

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

Capital Markets Day
May 22, 2018



Today's agenda

08:30 – 09:15

Registration and coffee

Strategic direction – *Senior Management Team*

Growing forest asset – *Jonas Mårtensson, President Forest*

10:45 – 11:00

Coffee break

Increased value from each tree – *Toby Lawton, CFO*

Concluding remarks – *Ulf Larsson, CEO*

Q&A

12:00 – 13:00

Lunch

Forest site visit – *Mats Sandgren, Senior Advisor and former President Forest*

Harvesting and planting in action

FSC certification – *Hans Djurberg, Board Member FSC International, Sustainability Director SCA*

Market valuation of forest assets – *Johan Freij and Oskar Lindström, Danske Bank*

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 *m m³fo*

Note: 1) Adjusted EBITDA and EBITDA margin. 2) Adjusted ROCE for the industrial segments; Wood, Pulp and Paper. ROCE adjusted for capex invested in the Östrand project. Financial figures refer to 2017.

Global trends favoring fiber based renewable materials

Increased demand for renewable materials

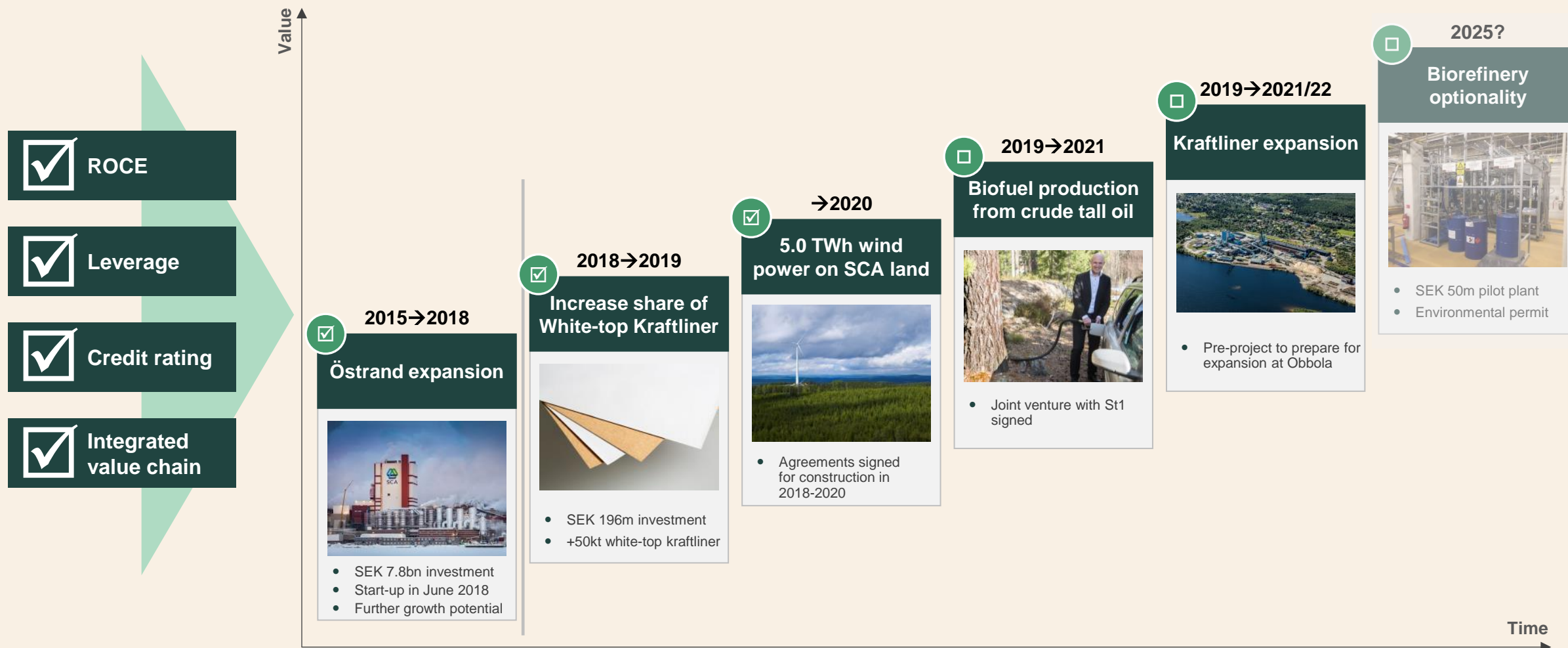
Growing demand for virgin fiber

Eco-awareness

E-commerce

More packaged goods

Cash flow funded growth opportunities



Profitable growth strategy

Increased
value from
each tree

Growing
forest asset

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

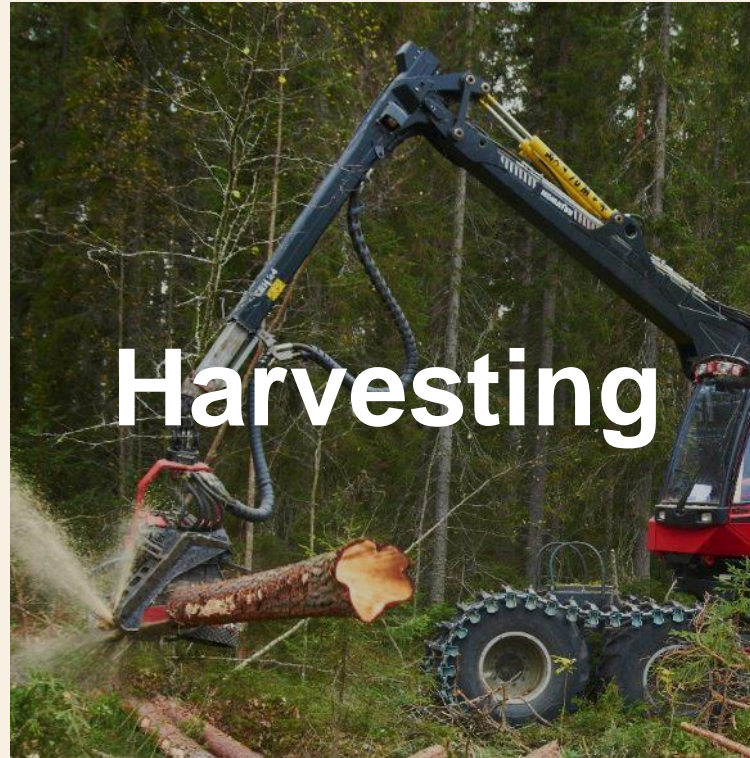
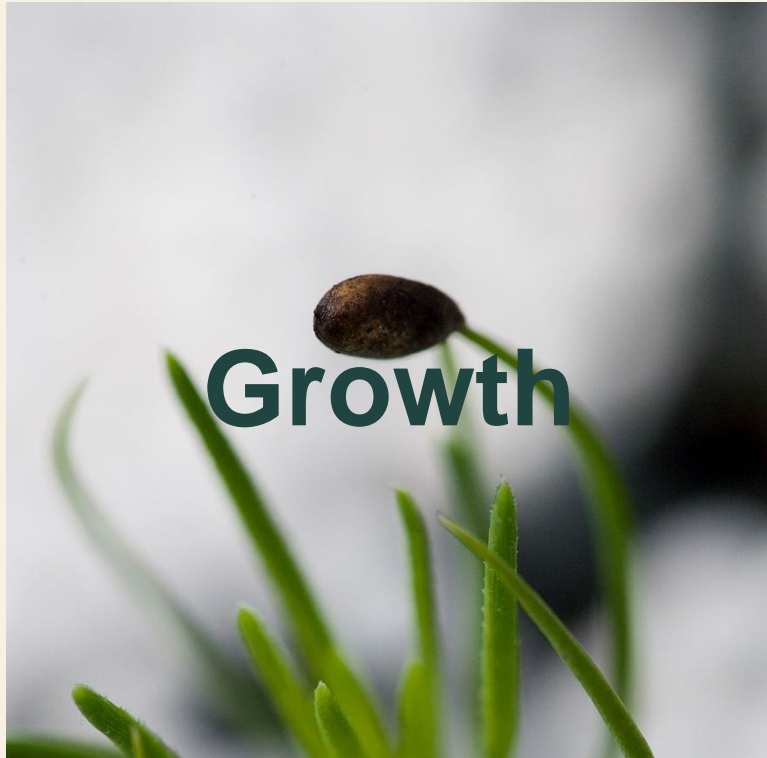
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Wood – moving forward in the value chain

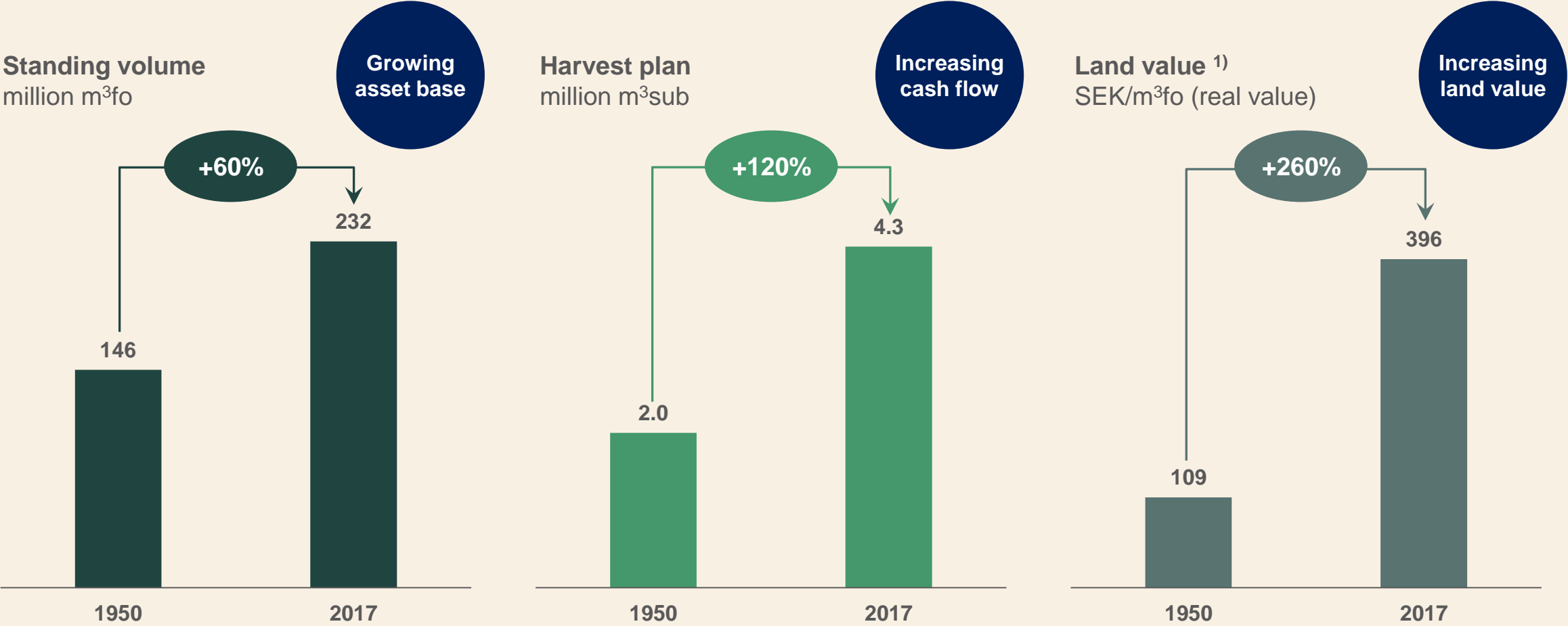
Forest – the source for value creation

Jonas Mårtensson, President Forest

The forest is our source for value creation



Profitable growth since 1950



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

Favorable long-term trends...

E-commerce – 20% growth CAGR

Increasing world trade

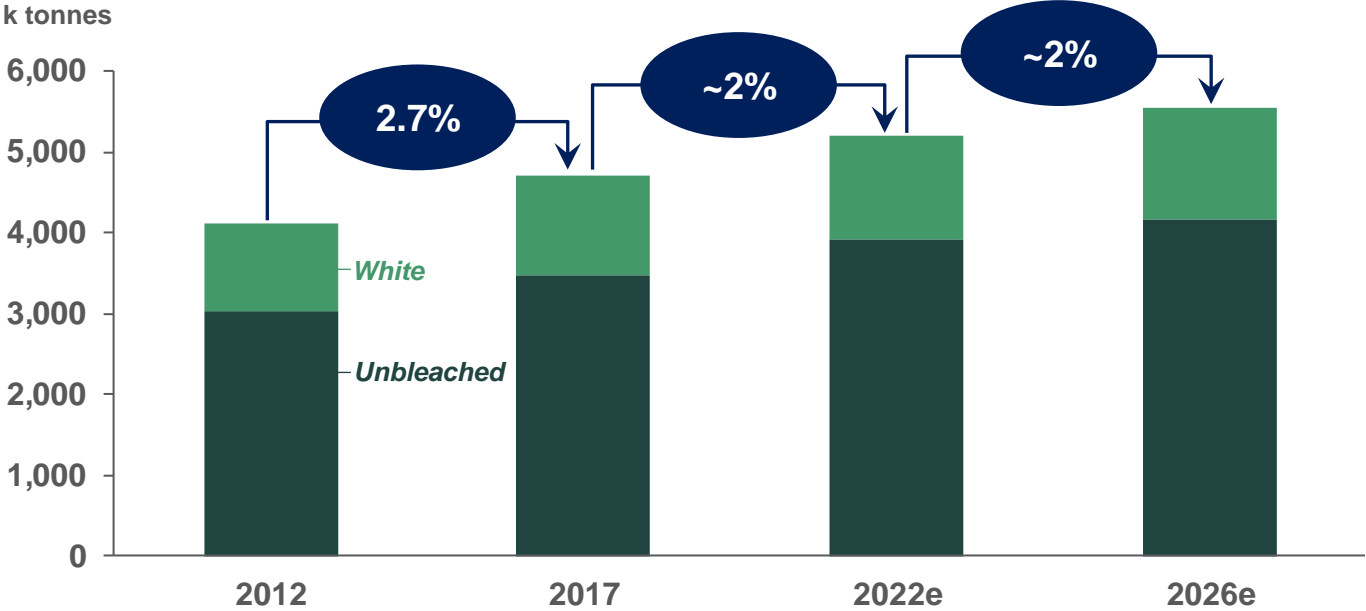
Substitution of plastics

Shelf ready packaging

Food safety

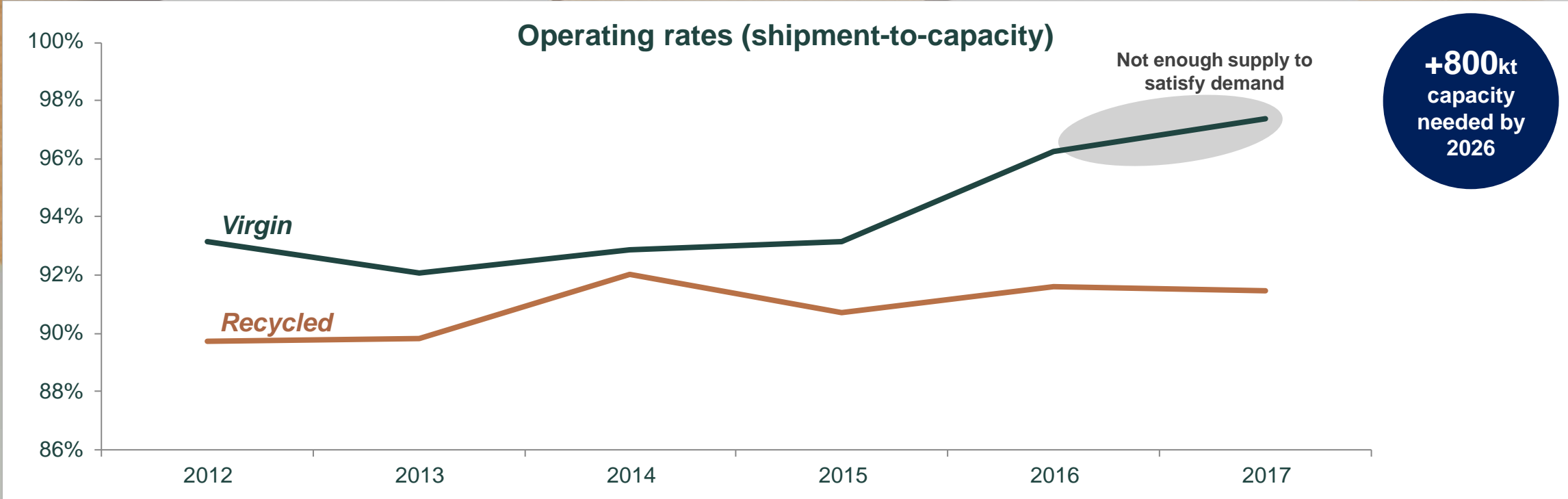
...driving demand for virgin fiber

Kraftliner demand Europe / Growth CAGR



Increased capacity needed to meet demand

Kraftliner growth limited by shortage of supply



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

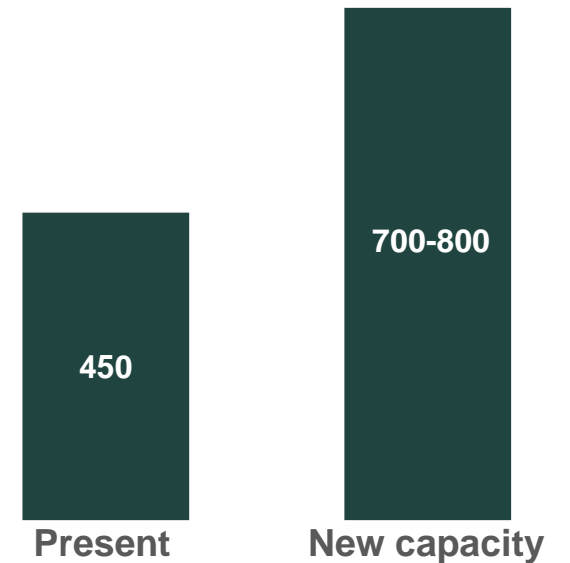
New ~800 kt paper machine

Expansion of existing pulp line

- Virgin fiber
- Recycled fiber

Potential investment decision based on outcome of pre-project

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

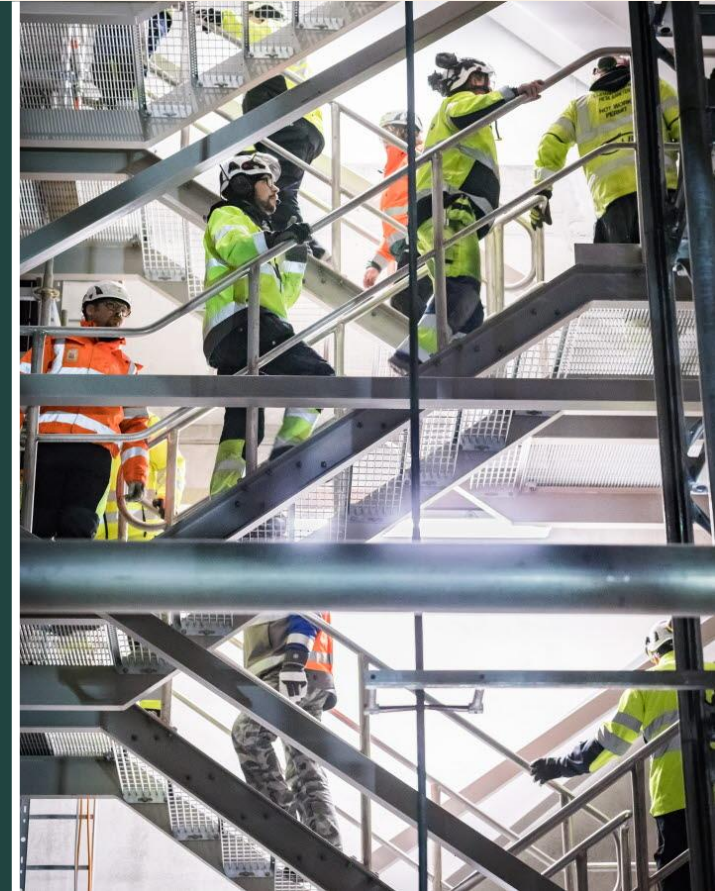
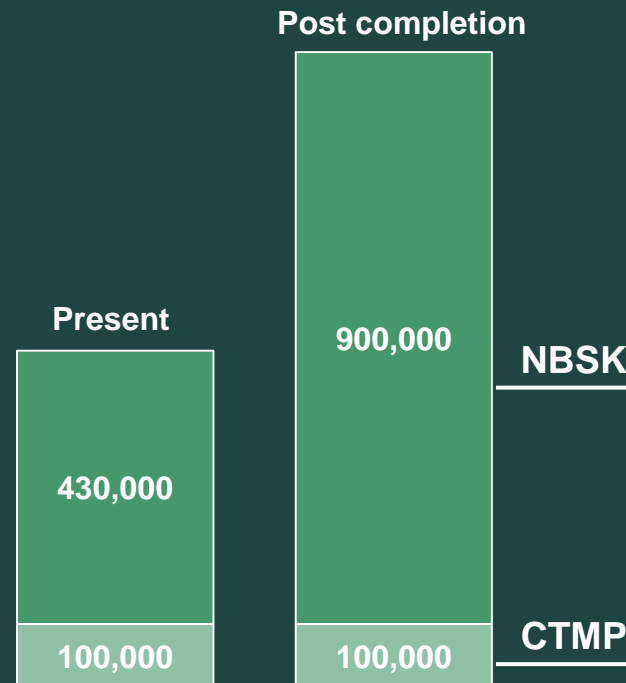
- 2018 – volumes in line with 2017
- 2020 – first full year at full capacity

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

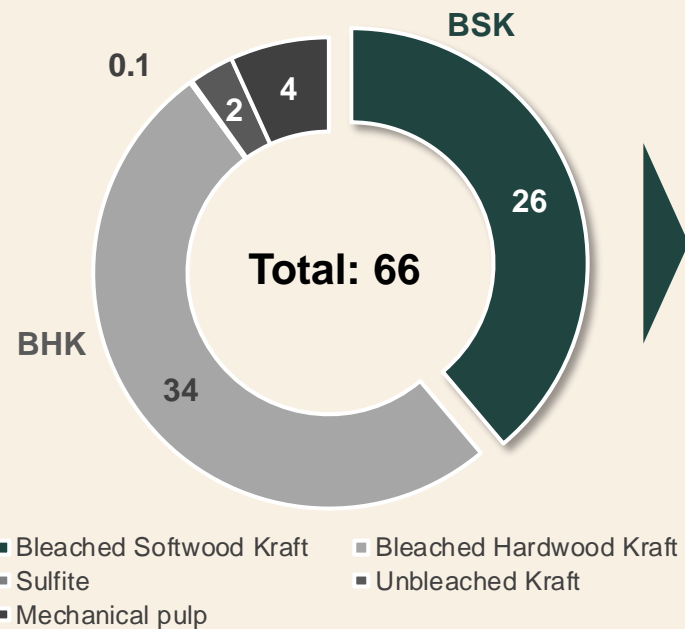
Total capacity (tonnes/year)



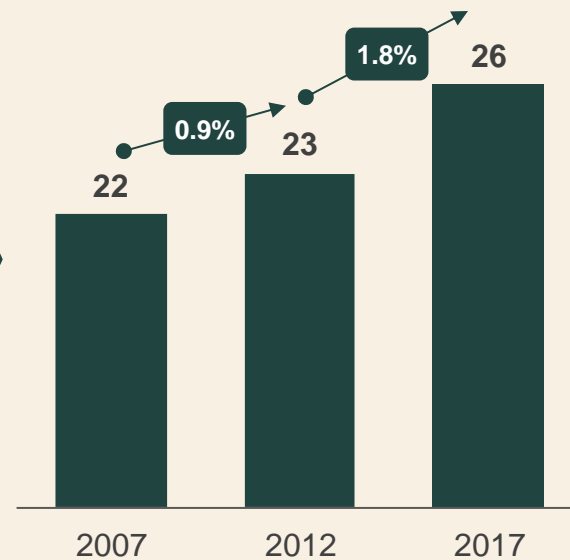
Growing demand for pulp

Strong market growth...

Global market (m tonnes)

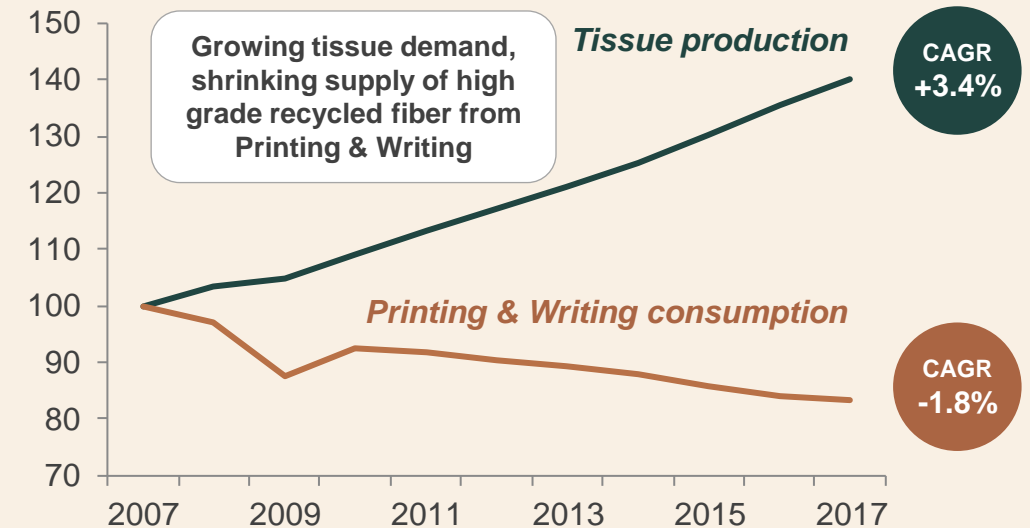


CAGR



...driving increased tissue demand and shortage of virgin fiber

Index (global market)



Pulp – strategic direction

1

Start-up

2

Ramp-up

3

Quality

**Renewable energy –
the next value creator**
Mikael Källgren, President Energy

Östrand investment enables biofuel potential



Doubled tall oil production



Net energy producer 1)



Energy and production optimization

Note: 1) Net energy producer at Östrand.

SCA and St1 to start a joint venture for the production of biofuels from tall oil

Reduction of CO₂ by blending biofuels

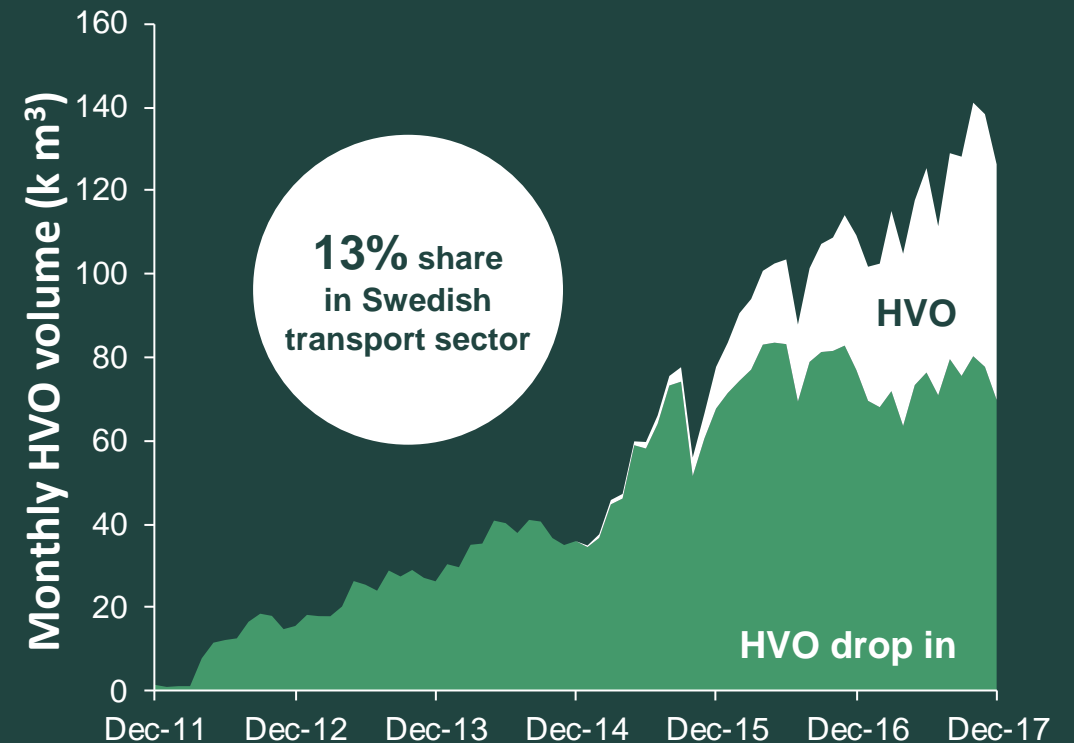
- Sweden: 21% diesel and 4.2% gasoline by 2020
- EU: 7% renewable energy in transport

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



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

5.0 TWh

2.7

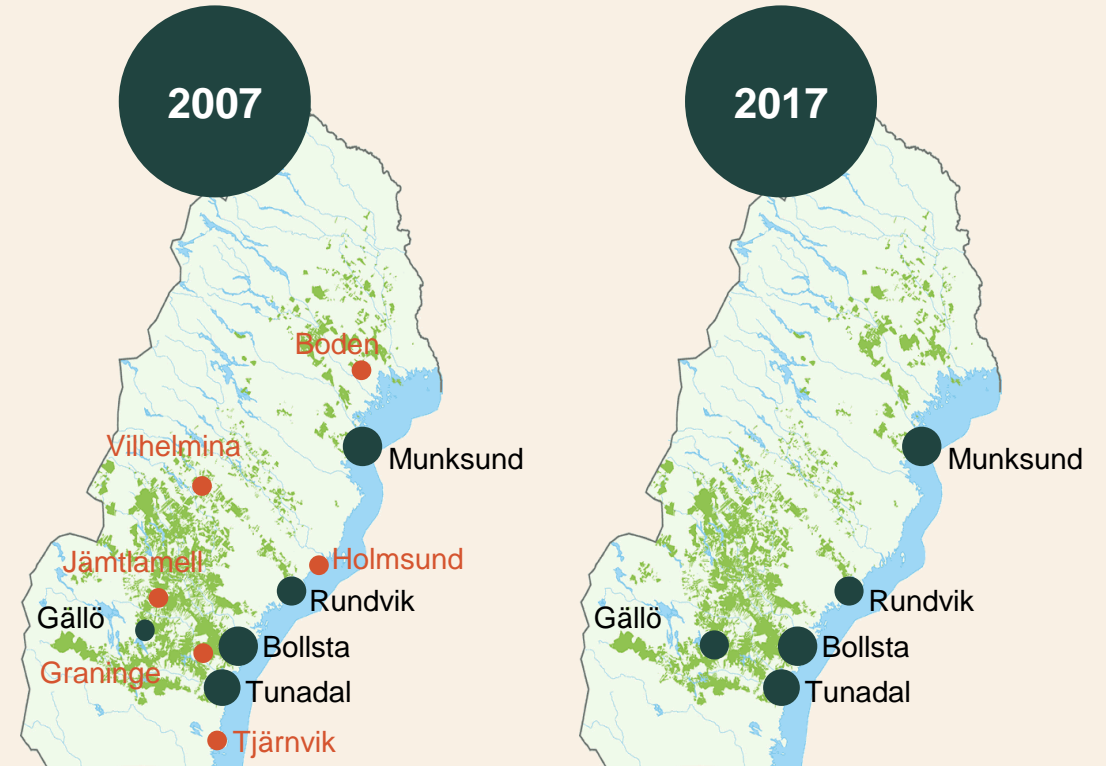
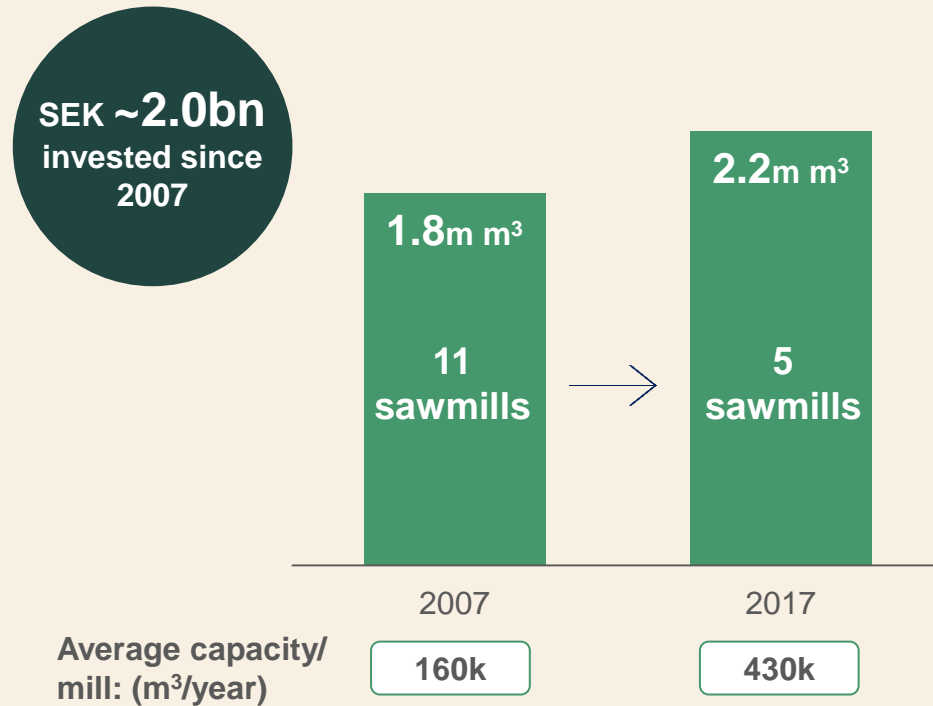
2.3



**Wood – moving forward
in the value chain**
Jerry Larsson, President Wood

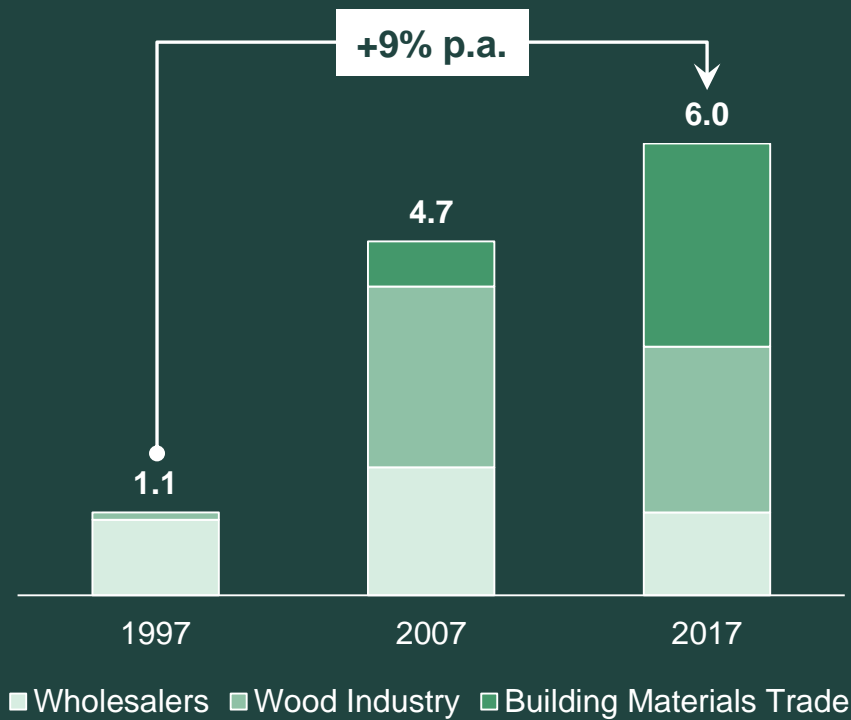
One of the largest and most efficient sawmill operations in Europe

From 11 to 5 highly automated and efficient sawmills



Long-term profitable growth with focus on value added products

Wood sales (SEKbn)



Profitable growth

Higher and more stable margins over a business cycle

Customized products based on customer insights



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



Europe's largest private forest owner

Forestland

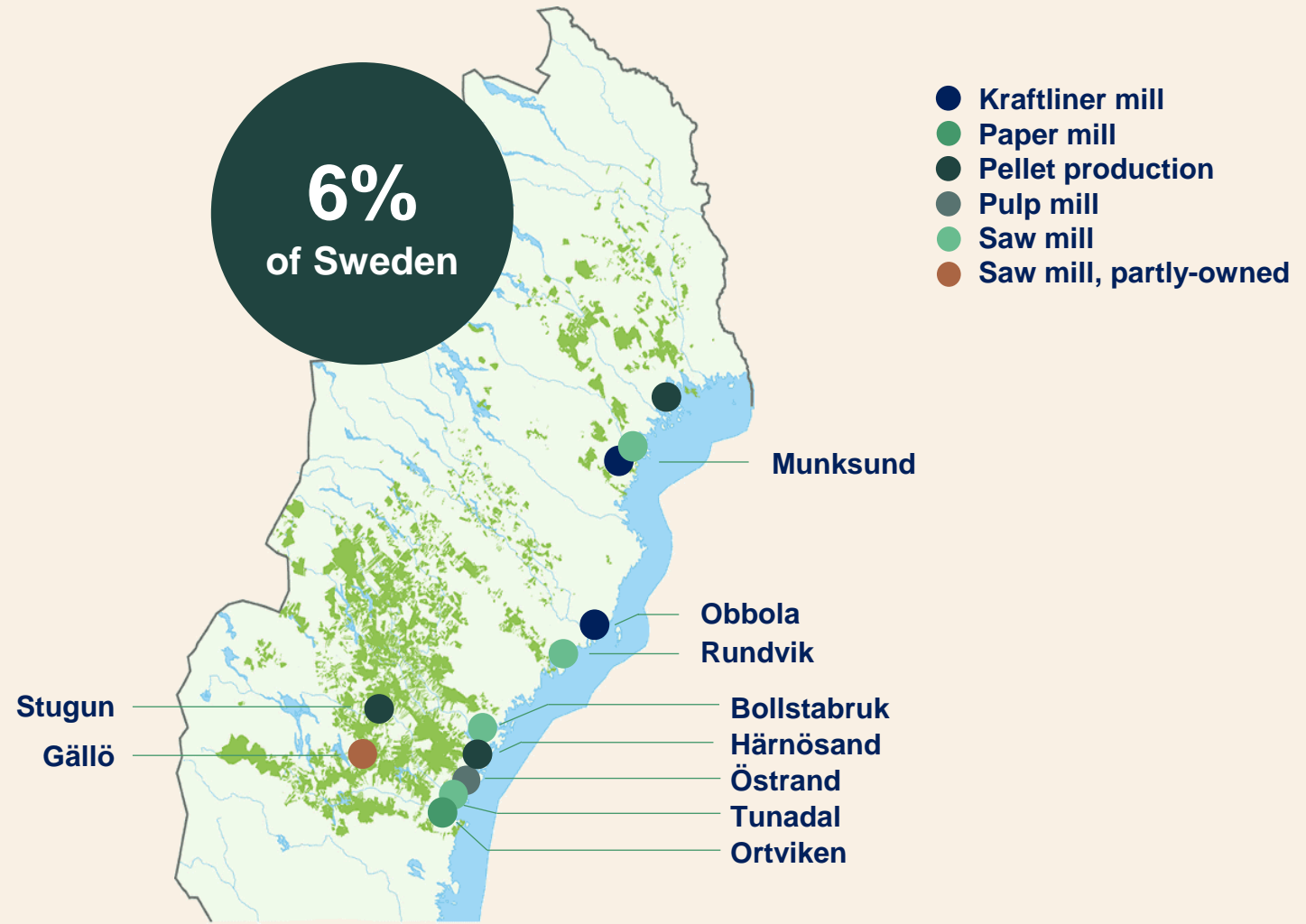
2.6_{m ha}

Productive forestland

2.0_{m ha}

Standing volume

232_{m m³fo}



Significant real growth of 3.5%

Forest growth metrics (m m³fo)

Gross growth of standing forest	9.5
Natural losses and pre-commercial thinning	-1.3
Available growth of standing forest	8.2
Annual harvesting	-5.2 ⁽¹⁾
Annual net increase of standing forest	3.0

Real growth rate of 3.5% (in relation to the standing volume of 232m m³fo)

Current cash flow

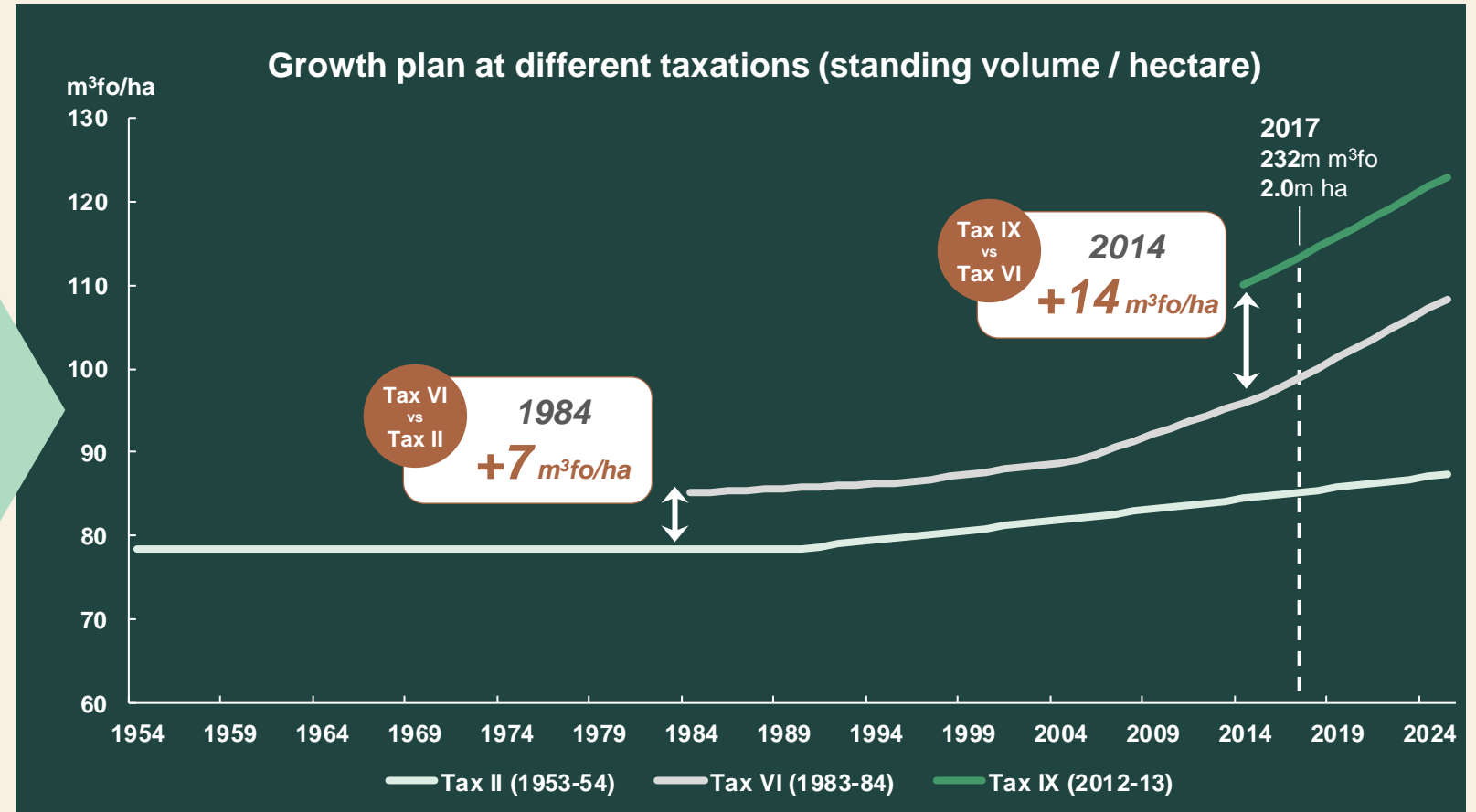
New harvesting plan every 8-10 years
Harvesting increase to >7m m³fo in 2114

Future cash flow

Note: 1) Corresponding to approximately 4.3m m³sub.

Improved practices has increased growth

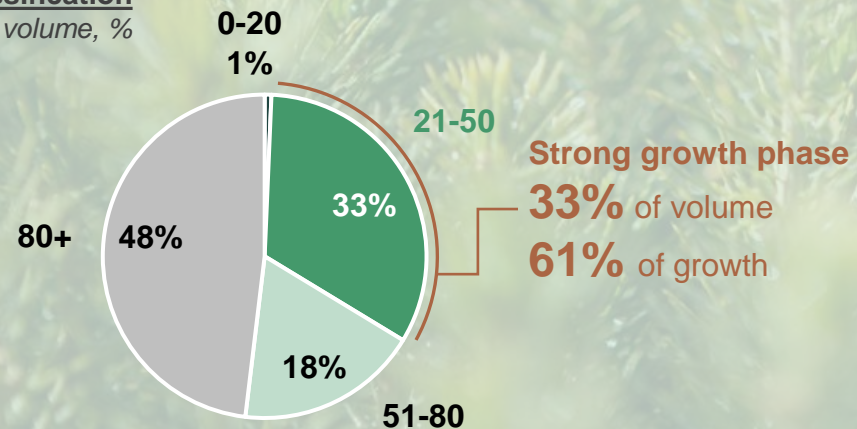
- 1 Silviculture
- 2 Fertilization
- 3 Improved seedlings
- 4 Introduction of lodgepole pine



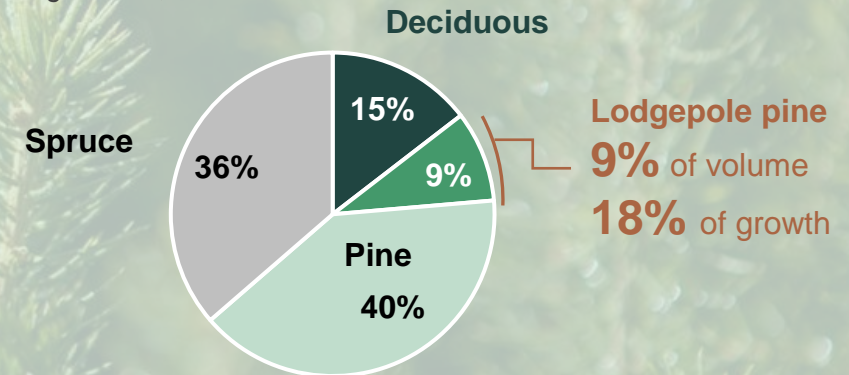
Young forests and lodgepole pine drive biological growth

High share of young forests currently in a strong growth phase

Age classification
Standing volume, %



Tree species
Standing volume, %



Planning, planning, planning



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



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

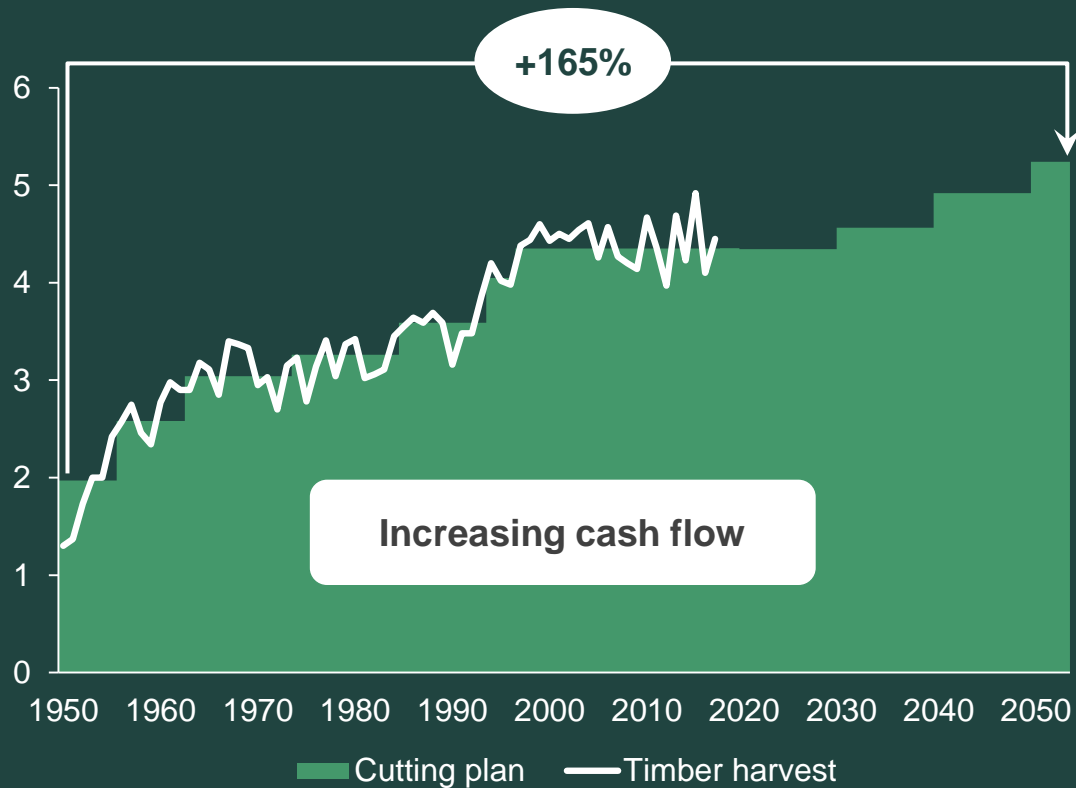
✗ Increased risk for storms, fire, infestation and snow damage

✗ Damage to soils and water due to shorter period of ground frost

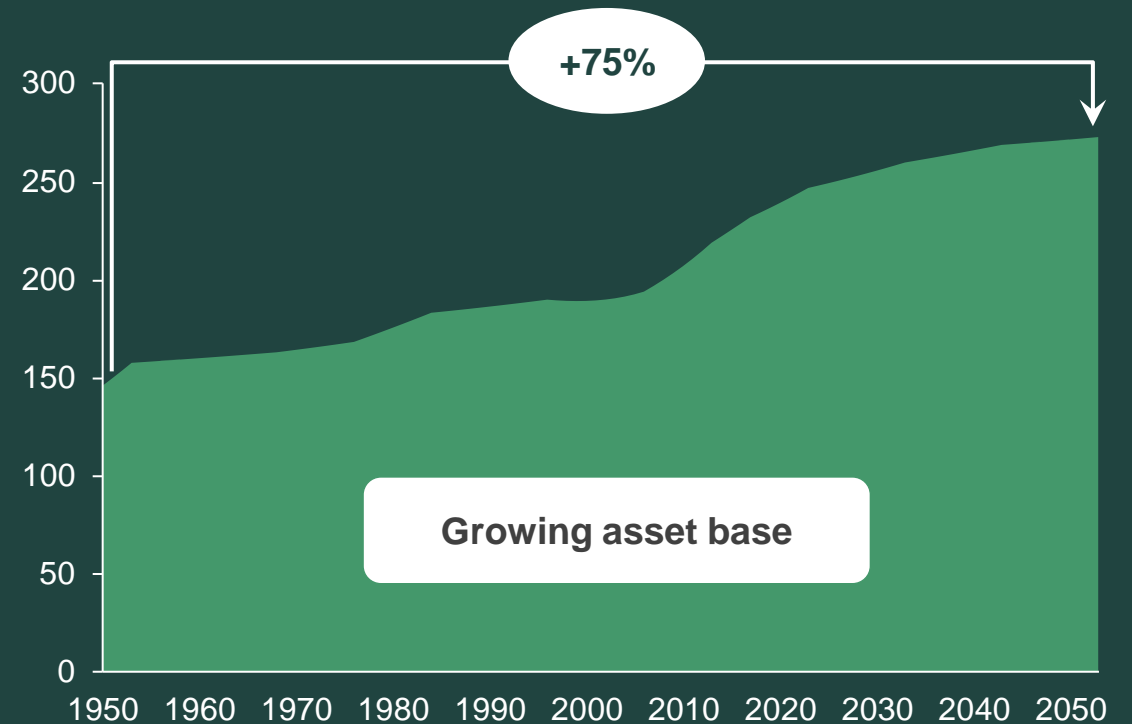
Increase in both standing volume and harvesting level

Based on current practices

Harvesting from own forest (m m³sub)



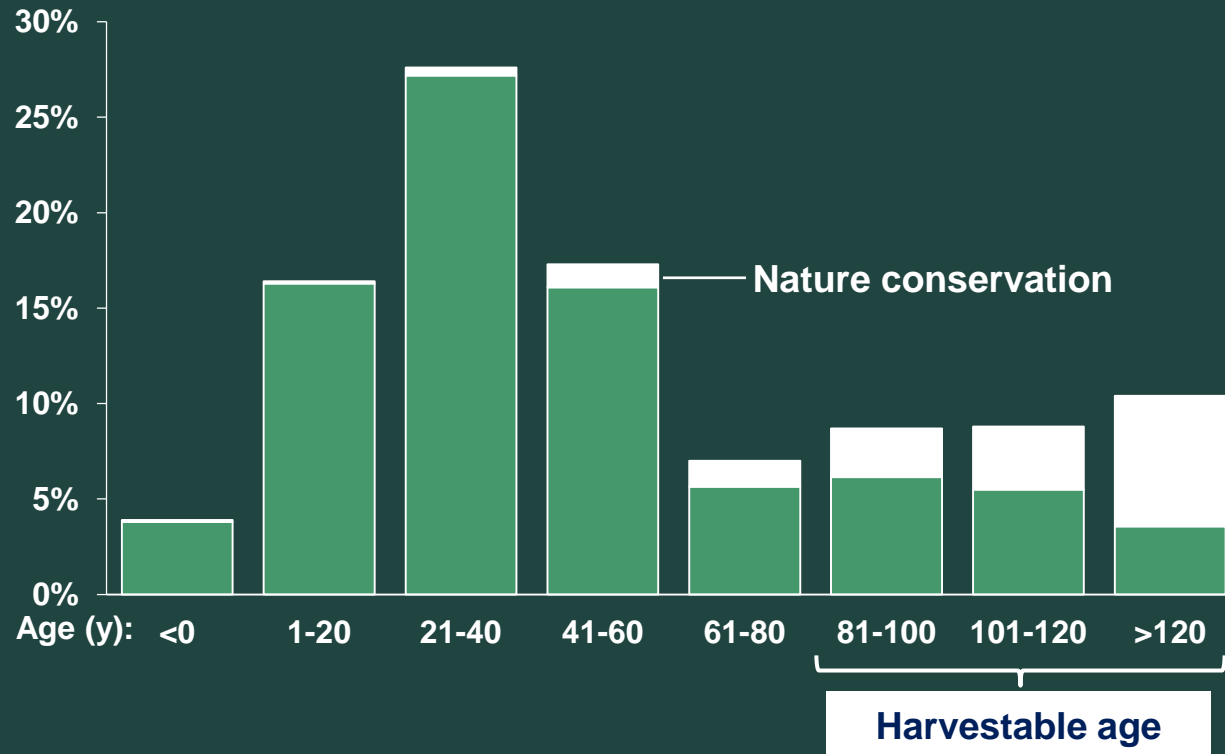
Standing timber volume (m m³fo)



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

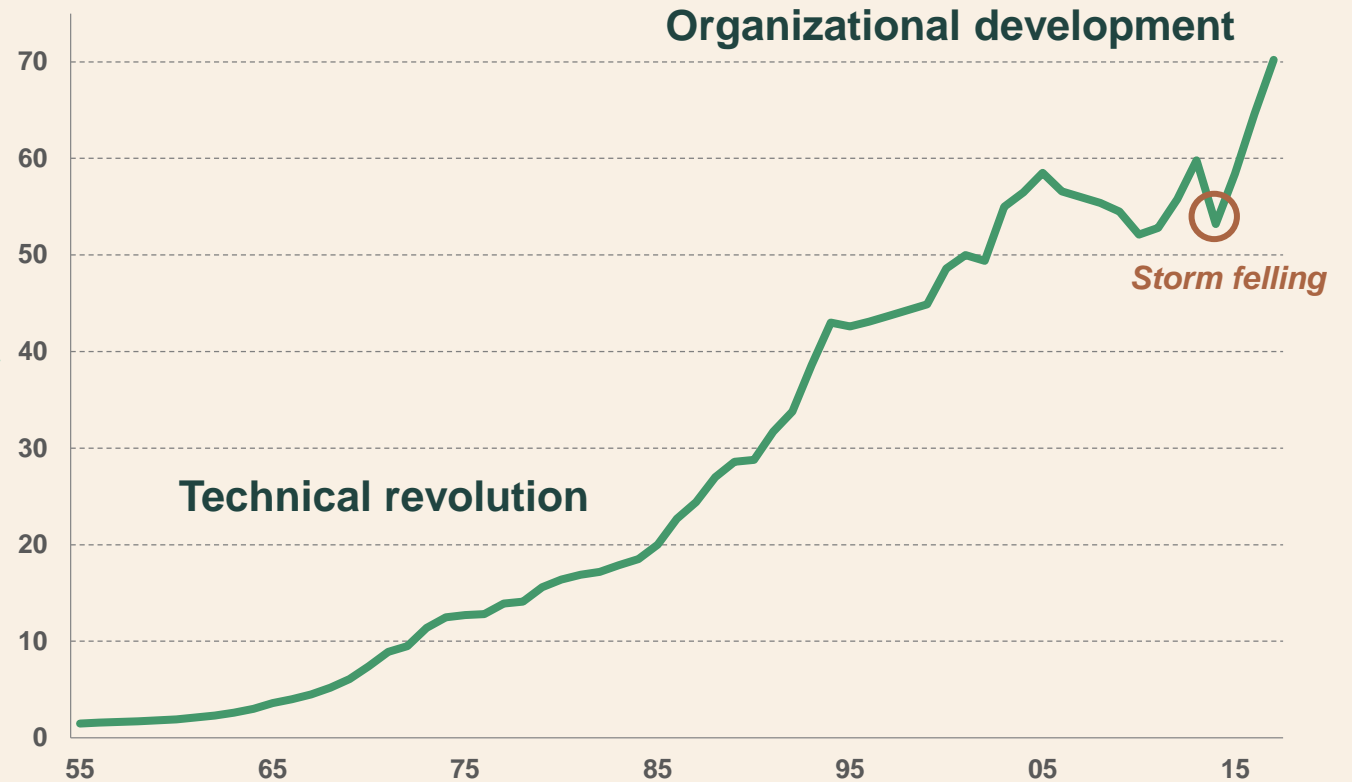
Nature conservation areas	% of productive forest land	FSC requirement
Voluntary set-asides	5-8%	≥5%
Nature considerations during harvesting operations	10-15%	~5-10%
Alternative forms of forest management	3-5%	—
Sum (over the rotation period of the forest)	~20%	~10-15%

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

Productivity development (m³sub/ day's work)



Efficient wood sourcing organization secures wood supply

Europe's largest private forest owner

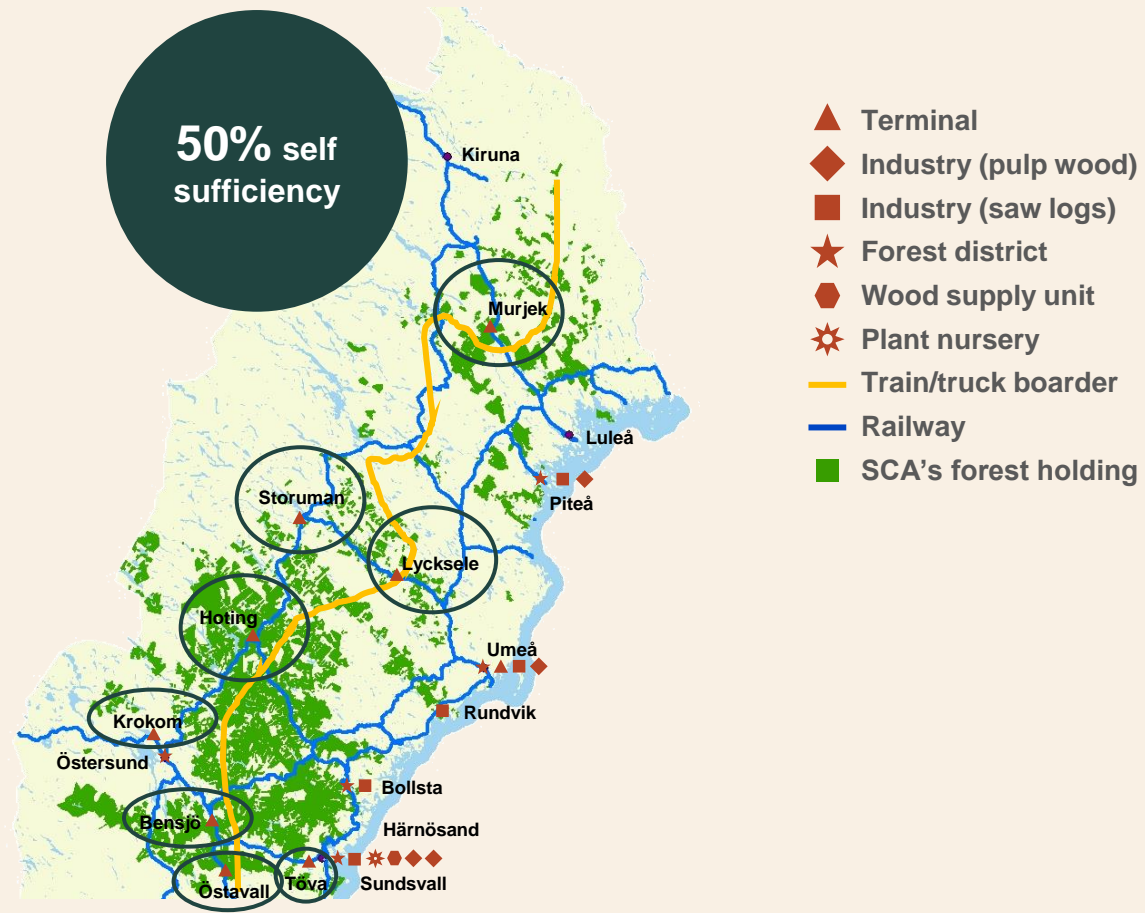
2.6_{m ha}

Wood sourcing to industries

10_{m m³sub}

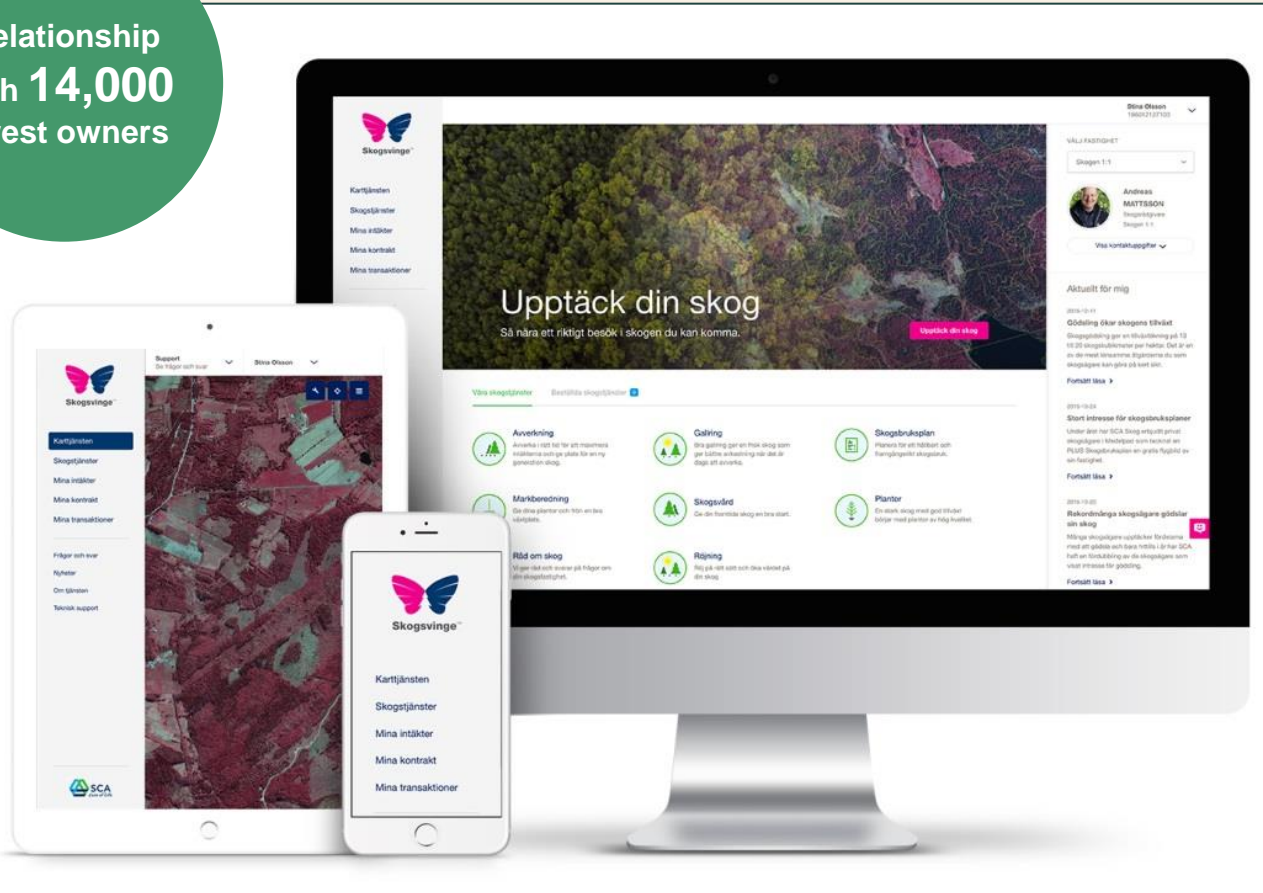
Control of infrastructure

8 timber terminals



Attractive offering for local forest owners

Relationship
with **14,000**
forest owners



i Harvesting services – leading cost position

ii Silviculture and advisory services

iii Strong financial and industrial partner

iv Skogsvinge™ – a digital tool

Europe's largest private forest owner

Sustainable forest management

Significant growth through young forest and active management

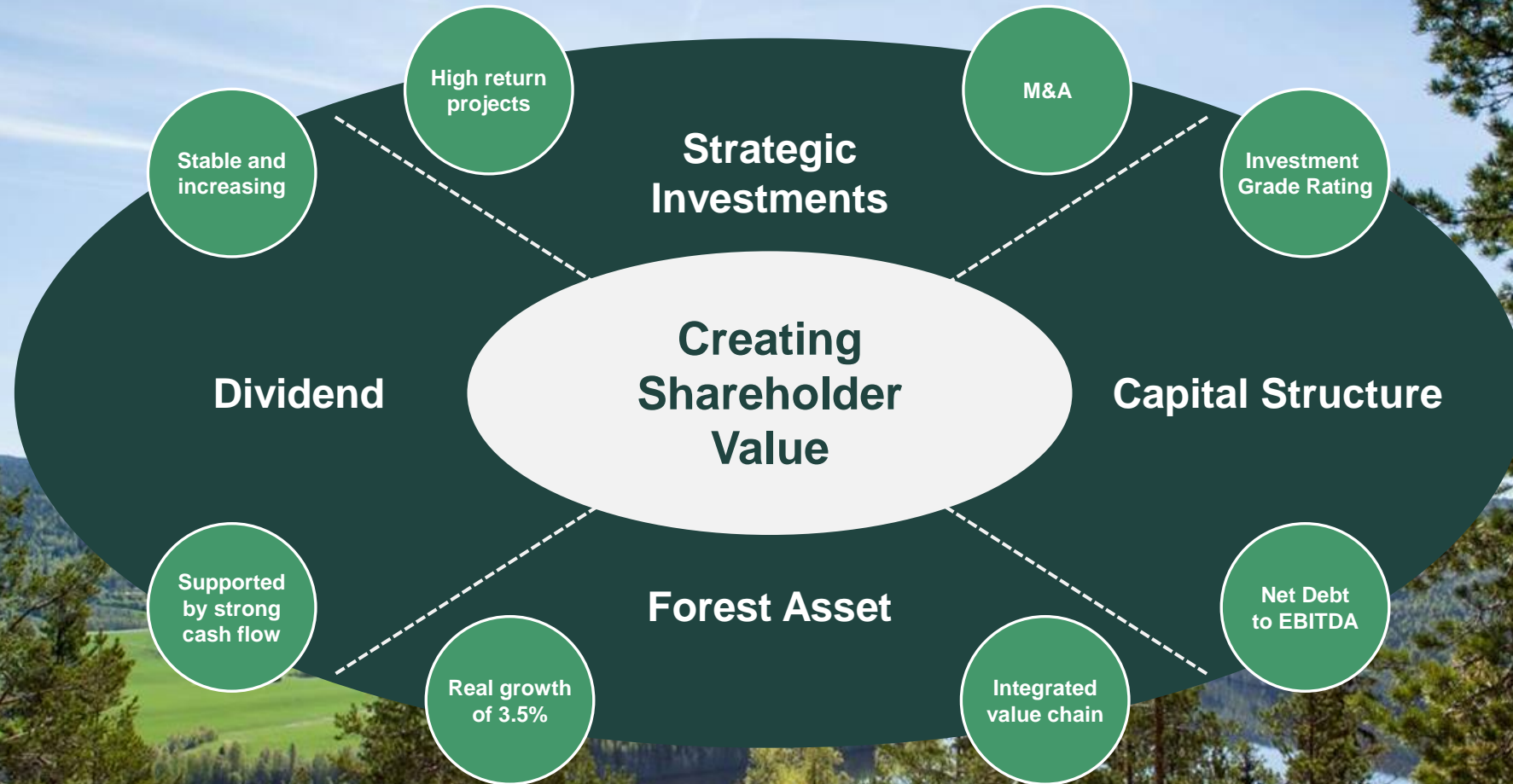
Stable and long-term increasing harvesting rate

High productivity and efficient value chain

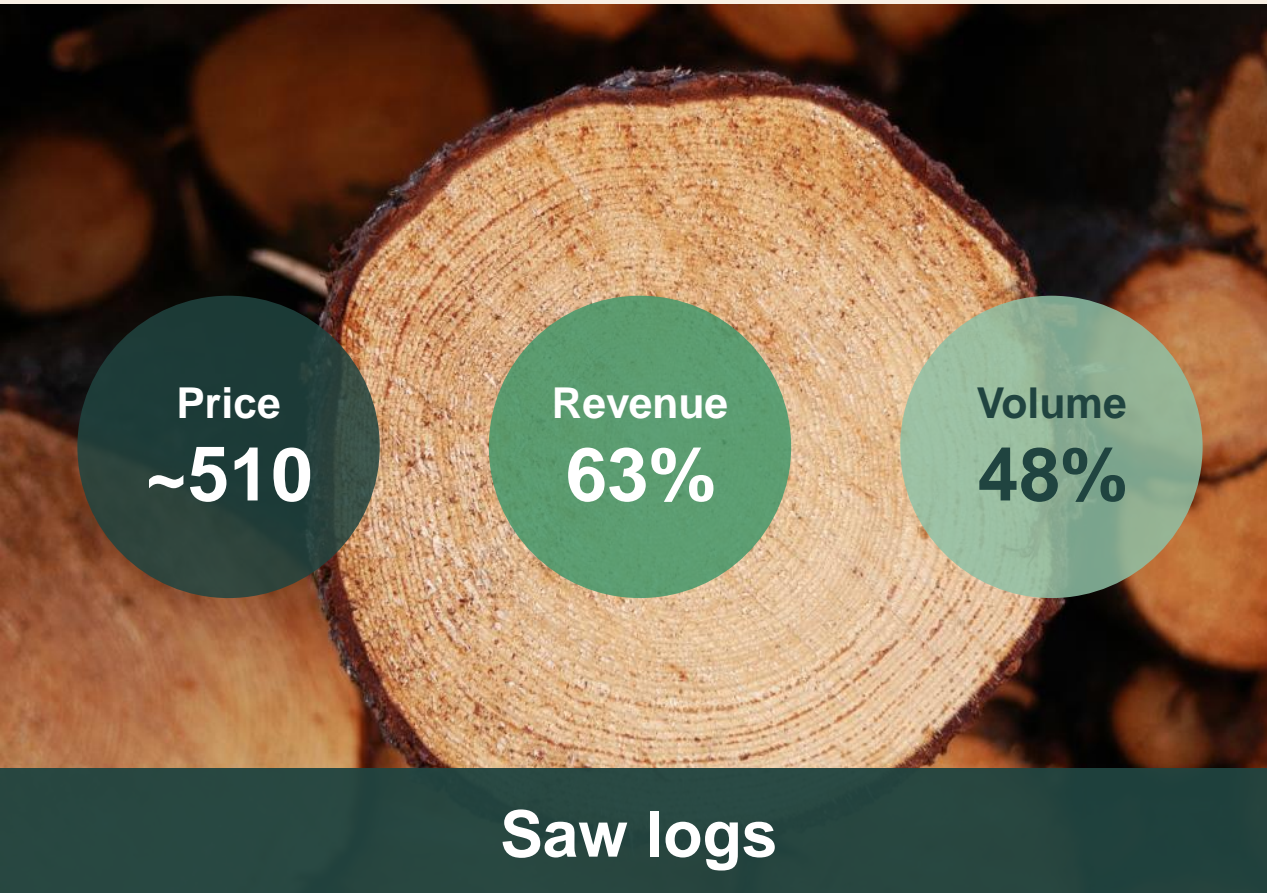
Securing timber and biodiversity for future generations

**Increased value
from each tree**
Toby Lawton, CFO

Capital allocation

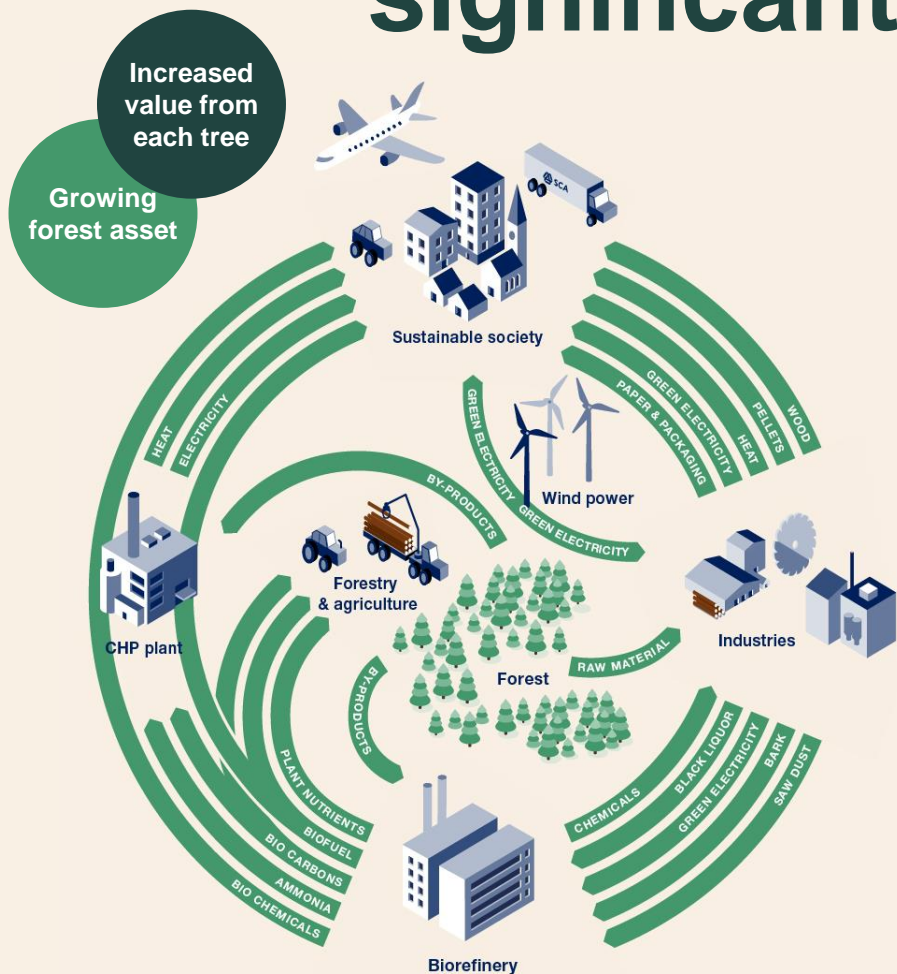


Value creation for the forest owner



Note: Price in SEK/m³sub.

Integrated value chain creates significant value add from one tree



Wood raw material ¹⁾
(m m³sub)

~9

EBITDA margin ²⁾

22.6%

Industrial ROCE ³⁾

13%

Income / m³sub ⁴⁾

Saw logs	~510
Pulp wood	~280
Forest owner	~390

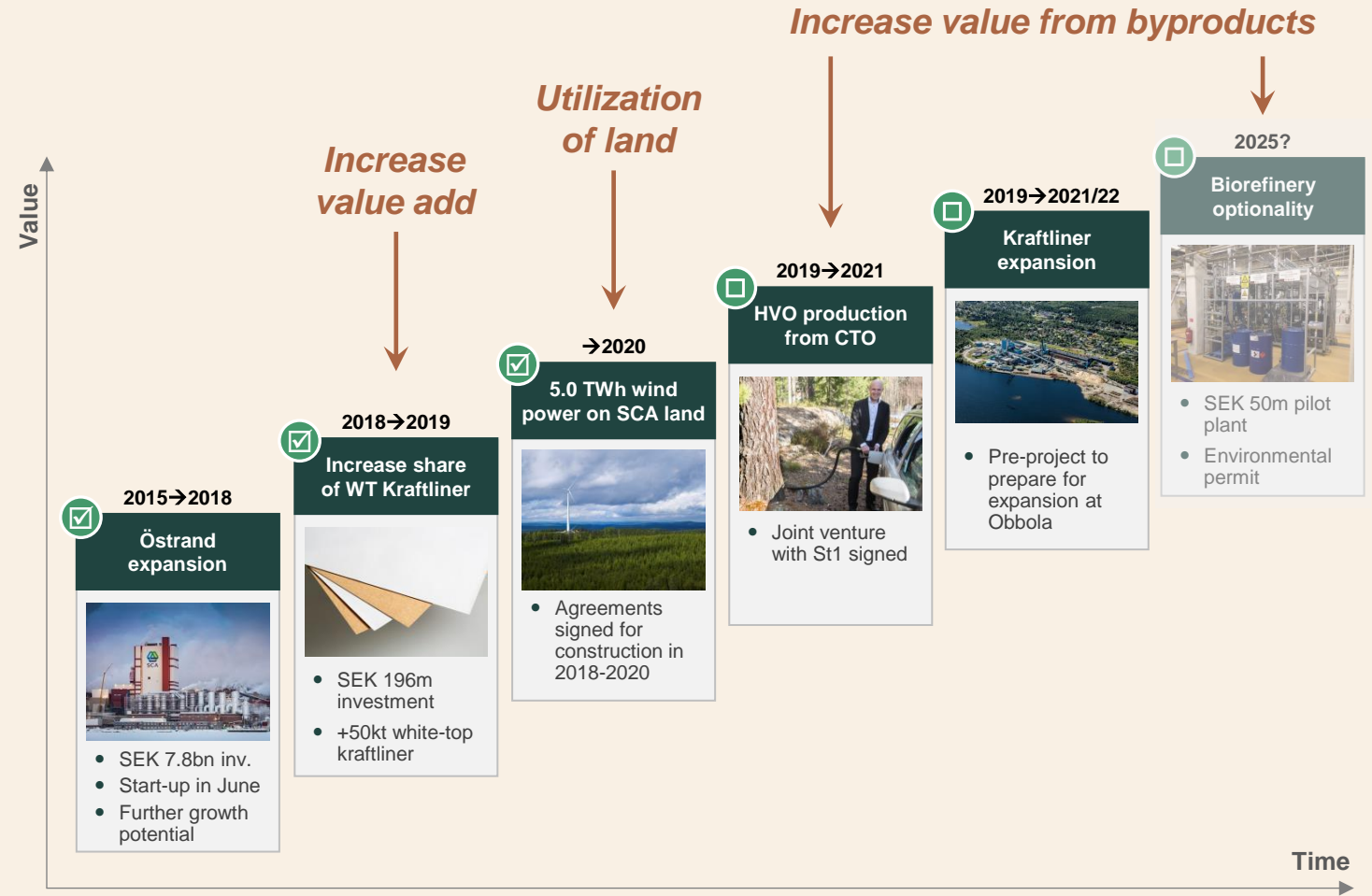
- + Wood products
- + Pulp
- + Publication paper
- + Kraftliner
- + Chips
- + Pellets
- + Wind power
- + District heating
- + Green electricity
- + Combined logistics

SCA 2,000+

x5

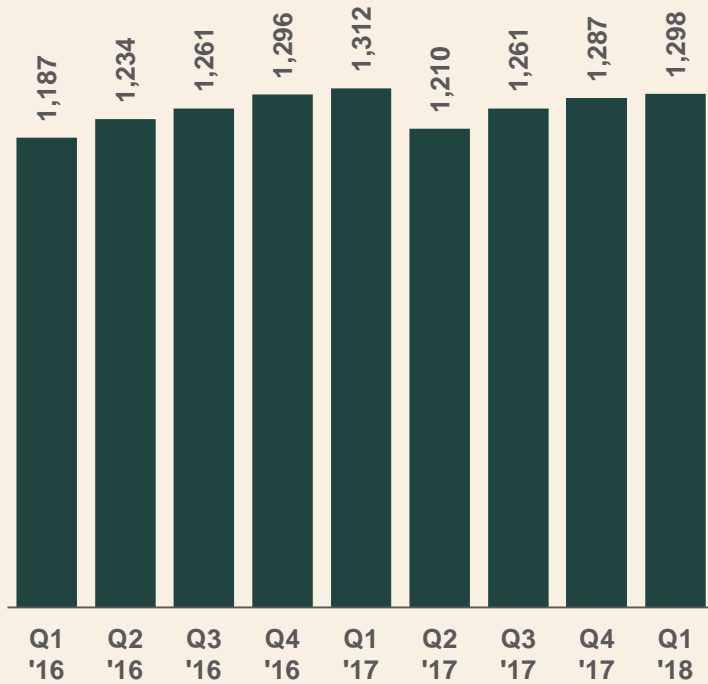
Note: 1) Excluding chips from own sawmills. 2) Adjusted EBITDA margin. 3) Adjusted ROCE for the industrial segments; Wood, Pulp and Paper (adjusted for capex invested in the Östrand project). 4) Net sales and other income. Financial figures refer to 2017.

Investment in value chain drives profitability

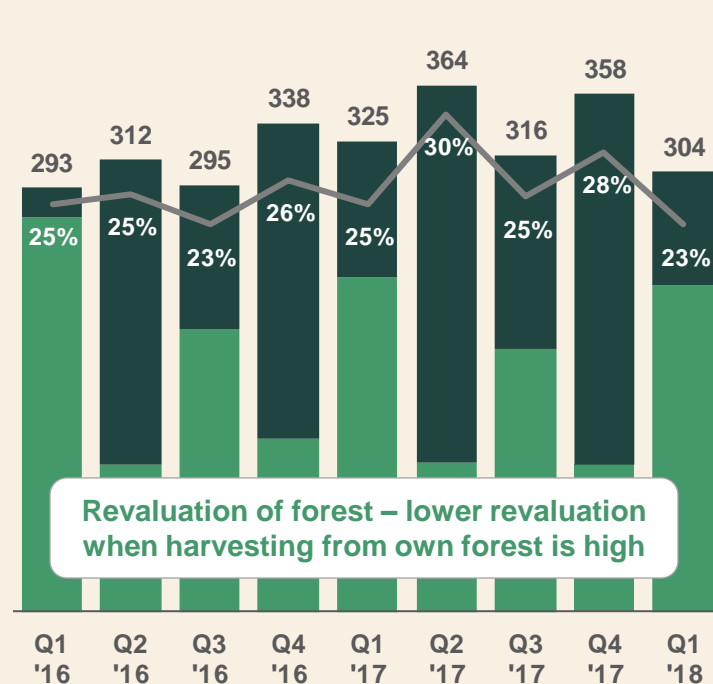


Forest seasonality

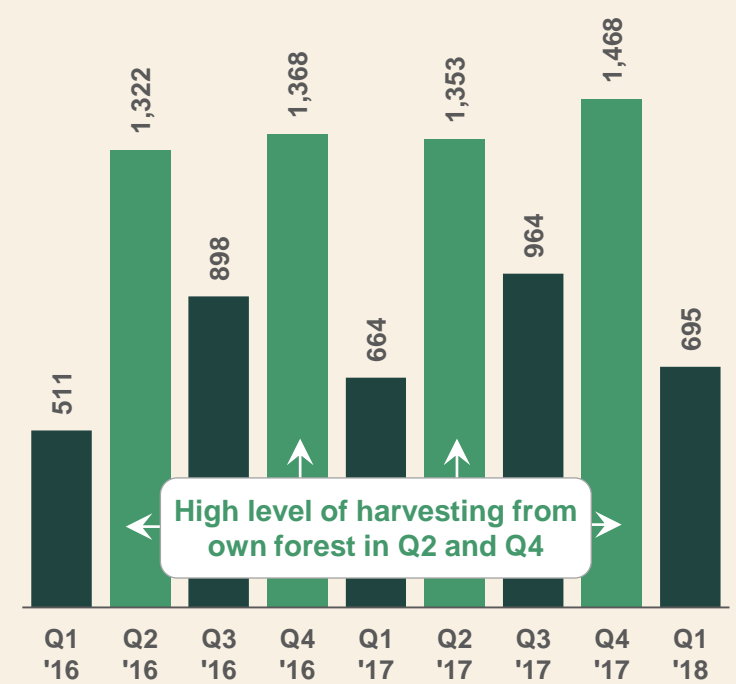
Net sales (SEKm)



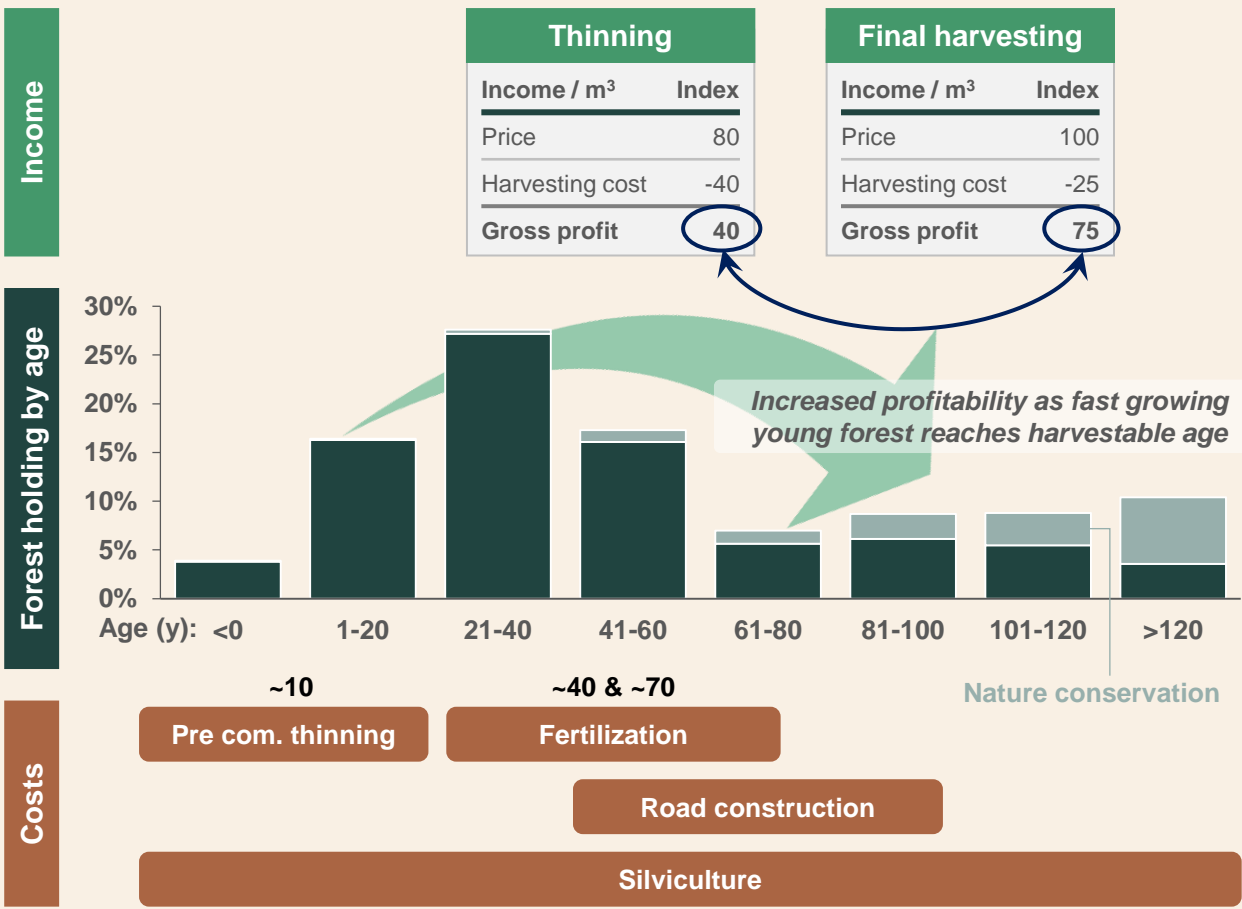
EBITDA (SEKm)



Harvesting of own forest (k m³sub)



Factors affecting relative profitability



- i Price to industry**
 - Market prices, externally sourced wood sold at cost
- ii Harvesting efficiency**
 - Industry leading cost position
- iii Young forest currently in a strong growth phase**
 - Lower harvesting level
 - Higher level of thinning and share of planted forest
- iv Gains from wood swaps**
 - Attributed to industry
- v Capital gains on land swaps and land sale**

Note: Forest holding by hectare.

Internal market prices

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)

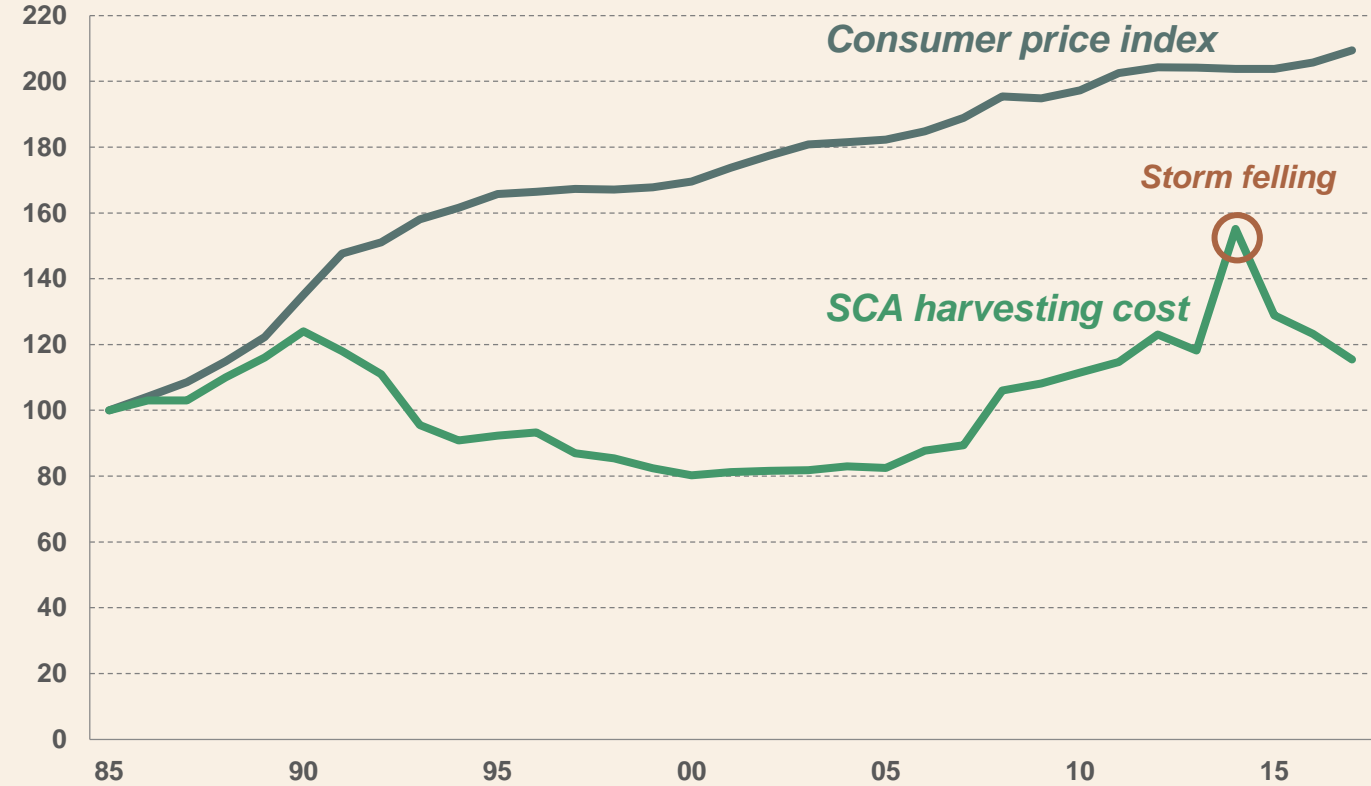
- Östrand investment will increase Forest's sales but not EBITDA



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

Harvesting cost (index)



Forest portfolio optimization through buying and selling land

Stable price at
~270
SEK/m³fo

1

Move forest closer to the industry

2

Improve forest consolidation

3

Swap of land for nature reserves

×

Legal restrictions

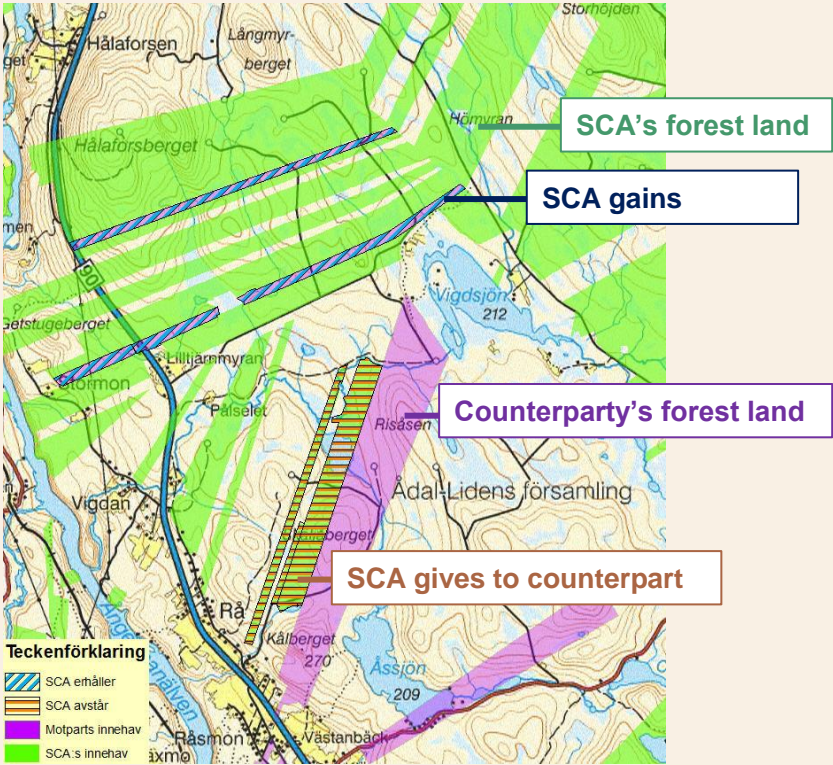
- Prevailing law in Sweden prohibits legal entities from the net purchase of forest land from private individuals

SCA's land purchases	2014	2015	2016	2017
Volume (thousand m ³ fo)	1,655	185	123	261
Price (SEK/m ³ fo)	264	273	263	259
Value (SEKm)	437	50	32	68

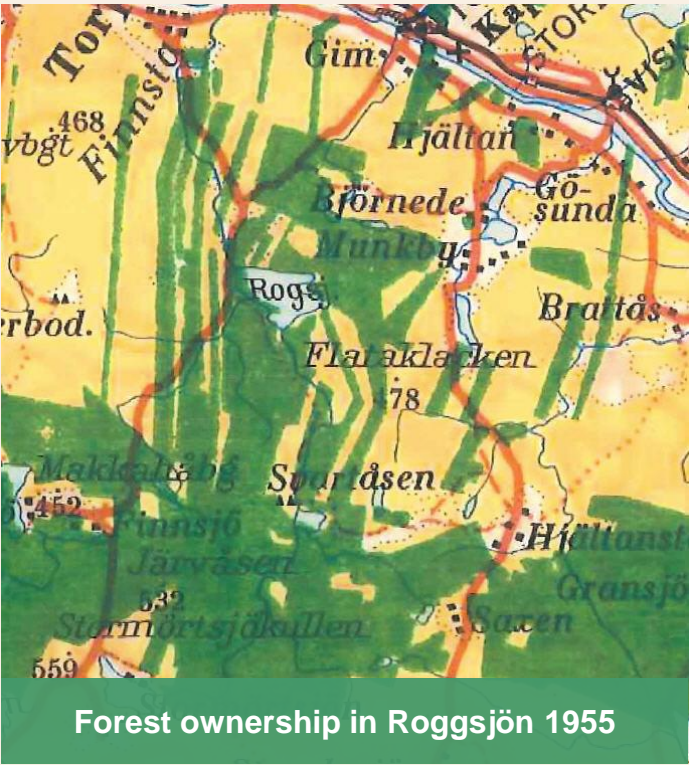
SCA's land divestments	2014	2015	2016	2017
Volume (thousand m ³ fo)	1,405	270	176	385
Price (SEK/m ³ fo)	322	310	274	270
Value (SEKm)	452	84	48	104

Improving forest consolidation

Forest land swaps



Acquisition of land to create larger consolidated areas



Wood swaps drive both financial and environmental gains

Wood swaps totaling 1-1.5m m³sub annually

Cost saving from lower transportation costs

Reduced emissions

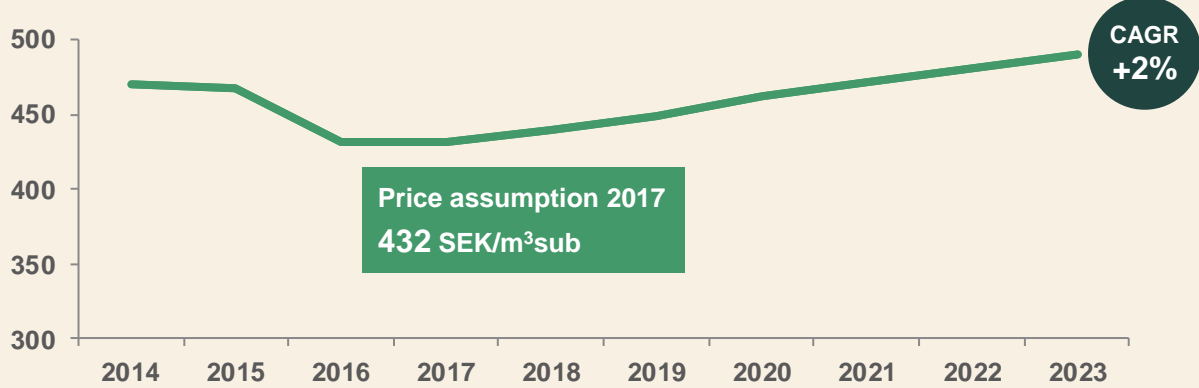
Collaboration with several large forest owners



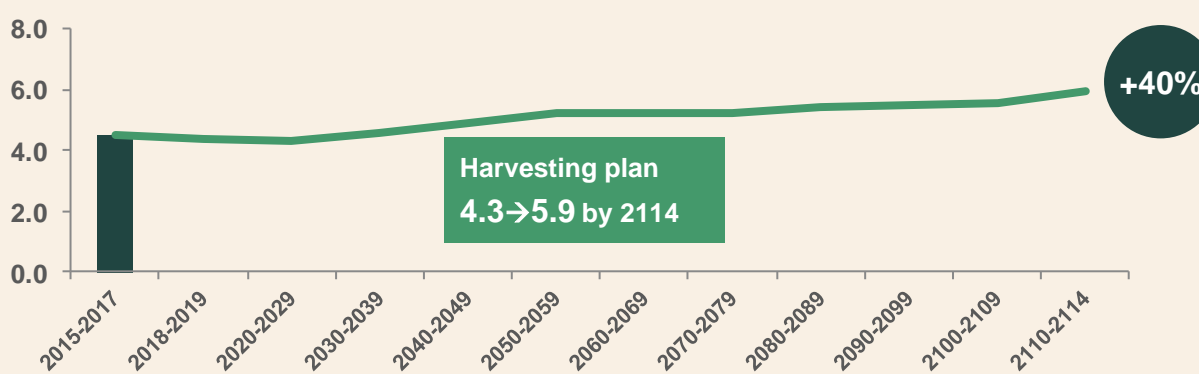
IAS 41 valuation

Book value
135
SEK/m³fo

Price assumption (nominal SEK/m³sub)



Harvest assumption (million m³sub/year)



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

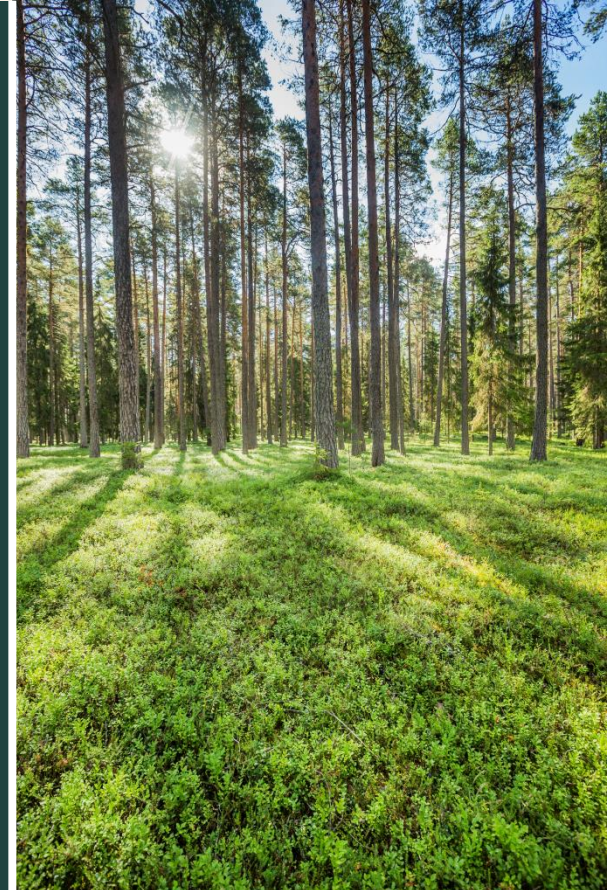
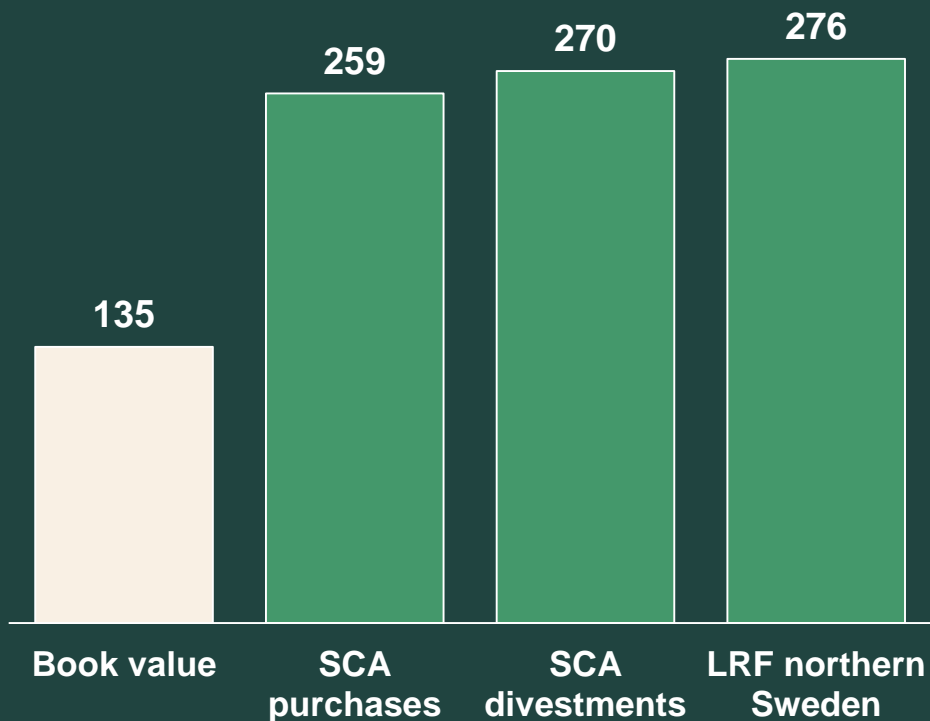
Forecast harvesting plan

- 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)



Concluding remarks

Ulf Larsson, CEO

Profitable growth strategy

**Increased
value from
each tree**

**Growing
forest asset**

1

Forest – the source for value creation

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Paper – Kraftliner expansion

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Pulp – start-up of a SEK 7.8bn investment

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Renewable energy – the next value creator

5

Wood – moving forward in the value chain

Q&A



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.