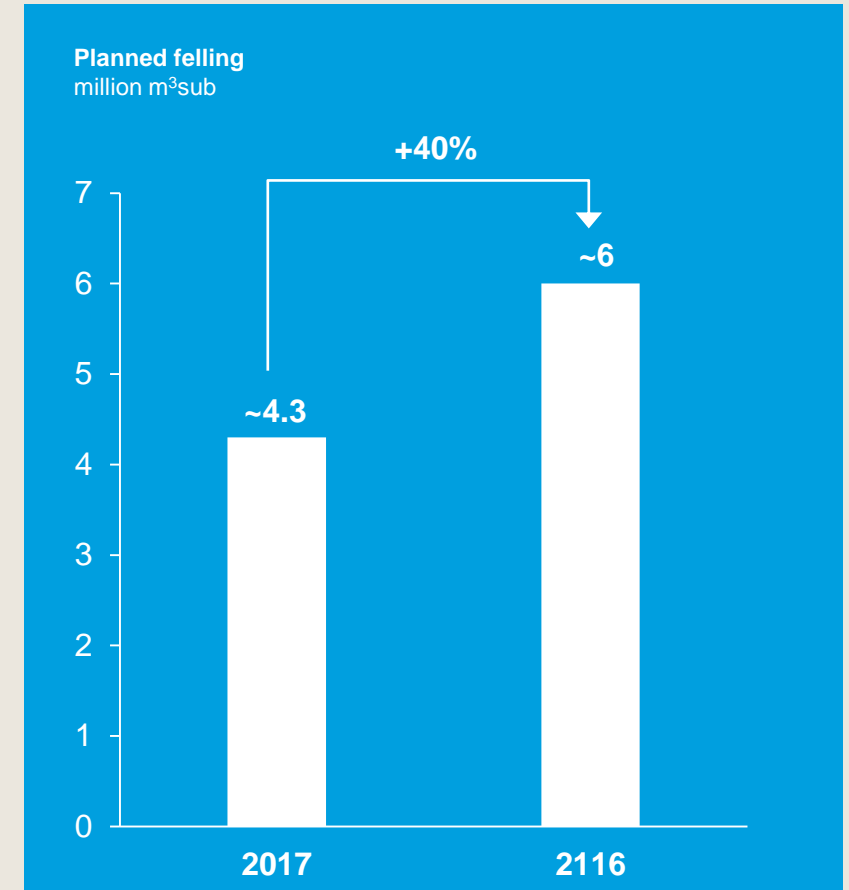
# Young forests drive biological growth





# Sustainable and increasing harvesting provides stable cash flow

- Current felling corresponds to 50-60% of the available annual growth
- Felling will rise when the younger forests reach harvestable age around 2035

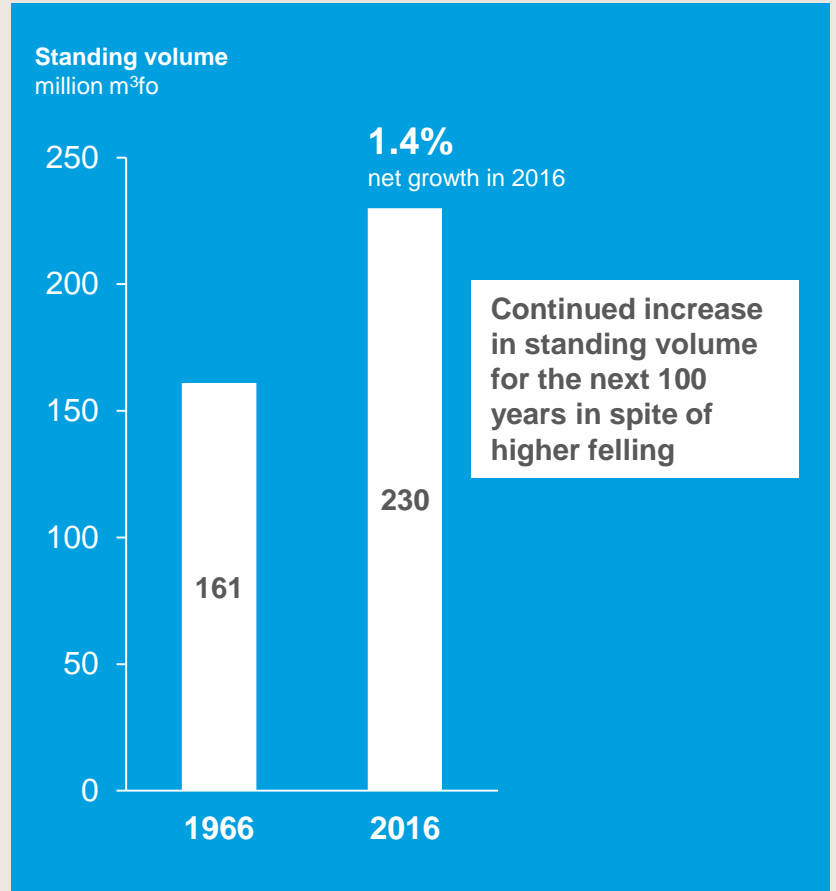




# Continued increase in standing volume

- Current net growth of approximately 3m m<sup>3</sup>fo per year
- Standing volume has increased by nearly 50% over the last 50 years
- Increasing land value

230m m<sup>3</sup>fo  
standing  
volume

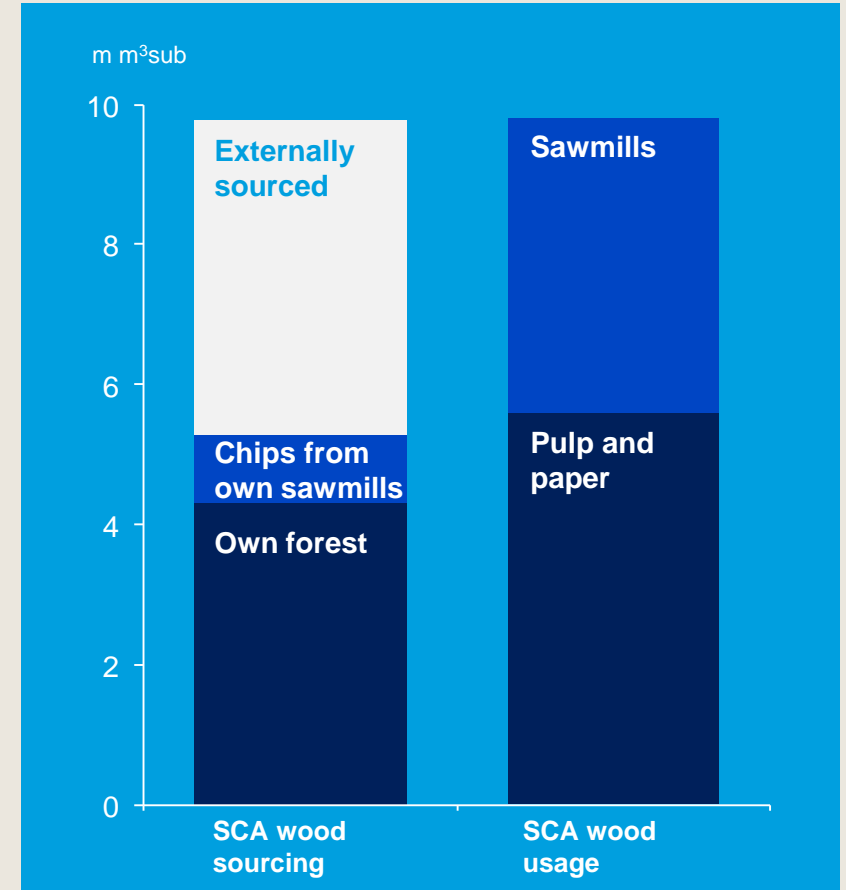




# Efficient sourcing and logistic network

- Multiple external wood sources
- Timber exchange to minimize logistic costs
- Efficient logistic network with own terminals

50% self  
sufficiency

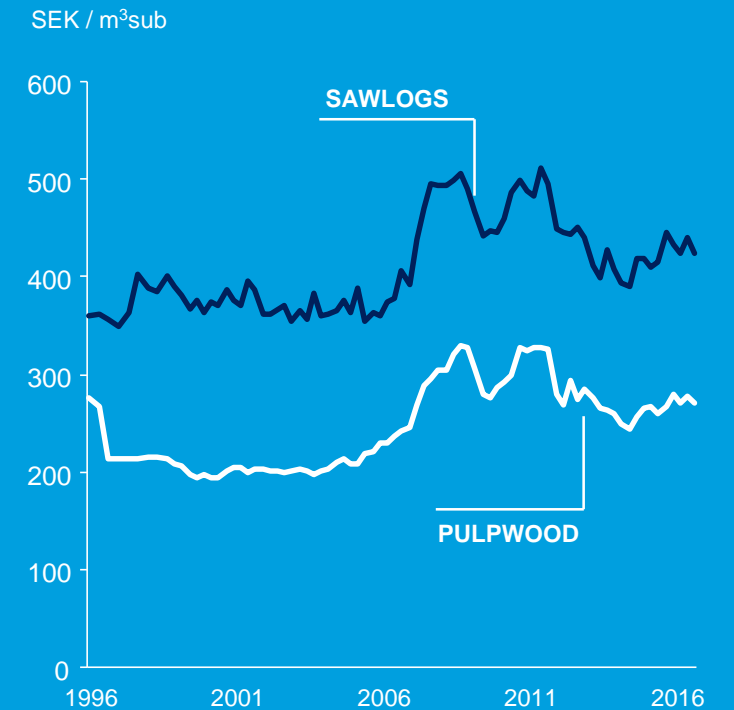


# Steadily rising prices over time

Access to high performance long fiber wood  
at competitive cost



Price development (northern region)

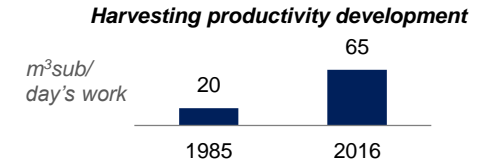




# Sustainable and efficient forest management

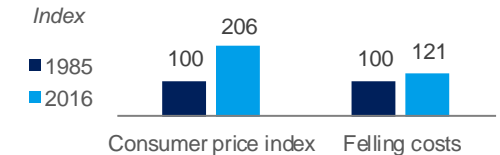
Efficient forest management  
drives competitiveness

Forestry with long-term  
productivity improvements



Operational excellence  
drives cost efficiency

Optimization and efficient forest  
management has reduced felling costs



Certification of forestland  
underpins sustainability

Customers demand responsible  
forest management



Regeneration drives new growth

For every tree harvested we put 3 in its place



# World's largest plant nursery

Capacity to produce 100 million seedlings per year

~50% sold externally

Innovative seedling design

Research and development – in-house and in collaboration with research institutes





# Growth opportunities for wind power

Land with excellent wind conditions

Strategy to make land available  
through leasing or partnership

320 wind turbines on SCA's land

Average annual production of 2.5 TWh

Ambition to double wind power  
production to 5 TWh by 2020

**320**  
wind turbines



# Europe's largest private forest owner

**Sustainable forest management**

**Significant growth through young forest**

**Stable and long-term increasing felling rate**

**High productivity and efficient value chain**

**Securing timber and biodiversity for future generations**



# Wood

Jonas Mårtensson, President Wood





# Highly efficient operations

Net sales (SEKm)

5,441

Adjusted EBITDA (SEKm)

531

Capital employed (SEKbn)



Value added materials



Modern and well  
invested sites





# Attractive market outlook for wood products

Global trends favoring wood-based renewable materials

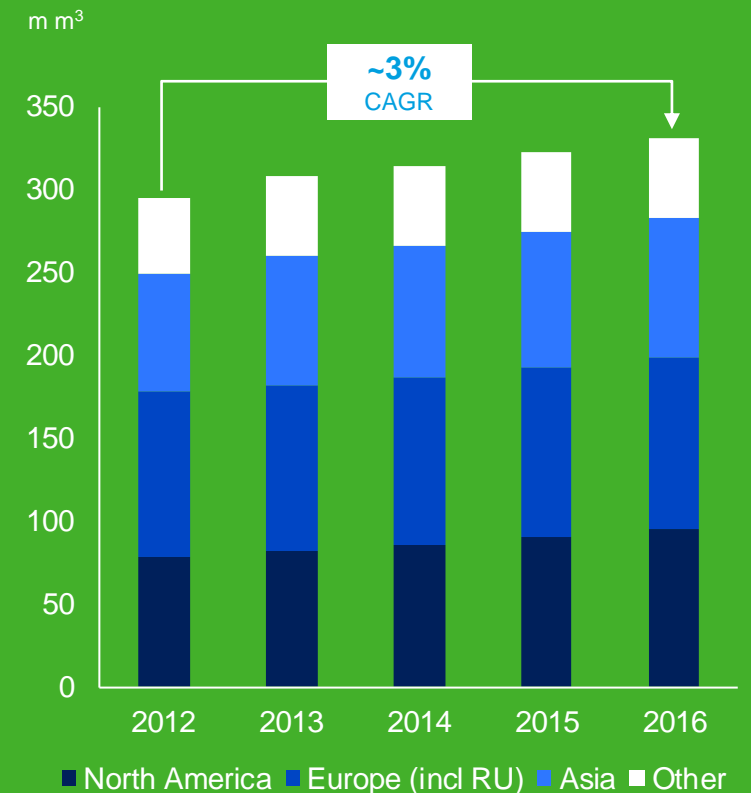
Strong European construction market

Increased building activity in the US

Increased R&R in Europe and the US

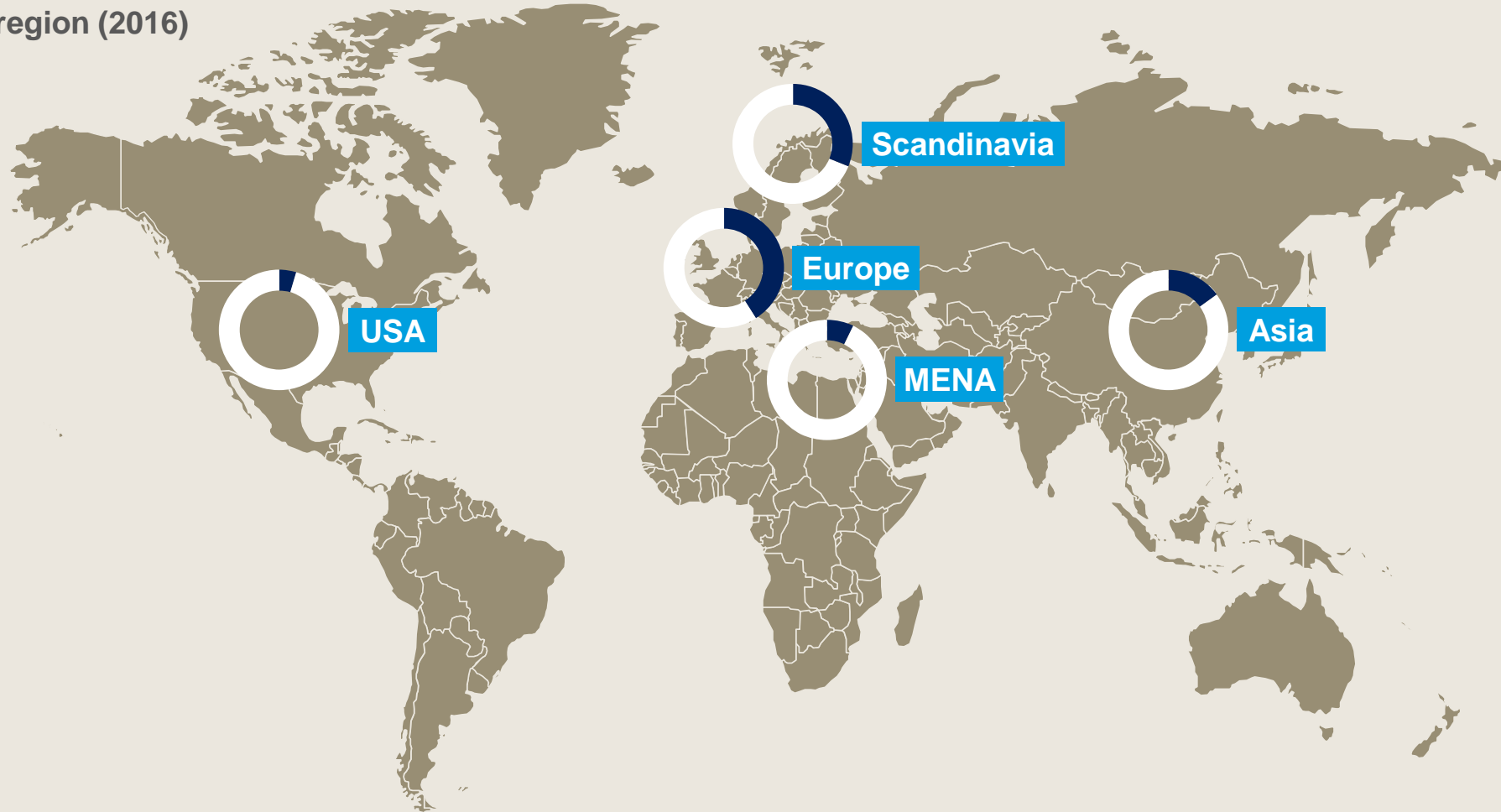
Strong softwood demand growth in China  
– now second largest softwood market

## Strong global softwood demand



# Increased exposure to selected export markets

Wood sales by region (2016)





# Focus on building material trade and wood industry

## Building Material Trade



Grow with high value added products  
Distribution solutions

## Wood Industry



Increased value through customization  
Industrial solutions

## Wholesalers (standard wood)

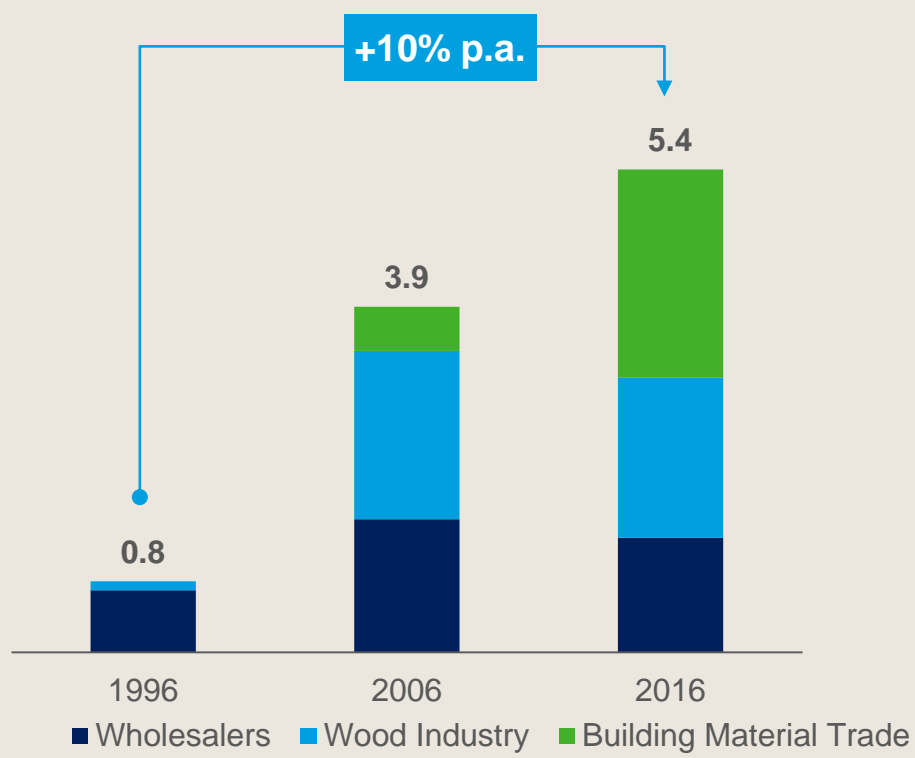


Maximize wood recovery  
Traditional sales

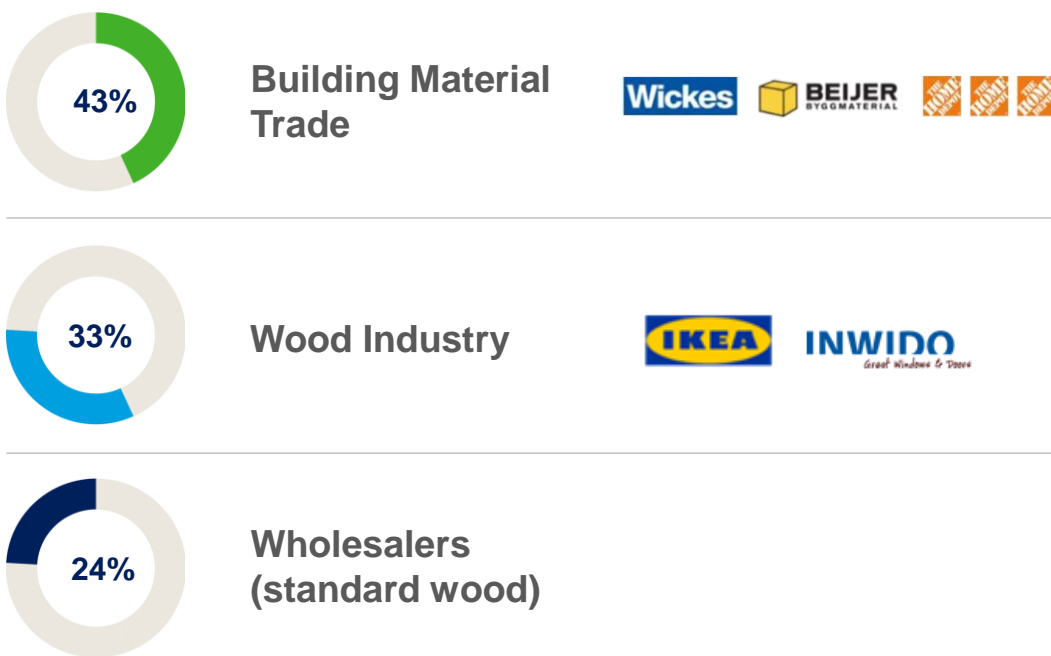
Higher and more stable margins over a business cycle

# Profitable growth for more than 20 years with focus on building material trade

Wood sales (SEKbn)



Wood sales split (2016)



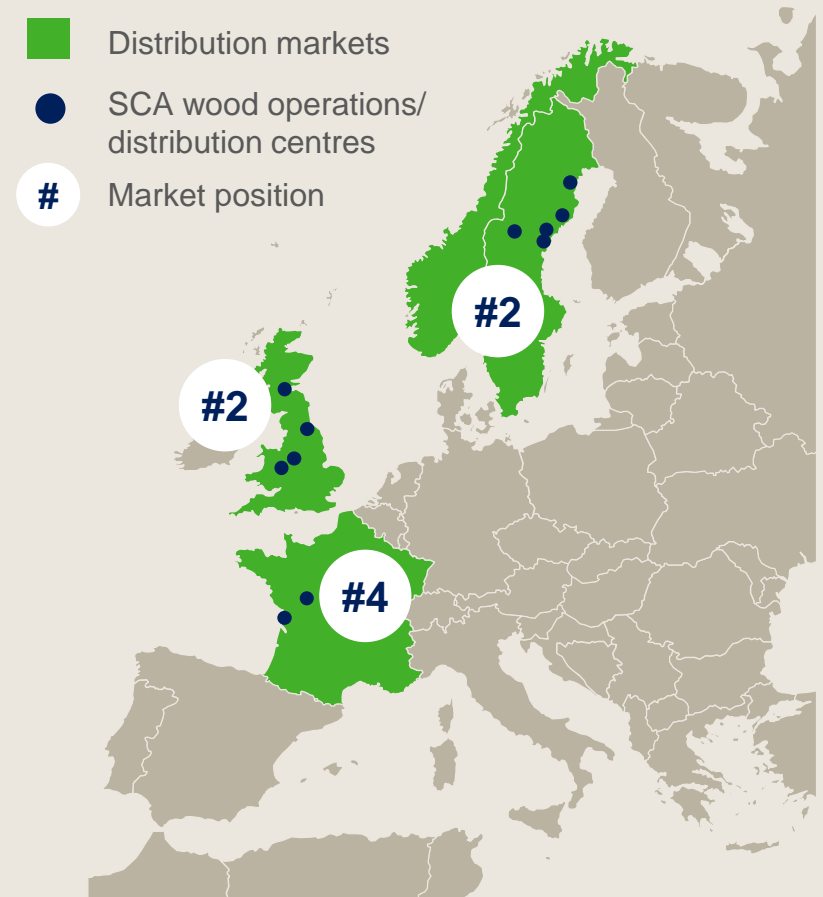


# Strong market position within building material trade

Strong market position in all 3 core markets

Local presence through own distribution network and refining facilities

Strong focus on key segments



# High value solutions for the wood industry based on customer insights

Customized products and full service supply-chain solutions

Close cooperation with priority customers

- Premium priced, value added products
- Long term customer relationships
- Barriers to entry
- Secured volumes





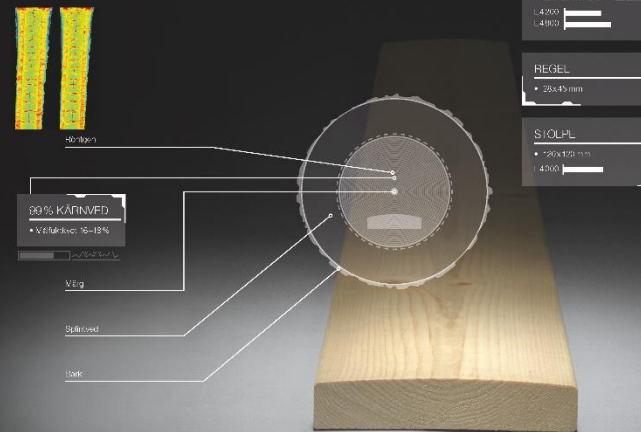
# Successful innovations driving demand

Increased share of sales generated from new innovations

Efficient innovation process

Innovative solutions driving both customers' and SCA's sales and margins

New product launch  
**99% pine heart wood**



Better performance  
Less maintenance  
Improved environmental performance

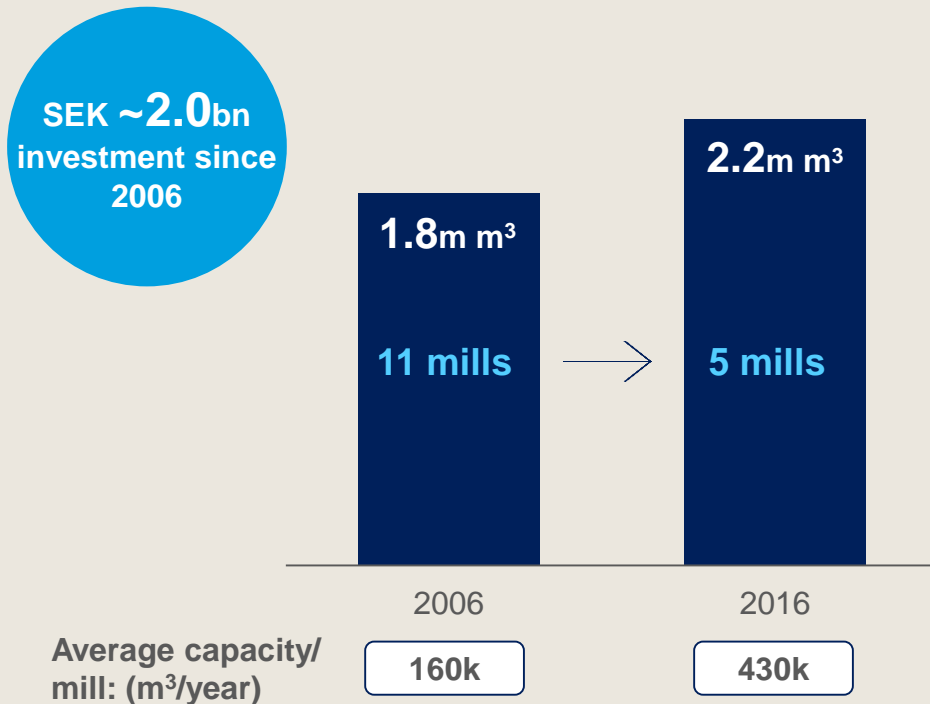
Innovative solutions



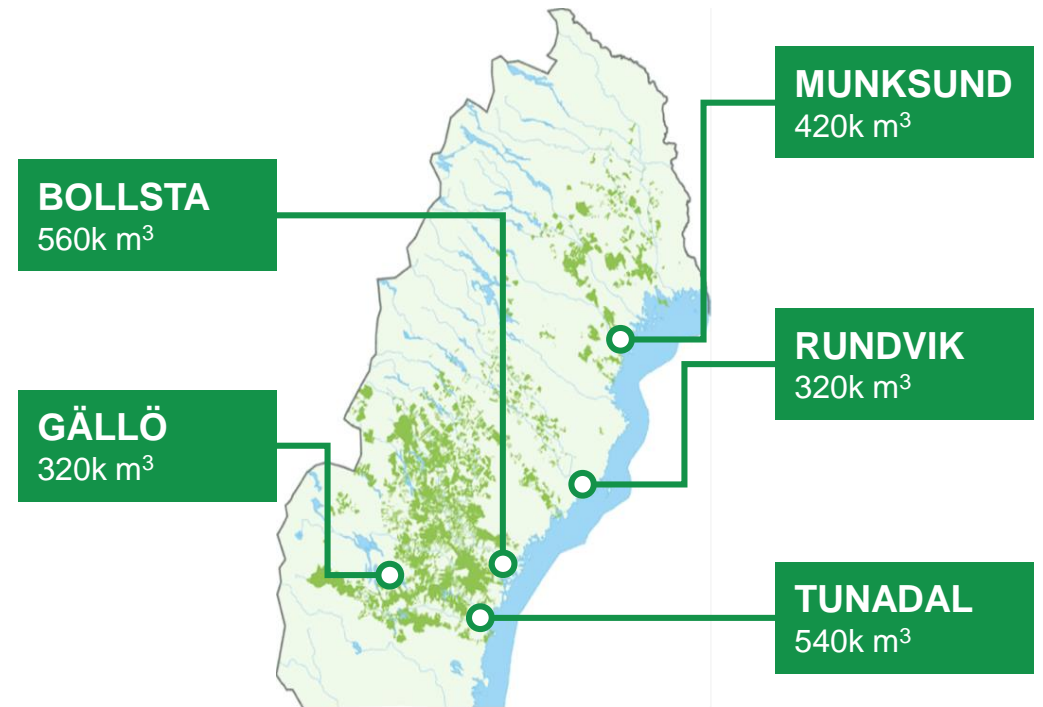
Services such as bar code labeling  
Logistic solutions  
Pre-cut timber saving time and resources

# One of the largest and most efficient sawmill operations in Europe

From 11 to 5 highly automated and efficient sawmills



Located close to SCA's certified forest





# From by-products to profitable bio products

Sawdust converted into pellets, contributing both to sustainability and profitability

3 pellet facilities strategically located close to sawmill operations

1.5 TWh green energy whereof 35% used in own operations and 65% sold through multiple sales channels:

- Energy companies
- Wholesalers
- Direct sales to consumers



# Highly efficient operations with attractive market outlook

Strong position in core markets

Continued growth in high value added products

Well invested and highly efficient sawmills

Innovative solutions driving sales and margins



# Pulp

Ingela Ekebro, General Director Project Helios





# One efficient operating unit strategically located close to our forest

Net sales (SEKm)

2,492

Adjusted EBITDA (SEKm)

530

Capital employed (SEKbn)



NBSK / CTMP

Tissue and white  
packaging  
applications

Energy



# Focus on the high strength Bleached Softwood Kraft segment

*Celeste*<sup>®</sup>

*Star*<sup>®</sup>

Current capacity

**430** k tonnes Northern Bleached Softwood Kraft Pulp (NBSK)

**100** k tonnes Chemical Thermo Mechanical Pulp (CTMP)

% used internally in SCA paper production

15%

None

Key product value addition

Strength, environmental profile

Bulk, environmental profile

Applications



# Celeste – attractive customer offering with leading environmental performance

**Quality:** Strong and easy to process, reduces customers' production costs

**ECO-labelling:** Celeste strengthens customers' environmental profile

**Margins:** Preferred supplier creates logistical advantages

**Celeste – leading in environmental performance**  
(WWF - Environmental Paper Company Index, 2015)



Company	EPCI
SCA Östrand	86.9%
Competitor #1	68.9%
Competitor #2	68.5%
Competitor #3	61.7%



# Investment doubles capacity and further enhances competitiveness

## Rationale:

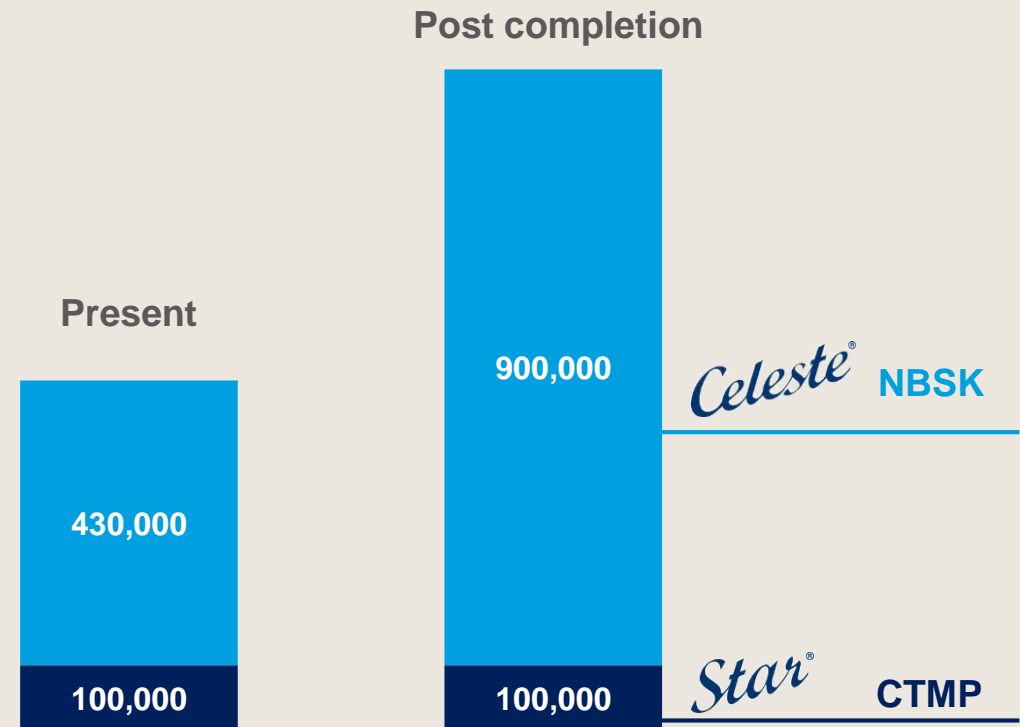
- Expected market growth
- Cash cost leader
- Superior environmental footprint
- Flexibility
- Supports forest value

Planned **start-up** in June 2018

Normal **ramp-up** period of 12-18 months from start-up

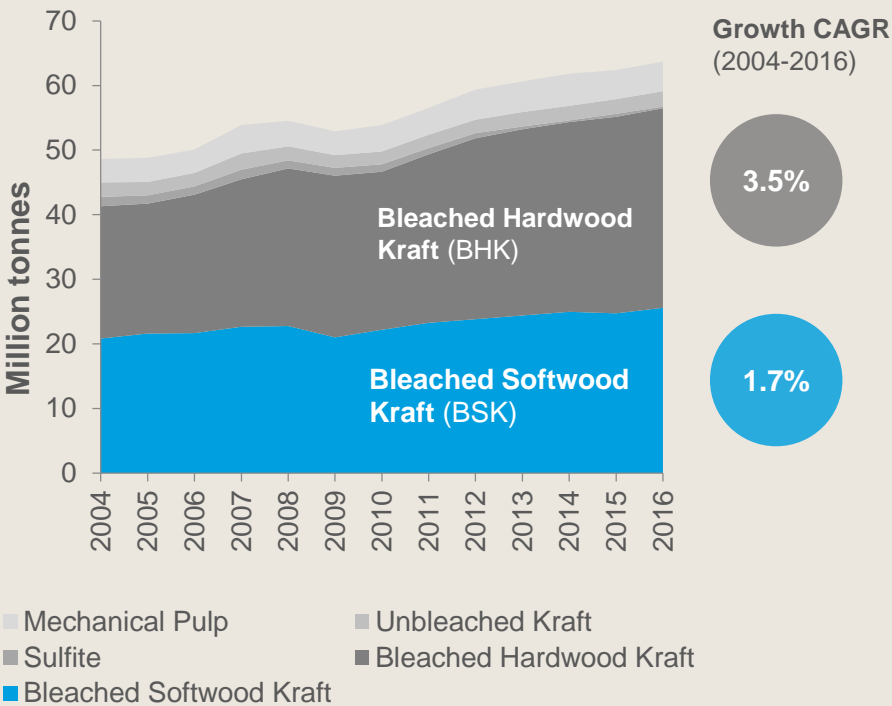
Increase in green electricity production  
from 0.5 TWh to 1.2 TWh

Total capacity (tonnes/year)



# Strong demand for Bleached Softwood Kraft

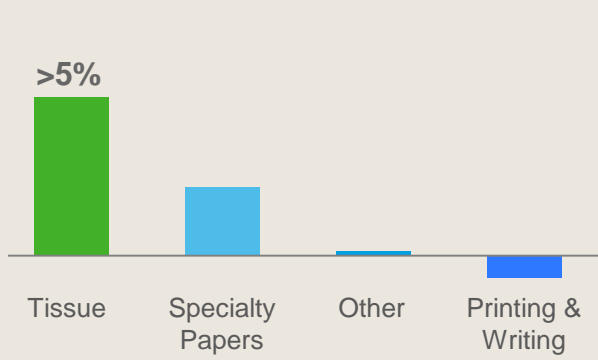
## Strong market growth



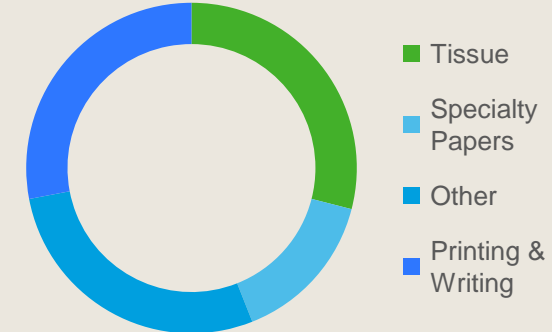
## Favorable market drivers

- Global shortage of fresh fiber
- Demand for softwood growing faster than supply
- Strong market growth in tissue and packaging

## BSK demand by end user (CAGR '10-'15)



## Share of total market (BSK volume, 2015)

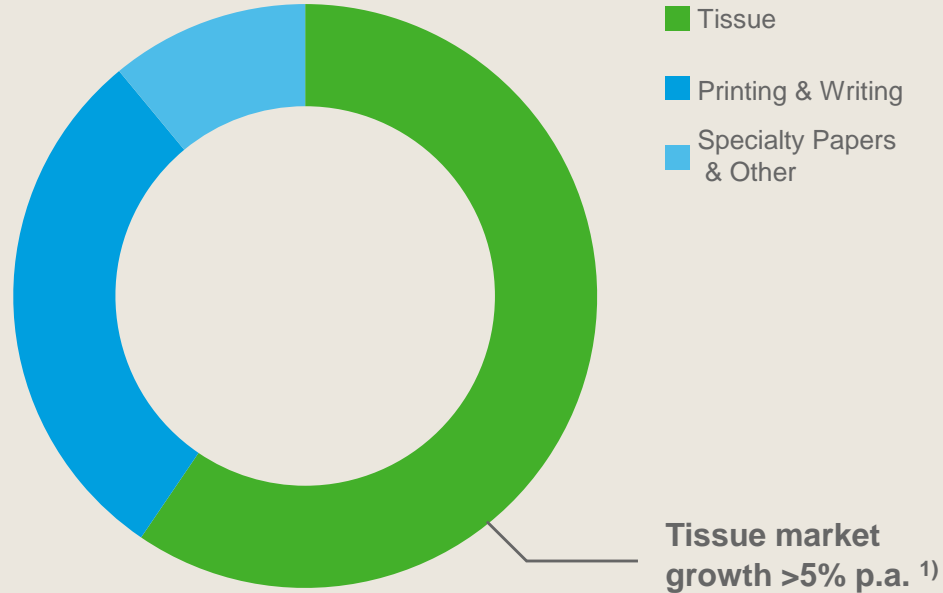




# Strong footprint in the growing tissue market

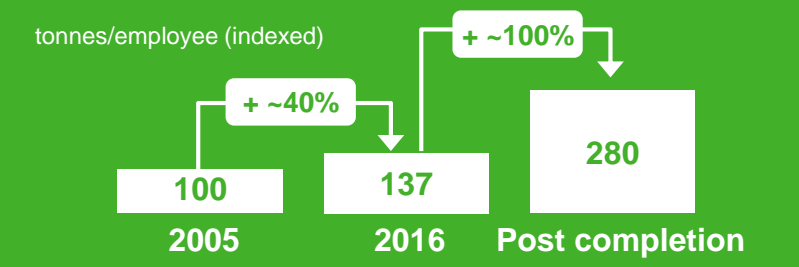
## Celeste deliveries by end product (2016)

Split by volume



# Cash cost leader through operational excellence and expansion

Significant productivity increase



Further improved cost efficiency in wood supply

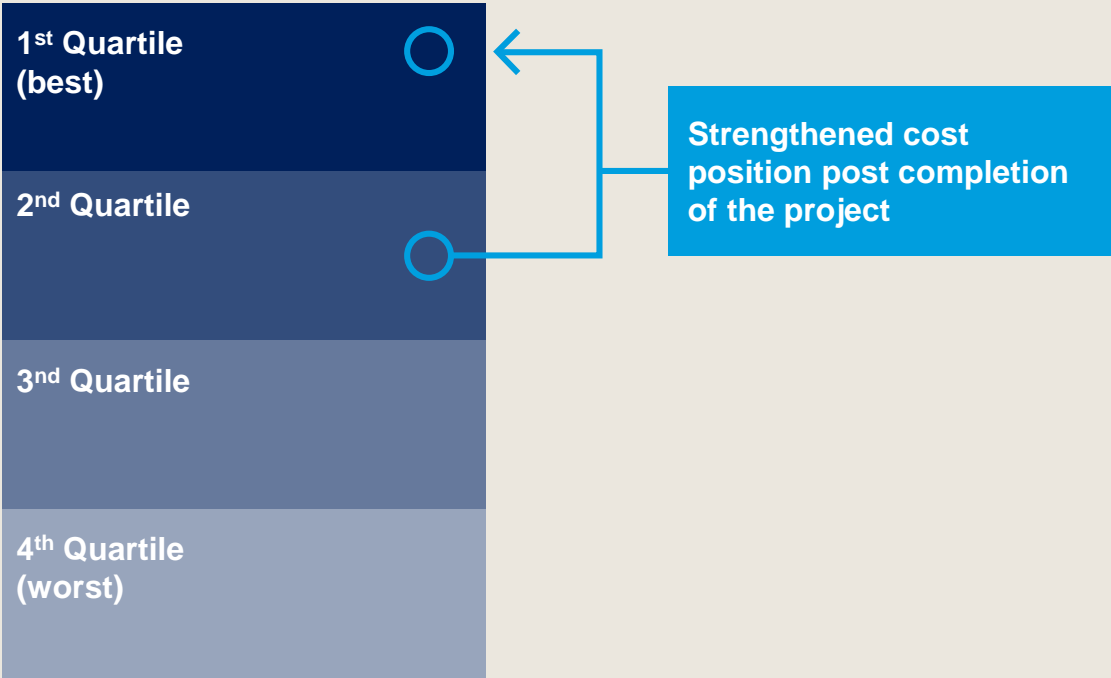
Investment in logistics enables cost efficient and sustainable deliveries by train (~50% post investment completion)

Investment enables further energy savings <sup>1)</sup>

Electricity consumption:	-27% ↓
Heat consumption:	-44% ↓
Electricity production:	+28% ↑
Electricity surplus:	+275% ↑

## Attractive position on global cost curve

Cost competitiveness





# Biorefinery optionality through capacity investment

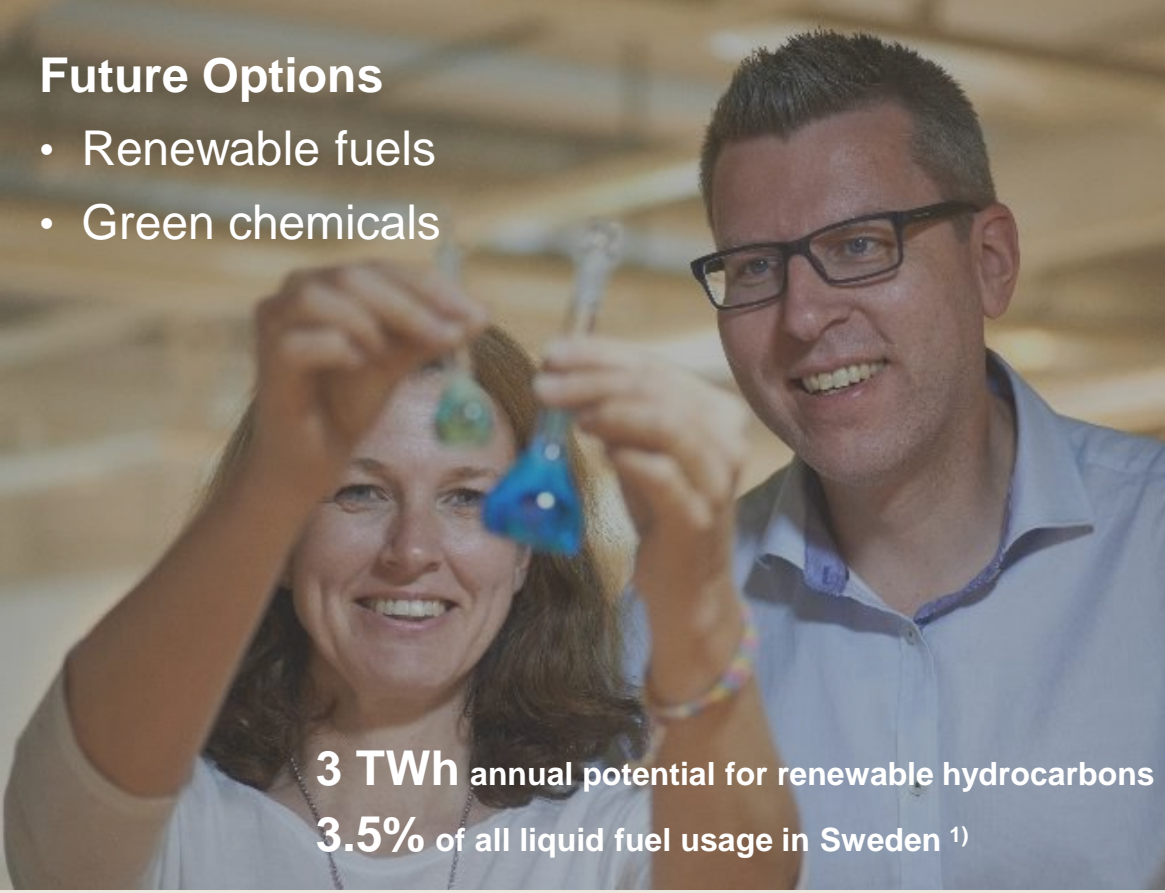
Energy surplus and residues create opportunities in bio refinery operations

Currently developing technology for converting biomass residues into sustainable biofuels and bio chemicals

SEK 50m invested in a pilot plant in Obbola for the production of liquid biofuels from black liquor – production started in early 2017

## Future Options

- Renewable fuels
- Green chemicals



3 TWh annual potential for renewable hydrocarbons  
3.5% of all liquid fuel usage in Sweden <sup>1)</sup>

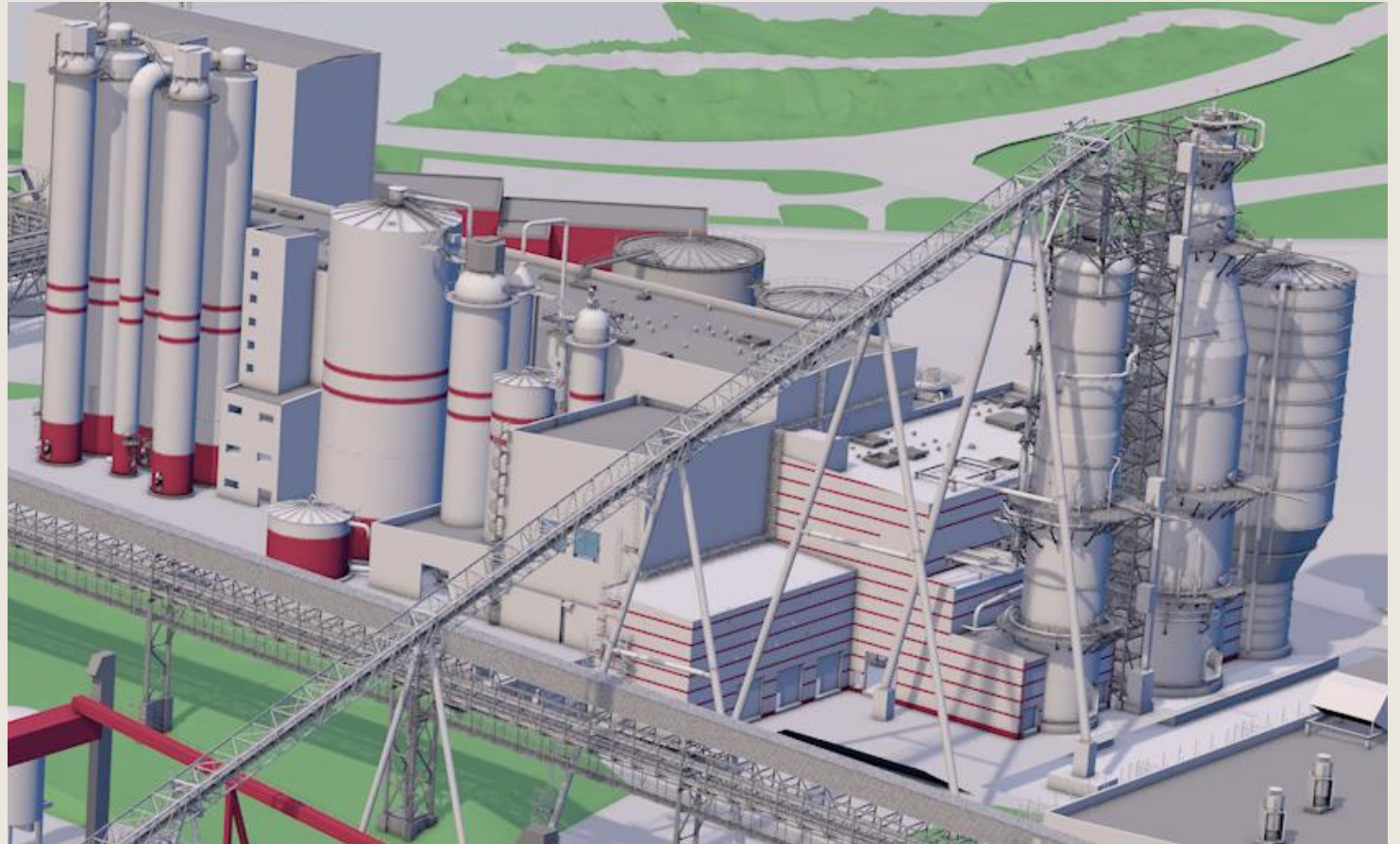
# Key priority – securing the expansion of Östrand

## Focus on delivery on time – in full

- Time schedule
- Cost
- Quality
- Production and environmental performance

## Sequential start-up mitigating risk

- Training and education plan
- Wood handling
- Evaporation
- Drying machine





# Paper

Mats Nordlander, President Paper



# The leading supplier of Kraftliner in Europe

Net sales (SEKm)

**7,744**

Adjusted EBITDA (SEKm)

**1,128**

Capital employed (SEKbn)



**Kraftliner**



**Munksund &  
Obbola**

**865**<sub>k tonnes</sub>

**Publication paper**



**Ortviken**

**775**<sub>k tonnes</sub>



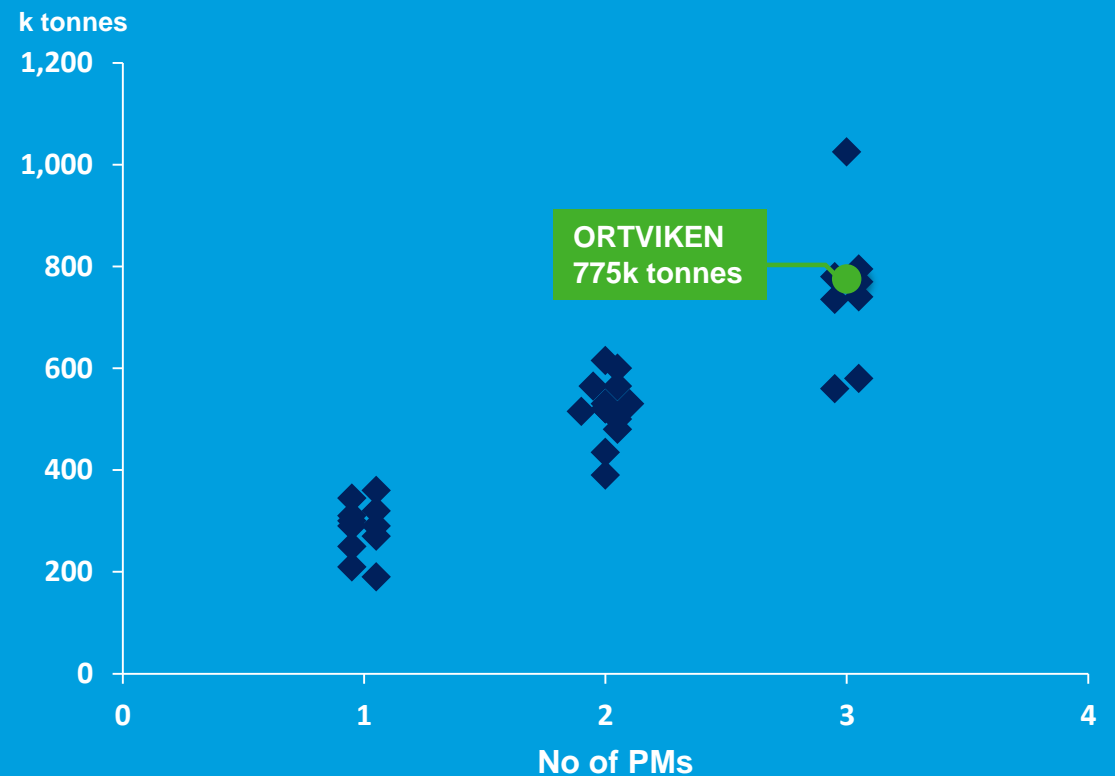
# Ortviken – one of the largest and most cost efficient publication paper mills

One site mill with 3 paper machines

Operational excellence

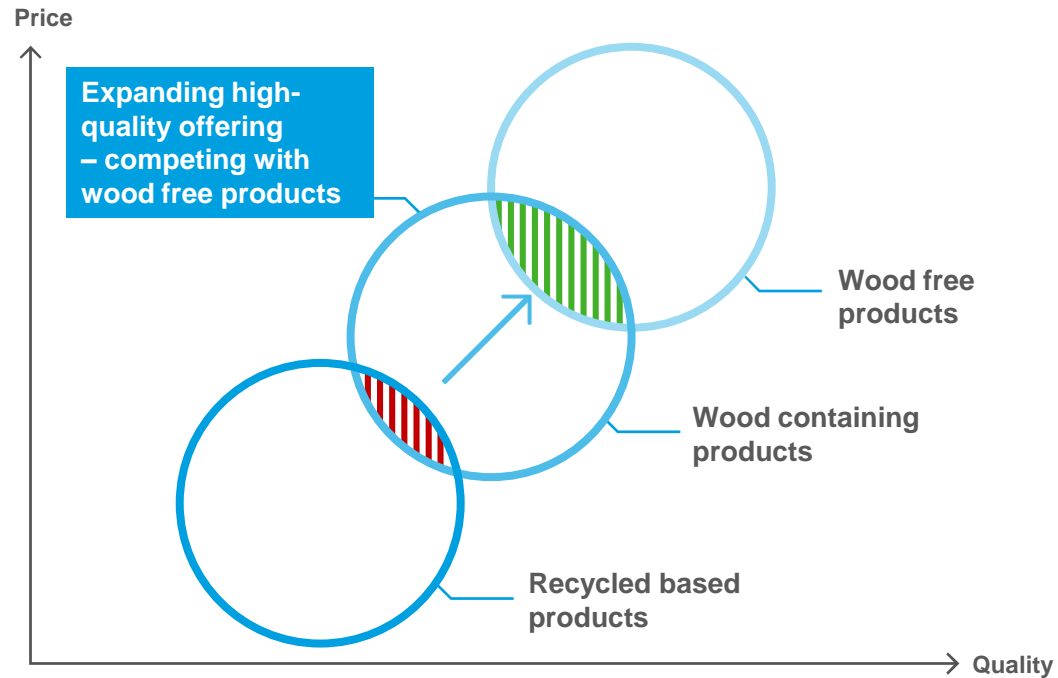
Cash flow focus with limited investment needs

European publication paper mills by capacity



# Publication paper – focus on high quality paper

Clear focus on premium priced  
high quality products



Fresh spruce fiber from our forest enables  
competition with high value wood free products

Fast product renewal – 35% of current products did  
not exist 5 years ago



# Strong demand for sustainable packaging solutions



Increased demand for  
high-performance  
packaging solutions

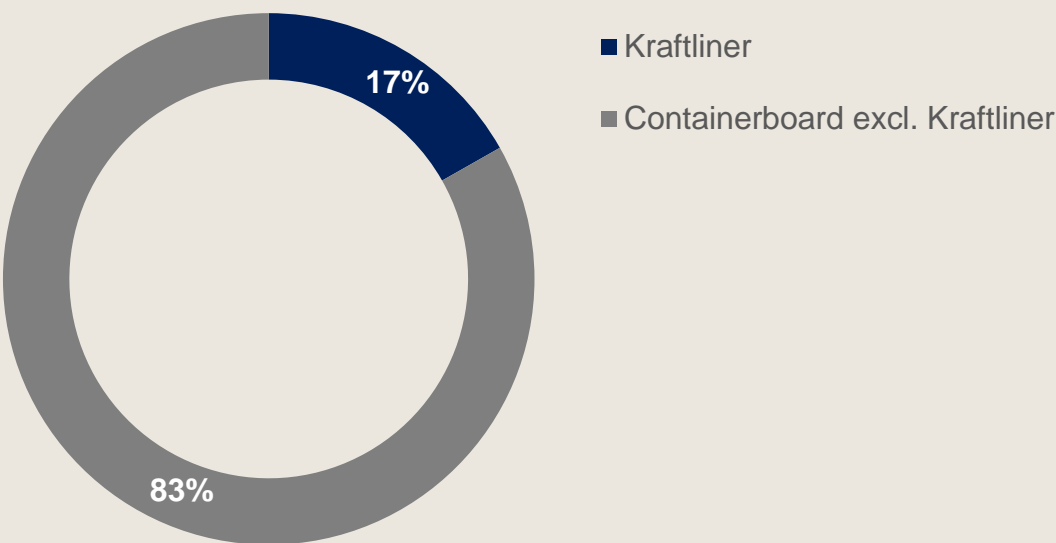


Increasing demand for  
fresh fiber products

# Strong long-term trends for Kraftliner

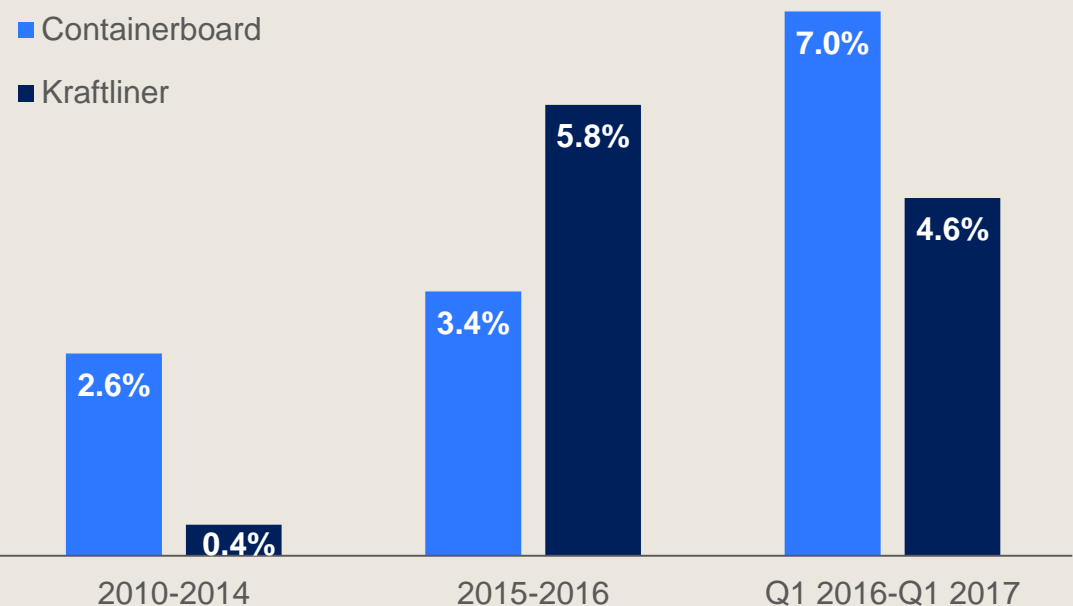
## Containerboard market size (2016)

Europe (% of tot. Containerboard)



## Market growth

Europe (CAGR, %)



# Product portfolio focused on high performance fresh fiber products

## Leading products – best in class

- Access to **long and strong Nordic fresh fiber** enables high quality products with excellent environmental performance
- Focus on high-value **white-top Kraftliner** with excellent printability and **high performance and high grammage Kraftliner** for extreme performance



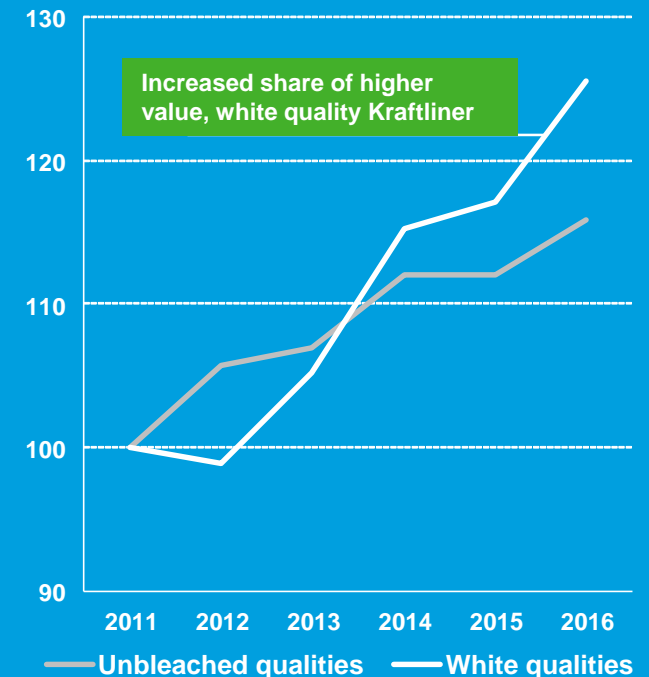


# Two of Europe's largest and most efficient Kraftliner paper machines

- **#1** and **#3** Kraftliner paper machines in Europe
- SEK **3bn** invested in recent years
  - **Munksund**: Increased capacity and improved quality for white-top and high strength Kraftliner
  - **Obbola**: Upgrading and renewing pulp mill with latest technology
- Long term optionality for new products and further capacity investments
- Improved environmental performance
  - Product carbon footprint have been reduced by 30% between 2006-2016

## Production increase in Munksund

Tonnes/day  
(indexed)



# Focus on creating customer value to drive profitability and loyalty

Recognized by customers as the leading and most reliable supplier of high quality Kraftliner products

Innovation in close collaboration with customers to meet performance demand

Focus on Central and Northern European customers with high demand on service and quality



# Innovation to boost top line and margins

Enhanced product features – lightweighting

New applications – paper cups, paper bags

New business models – Arcwise



**NEXT GENERATION  
KRAFTLINER**  
*Material efficiency*



**CUP STOCK**  
*Changing lifestyle*



**PAPER BAGS**  
*Competition with plastics*



**ARCWISE**  
*Round shaped corrugated  
board packaging*



# What if you could do more with less?

## Eurokraft 165

*Reference*



850g

## Kraftliner NG 150

Same  
strength

Weight  
-6%

CO<sub>2</sub>  
-5%



800g

## Arcwise solution Kraftliner NG 150

Strength  
+2%

Weight  
-35%

CO<sub>2</sub>  
-35%



550g

# Strategic priorities

## Kraftliner

- Build on market leading position and favorable growth trends
- Leverage investments made to further focus product mix on high value products
- Optionality for further capacity investments in Obbola and product mix improvements in Munksund




## Publication paper

- Operational excellence & cash flow focus
- Upgrade product portfolio and grow key products in selected segments







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

