SCA Year-end Report 2016
Moderator: Magnus Groth
January 26, 2017
10:00 CET

Joséphine Edwall-Björklund:

Hello, and welcome to SCA's year-end report for 2016.

Slide 1

I am Joséphine Edwall, Head of Communications. Today our CEO, Magnus Groth, will, together with our CFO, Fredrik Rystedt, go through the highlights in the report, followed by the Q&A session.

Slide 2

With this, I hand over to you, Magnus.

Magnus Groth: Thank you, Joséphine.

Slide 3

For the full year, organic sales grew by 2 percent, in spite of partly difficult market conditions; and also, in spite of the fact that we reduced capacities, both in hygiene and in forest products, during the year, in order to increase efficiencies and margins.

The hygiene business grew by 3 percent; forest products had a negative growth of 3 percent; and in emerging markets a healthy growth of 7 percent.

Both operating profit and operating margin increased, and we continue to see strong contribution from efficiency gains and for 2016, mostly in the hygiene part of the business.

All of this, together with an improved working capital, has resulted in a strong cash flow for the year.

We also continue to introduce innovation at a high rate. And, the Board of Directors propose an increase in the dividend by 4.3 percent, to SEK 6 per share.

Slide 4

The SCA transformation journey continues. In January 2016, we completed the acquisition of the Away-from-Home tissue company, Wausau Paper.

We also divested SCA's Asian-Pacific business to our subsidiary, Vinda. This integration has progressed extremely well. During the Board meeting yesterday with Vinda, we could conclude that it is now a very strong pan-Asian hygiene company that we are seeing coming out of this deal.

We have also announced restructuring measures in tissue, specifically in France and Spain; and just this morning, also in the United Kingdom. This is following our long-term Tissue Roadmap, where we have the ambition to have the lowest cost and highest-quality tissue in every market and in every segment where we choose to compete.

We also announced in August the potential split of the Group in two listed companies, hygiene and forest products. As a consequence, we presented a new vision and enhanced strategic framework, specifically then for the hygiene part of the business.

During the year, we also decided to close our baby diaper business in Mexico, and to discontinue our hygiene business in India.

These decisions are always very, very difficult. When we have a category in a market that is struggling with profitability and growth, we always try to turn that around: to put in our best people, to make sure that we can find a way out of it and, of course, improve performance, so that contributes in a positive way to the business.

But, now and then, our conclusion is that it will take too long, it will be too costly, and that's the case in Mexico and also in India.

Just before the closing of the year, we entered into an agreement to acquire BSN medical, a leading medical solutions company, and I will say a few words more about this.

Slide 5

An overview of the financials of the full-year 2016. We saw net sales and organic sales growing 2 percent; and a faster growth in our adjusted operating profit of 8 percent.

Operating margin, as I already mentioned, increased by 60 basis points to 11.9 percent.

Earnings per share were down by 20 percent to SEK 7.93. However, if you exclude items affecting comparability and a one-time tax effect, the earnings per share, actually, increased by 7 percent in the year.

Operating cash flow very, very strong throughout the year, and ending at nearly SEK 15 billion.

Slide 6

One of our targets is to achieve a 13 percent return on capital employed. Year over year we are moving towards that target, and getting quite close; so again, a very important step-up.

Of course, what contributes to this is both our growth in profits, but also the fact that we're using our capital more efficiently, so that the efficiency measures that we're taking are really showing here in our improvement in return on capital employed.

Slide 7

The dividend, a proposal to increase by 4.3 percent to SEK 6 per share, completely in line with our dividend policy of stable and increasing dividends; and also, of course, taking into account our wish to have a strong financial and strategic flexibility also going forward. So, we feel that this is a good proposal from the board to the Annual Shareholders' Meeting.

Slide 8

Our strategic framework that I presented before acknowledges the fact that hygiene, health and well-being goes together. This is all linked. This is the framework that we developed after actually announcing, not the split, but even before that, when we decided to work in two separate divisions, hygiene and forest products.

Slide 9

As a consequence of this new strategic framework, we had the opportunity to enter into an agreement to acquire BSN medical. Because the closing is expected during the second quarter, we don't foresee any issues with the closing. But, of course, there are some time lags in getting all the necessary approvals.

I will not go through this in detail, we have talked about it a couple of times. What's super exciting is that, because we are not competing, we have been able to start to plan for the integration work.

Of course, we cannot influence the BSN business in any way. This means we had the opportunity to meet between SCA and BSN; so, the working groups, the integration streams, the top management teams.

After these meetings, I feel really, really excited and I actually am completely convinced that we are moving in the right direction, and that this will be even better than we expected when we made this acquisition.

Of course, the strategic rationale, as you know, is that if you look at the underlying market characteristics, they are very similar, also, the customers, the channels, the way of selling these products.

We see good opportunities for cross-selling opportunities, and leveraging both SCA's knowledge about consumerization in developing the BSN business in a really positive way. But also, taking all the knowledge from BSN, which, of course, is an medical company with a higher portion of R&D than SCA, and use that to leverage our SCA business. So, a very good strategic fit.

Slide 10

Innovations. 23 of them, and a big difference. I spoke about this now for a couple of years, it's that we are moving towards bigger launches, so that when we have good innovation, we don't roll it out under one brand in one market, we roll it out as globally as possibly.

And that's why you can see that, for instance, at the top left there, an innovation that is launched in all our markets under different feminine care brands, Nana, Nosotras, Libero and Bodyform, in this case.

Also, to the right at the top, you can see the same innovation being launched under several different brands and different markets. So really getting scale into our innovation.

Slide 11

Moving over then to the fourth quarter. We continue to see good growth, net sales growing with 6 percent; organic sales 2 percent; and adjusted operating profit continuing to grow faster than sales.

Adjusted operating margin stable in the quarter. This is a tough comparable to the fourth quarter last year, when we had a very good performance in Forest Products. Also, this was before the acquisition of Wausau.

Earnings per share are down. This is, again, a difficult comparable, because in the fourth quarter of last year, we had the acquisition of or the divestment of the Industrivarden shares during the quarter, which had a very positive effect on earnings per share.

Again, very, very strong cash flow in the fourth quarter, close to SEK 4 billion.

With that, we have changed the layout of our presentation a little bit, so I'd like to go straight into the different categories and segments.

Slide 12

Starting with personal care, we had flat net sales and organic sales decreased by 1 percent in the quarter. I'll get back to that in a minute.

Profit increased by 5 percent, due to better price/mix, cost savings, and, of course, negatively affected by lower volumes and investments in increased marketing activities.

We have a significant negative impact, both on top line and the margins, on the negative UK pound and the Mexican peso. Fredrik will show the exact impacts of this, but it has a significant impact both in tissue and in personal care.

Operating margin ended up at 13.1 percent; so a healthy increase here of 60 basis points.

Adjusted return on capital employed remains then over the target for personal care of 30 percent, and climbing up to close to 35 percent.

Slide 13

Looking then into the sales. As you can see from this picture, in the total sales development was very positive in feminine care, while negative in baby diapers and flat in incontinence products.

In Western Europe, we saw flat sales for incontinence products. Behind this, we have good growth in the retail part of the business, so that momentum continues.

We had a slower development in the healthcare part, due to a negative tender balance, which happens now and then when you have a very, very strong market share.

We continue to see higher sales for baby diapers in Europe, and also, in feminine care. This continues to progress in a very good way.

In North America, we had lower sales for incontinence products. However, I want to emphasize that the turnaround process that we have been in now for the last year and a half, when it comes to incontinence care in North America, has been really successful.

From a profit perspective, we have an important improvement now. Actually, our North American inco business is now at a much, much healthier level than it was a year ago. I'm more positive about the future for our North American inco business than when I stood here a year ago; so, behind these lower numbers, a very good development.

In Latin America, we continue to see good growth for incontinence products and feminine care, and lower sales for Mexico; which is, of course, partly now impacted also by the decision to move out of the Mexican baby business.

In Russia, 30 percent lower sales; a couple of reasons behind this. One is phasing. All our competitors relaunched their assortment at the end of last year, and we are doing that now; we're in the middle of that right now. We are expecting to come back here during the second half of 2017 in these categories.

Again, a different comparable. During the fourth quarter, in Russia last year, some of our competitors had out of stock situation, which benefited us significantly during the fourth quarter of last year.

And North Africa, then, negatively affected by the difficult market conditions in general.

Slide 14

Moving over to tissue. Net sales increased by an impressive 10 percent; 5 percent out of this is Wausau. Organic sales increased 4 percent in the fourth quarter.

Adjusted operating profit increased by 14 percent. Here we see high volumes, better price/mix, cost savings, and also, a positive impact from lower raw material and energy costs.

We are also, in this category, investing in increased marketing activities, especially in Vinda in China. Again, a very negative impact from the pound and the Mexican peso.

Adjusted operating margin increased by 40 basis points to 12.3 percent. And return on capital employed getting close to the 15 percent that we have as a target for this category. Of course, excluding Wausau, it's now well above 15 percent.

Slide 15

Looking at the sales development. A lot of this comes from volume, which is quite natural, 2016 and the fourth quarter, was not a year to do big price increases, when raw material prices are coming down. But, a good volume growth here.

In Western Europe, we had lower sales for consumer tissue, where we are working with the restructuring. We have reduced the sales of mother reels, which is the semi-finished products, and while having a good momentum in Away-from-Home now, both in Europe and in North America; so, developing positively.

In emerging markets, you can see behind Asia, there Vinda they had a super-strong fourth quarter. So, big differences between the quarters, but overall a very good growth and higher than what we expect to be the market growth. So, the 6 to 7 percent showing that Vinda continues to take a large part of the market growth in China.

Also, Latin America and Russia continues to grow in a good way in emerging markets.

Slide 16

Forest products had a pickup in sales in the fourth quarter. Organic sales increased by 4 percent behind these volumes in pulp and in solid-wood products primarily.

Adjusted operating profit is down 10 percent, down from 14.8 percent to 12.9 percent. This is due to higher energy and raw material costs, and in spite of higher volumes and low distribution costs. We also have as a bullet here, a biological assets adjustment, and Fredrik will talk more about this in a short while.

Slide 17

As usual, I'd like to say something about the outlook for the first quarter, when it comes to prices for the most important products in forest products, since these are global market prices.

For publication paper, we foresee stable outlook for the first quarter. Of course, in the longer term we have a bleak outlook for publication paper.

Kraftliner, a stable outlook for the first quarter, even though we are starting to see some price increase announcements coming now in the market. So, looking beyond the first quarter, maybe slightly higher prices.

The same for pulp, slightly higher prices in the first quarter; and in solid wood products, also higher prices.

Slide 18

With that I'd like to hand over to Fredrik.

Fredrik Rystedt: Thank you, Magnus. As usual, I will give some additional -- OK, it's unusual. But, as usual, I will give some additional flavor to some of the financials that we have presented in the report today.

I'll start with sales. As you can see here, our growth of sales was 6 percent. Out of that 3 percent relates to the Wausau acquisition and 1 percent to more translation-oriented currency. The rest is volume and that comes from predominantly tissue, but also forest. So, both of these areas grew in volume quite well, whilst personal care was the opposite, as Magnus alluded to.

Slide 19

If we look at the trend. Sequentially, we, of course, reversed that trend, so we now have a positive growth in the second quarter. This was, as I said, driven by tissue and forest products.

It's important to note there that the growth -- the organic growth in tissue is a volume-driven growth and the price environment remains competitive and challenging, as we've also presented in the report.

As to personal care. Of course, this is impacted by the things that Magnus also talked about. But also, just to repeat that, a very strong fourth quarter, or tough comps that we had last year. If you look at the corresponding quarter in 2015, the growth was actually 9 percent; so, a tough comp in comparison.

Slide 20

Magnus talked a little bit about the weaker pound and the weaker peso. That has had a very significant impact, as you can see, both from transaction and translation.

If you would look at just the fourth quarter, as you can see to the very left on this slide for pound, you can see that the total impact was SEK 200 million roughly. Out of that about SEK 135 million was relating to transaction; so basically, where we import products into the UK.

This has had a big margin impact. So, if you look at personal care, just isolated, the margin impact in the quarter alone was approximately 50 basis points. If you look at the same number for tissue, it was 25 basis points. But the biggest impact was, actually, for forest at almost, or about 1.1 percent. So, of course, Brexit has had that big impact on margins and total profit.

You can see that from this slide, that the impact in the fourth quarter and for the full year, of course, in relating to the Mexican peso, was also quite significant. But the difference here is that we've been able to compensate, to a large degree in Mexico, with increased prices. That was not the case in the UK.

Slide 21

We've shown this slide before and it's quite telling. As you can see here the share of net sales in the top graphs and, also, profit in the bottom pie charts there, you can see that largely comparing with 2004, we don't have a significantly higher share of sales in emerging markets in 2016 than we did two years ago.

However, having said that, two things. Of course, the acquisition of Wausau has impacted this; and the second thing is that, generally, emerging market currencies have actually reduced. So, the underlying growth rate remains attractive in emerging markets.

You can see here from this slide that we have continued to improve the margins quite substantially in mature markets and that, of course, comes from the things you know everything about: innovation. It comes from efficiency; it comes from price management; and corresponding things like that. So, it's been a very, very good development.

In emerging markets, margins have improved from 2014 and marginally also in 2016. But, of course, we are still impacted by the investments we have done in countries like Brazil, in countries like also India.

Of course, now as you know we have addressed many of these issues that have taken the margins to lower levels. We have announced, of course, as Magnus alluded to, the exit from India, from the baby business in Mexico. We are addressing other underperformers with our cure and kill program. Of course, while we are addressing margins, this takes us some time to achieve results in.

It's worth noting that all of these issues I just mentioned, the exit from Mexico or India, or from other cure and kill activities, also has an impact on organic growth. Of course, as you, for instance as we go forward in 2017, the exit of baby Mexico, the exit of India, of course, will have an impact on the organic growth for personal care.

Slide 22

If you look at the Group bridge, so to speak, we've have good contribution in our organic growth from volume price/mix and, of course, also from volumes and from raw materials. The organic growth in profit here of 5 percent consists of all of these different parameters.

So, if we start with price/mix, the overwhelming part of that price and mix improvement, actually, comes from personal care, whilst, in the volume side, it's much more from tissue. Actually, all of that comes from tissue and forest, whilst personal care is negative.

The same goes for raw material. That's almost all of it is, actually, relating to tissue so a good performance and, of course, a lot of it comes from pulp.

We still have a negative currency impact so, of course, due to the strong dollar and, of course, other currencies that impact us, we still have a quite significant negative currency impact.

If you just take that number of SEK 184 million, within that we have a positive underlying price impact from pulp of SEK 400 million. So, it's a significant underlying pulp contribution or price contribution; and a corresponding negative currency impact of SEK 185 million, so that becomes the net, so to speak.

The rest of the difference there is mainly higher recovered paper prices that we have in, particularly, our Away-from-Home business.

If you look at the other line, the SEK 232 million there. That consists of everything else, of course, that we have in our business including SG&A, etc. Here, worth noting is that the negative value here has been impacted by higher A&P spend, so we continue to increase our spending there in A&P. If you just look at this quarter, we have a ratio to net sales of approximately 4.7 versus 4.3 in corresponding period last year, so an increase of A&P is one big portion.

Higher R&D costs and, as usual, we have good efficiency gains going against this, so a good performance in efficiency.

Slide 23

If you look at the cash flow, and Magnus alluded to this, the cash flow development. It continues to be strong here. You can see that the total cash flow has increased, including strategic investment with approximately 17 percent, despite much higher strategic investments.

If you look at the working capital side, this is an ongoing process and we have continuously improved here. If you just compare the number here at the end of the year, that's just one point in time, but we are now at approximately 7.4 percent of working capital to net sales. If you look at last year, we were at 8.1 percent. This has been going fairly well for a couple of years now, many years.

And, if you look at the next line, other operating cash flow/restructuring. It's a big number but this was actually impacted by close to SEK 300 million of the payment of the fine relating to the anti-trust case in Colombia that we have informed about, so that's a big part of that line.

Capital expenditure is relatively high, as expected, in the quarter. We ended up roughly as planned for the full year at about SEK 9.5 billion.

If you look at next year, we expect a number which is higher than that at approximately SEK 11 billion. Out of that SEK 11 billion, we expect that SEK 7 billion will relate to hygiene and approximately SEK 4 billion to forest. Those are the corresponding numbers for 2017.

Slide 24

Look at the Group items affecting comparability, most of these issues are known to you. Of course, the first one there relates to the closure of our Indian business, the SEK 375 million.

Transaction costs relating to the BSN acquisition of close to SEK 150 million.

Wausau Paper, and that is perhaps worth pointing out, that the integration of Wausau is going exactly according to plan, and delivering as expected. The corresponding costs that we have still for the integration is SEK 50 million.

The rest is restructuring that, basically, we have announced, including Hondouville and also now today, as announced in Chesterfield.

So, that's the cash flow. Overall, plus 17 percent, so quite strong.

Slide 25

Magnus talked about the biological assets, and I will just start by saying what this actually is. What we do every year, is an adjustment or valuation in accordance with IFRS, in biological assets.

The way that works, is that based on the harvesting plan that we do every eight years, and we haven't done that this year, but we base the valuation on that harvesting model. What we do is we assess a starting value. Then we assess what the inflation is, both for the cost and for the wood prices. In that sense, it's a completely static model.

So, we assume a starting price, and then we also assume that will increase with a certain percentage, every year. We look at all the costs, including the harvesting costs, replant, etc., those kinds of costs, and we also assume that they grow with the corresponding number. In this case, both for price, and for costs, with 2 percent per year.

Then we take the net of this for the next 100 years, and we discount it back to the starting value. That's basically what we do every year.

Now, this, therefore, is not a market valuation, because it's completely linear and static model, in the sense that we don't estimate any potential future price increases that may come out from higher demand, or perhaps more use of biological assets for biofuel, etc., or other kind of things. We just have a static starting point for our valuation.

We have, historically, used a ten-year model. If you look at the graph there, below, you can clearly see that over the last several years, because of many things, including storms and other things, prices of wood have, actually, come down.

So, the ten-year average, which is kind of clear from this graph, is much higher than the corresponding spot price, at this point of time. That means that we have adjusted now and we've gone to instead, a five-year model, which is kind of very close to where the actual spot prices are.

The result of this is that the average price has come down from SEK 467 m^3sub to SEK 432 m^3sub, as the starting point of the valuation.

We've also done one other change, because of the sustained low interest rate environment in which we live. We have reduced our WACC rate from 6.25 percent to 5.25 percent.

Slide 26

If you look at the impact of all of this, you can see that we started with the value of SEK 30.1 billion at the start of this year, or 2016, and we ended with SEK 30.8 billion. The adjusted WACC has had a positive impact of SEK 7 billion; and the adjustments of prices and costs of negative SEK 6.7 billion; and all other, including the result of this year, etc., is plus SEK 0.3 billion. This is what we have basically done, as an IFRS adjustment in the fourth quarter.

Slide 27

Finally, we have also, perhaps somewhat premature, because we haven't actually even put forward a proposal yet, to the AGM. So, this is premature and, of course, also subject to a decision from the shareholders, to execute on the spin off.

But subject to that decision, the cost of the potential split, would look approximately as you see here, so project and listing costs of SEK 320 million. We have a one-time foreign tax, or stamp cost on, actually, real estate, which is the hygiene business, outside of Sweden. Then we have the cost of rebranding the hygiene company to a new name. So, those are the three parameters.

Included in this SEK 320 million that you see on the top there, a fairly substantial portion of that is the cost of transferring debt, from SCA AB to the hygiene company, which has largely been executed during Q4.

Therefore, as you can see at the very bottom of this page, we also have approximately SEK 80 million, or SEK 82 million to be exact, included in the Q4 numbers, costs relating to this spin-off.

Now, the wonderful world of accounting is not always easy. Just for your guidance, should this actually be materializing in our books during 2016, you can see at the bottom there, how this will actually play out.

Totally, SEK 120 million, although we have taken some in Q4, will come in the financial net. There will also be a direct equity adjustment, which will not come into the P&L, so that's actually going to be very difficult for you to see, but it will be there. Then you have the rest, SEK 795 million in items affecting comparability. So, this is basically what you can see going forward.

Slide 28

And with those words, Magnus?

Magnus Groth: Thank you. To summarize, we continue our efforts during 2016 and, of course, going forward to create shareholder value in all dimensions.

Slide 29

Both making sure that our business is increasing its financial performance in every dimension, taking actions for continued profitable growth, but also continuing the SCA transformation journey into a forest products company and a health and hygiene company that will have a new name subject, of course, to the approval of the split; and also, through a dividend proposal of SEK 6 per share.

Slide 30

With that, we are ready for questions.

Joséphine Edwall-Björklund:
OK, who wants to start first? Yes, over here in the front.

Linus Larsson: Linus Larsson, with SEB. Can we start with the discussion around the forest value? You're in the middle of a SEK 7.8 billion investment in a new pulp mill at Östrand. I would expect that to have, if anything, a positive impact on pricing for wood in the region. I would expect that to have, if anything, a positive impact of any harvesting plan that you have for your forest land.

Slide 31

Against that background, I must say I'm a bit surprised by your move from a ten-year historic model to a five-year historic model. Could you talk a bit more about that; and also, when is your harvesting plan up for review next?

Magnus Groth: OK, I can start. I agree with your expectations from the SEK 7.8 billion investment and the positive effects from that.

However, this is a model that we produce and that we calculate, based on IFRS requirements, not taking into account, as Fredrik also explained, those expectations, but actually starting from the current spot prices and then having very static assumptions about the future growth.

One thing is the expectations and something else is the model and how we do that. Of course, at some point, when you have a big discrepancy between the actual spot prices and what we have in our model we have to adjust the model.

Fredrik?

Fredrik Rystedt: I can only, it's quite easy to understand your arguments and we have no other. It's just kind of simple, because if you have a too big gap you just need to adjust.

This is not a market valuation model, it's as simple as that. This is a static and linear IFRS model. It's no more than that. It's not an estimate of the value that we are making, it's simply just a calculation.

Linus Larsson: OK, very well. Then if I may also ask a question around your very active margin management in tissue and Europe, in particular? You've made a number of actions and you very precisely told us what they will cost. Do you have any kind of guidance what the benefits might be in, say 2017, on tissue margins from your very active cost improvement work?

Magnus Groth: Of course, we have calculated this as a basis for our decisions and we don't give any guidance. However, I think that the improvement in margins that you see are a combination of all the different things we're doing. It's efficiency improvements in existing facilities; it's the restructuring; it's, of course, the lower costs or changes in prices, and so on.

But all of these actions, clearly, contribute very positively to the margin development.

Linus Larsson: Thank you very much.

Olof Grenmark: Olof Grenmark, ABG Sundal Collier. If I may continue then on the forest side. It's, you gave us some extraordinary costs in relation to the coming split up.

If you could, first of all, please repeat what you've said in terms of what we will get in kind of information regarding that split up, the time line, if you can elaborate possibly about what you will give for information?

And secondly, regarding this biological assets, you have deferred tax assets related to this of SEK 6.7 billion. Will that go along with the new company or SCA?

Fredrik Rystedt: Maybe I can just answer -- take the second question first. Yes.

Olof Grenmark: And then regarding the time line and possible information? What is it there?

Magnus Groth: Should you or I, because our financial presentations will start to change in the coming quarters and what we're planning to do now at the time of giving information for the AGM is to also provide an information brochure on the split.

Then, of course, the AGM on April 5 is the big day when the decision is then supposed to happen. For our financial reporting during the quarter, since we will also then present new segmentation for the different parts of the business and so on, I hand over the details to Fredrik.

Fredrik Rystedt: Yes, as we have promised we will present, we've said that all along, that regardless of the decision from AGM, we will present more detailed information relating to forest.

Of course, you will see that in the Q1 report as promised. We'll come back to the exact details on segmentation and how the P&L will look, etc., but you will get much more information in Q1.

Olof Grenmark: But it is on April 5 then, it's not before then, is that right?

Fredrik Rystedt: No, no the Q1 report is later in April, so that's when you will see the Q1 report.

Olof Grenmark: Got you, thanks.

Mikael Jåfs: Mikael Jåfs, Kepler Cheuvreux. A couple of questions. The first one is around the organic growth rates. There we see that it's slightly lower in personal care; you explained that.

Some of your competitors are giving sort of guidance regarding that number. I know that you are not doing that, but can you elaborate a little bit, is the long-term growth expectations for your tissue and personal care segments, have they changed or are they roughly what you stated at, let's say, the Capital Markets Day? That's the first question.

Magnus Groth: The long-term expectations have not changed. What we saw during 2016 was partly more difficult market conditions.

Our categories are, in general, very resilient. People need our products, regardless of the financial climate. However, underlying growth in the economy and especially in emerging market helps our growth. That's important for us, even though resilient.

That's why we also stated that we saw partly tougher market conditions during last year consisting then both of slower growth in some markets and increasing competition. We don't see really any change for this year, so expect that to continue into this year.

Mikael Jåfs: Perfect. And then, we've seen now that pricing for recycled paper has come up quite a lot during the past quarter. There also seems to be signs around the pulp market. How are you thinking about raw material inflation; and then, how are you thinking about the possibility to offset that?

Magnus Groth: We have seen recycled paper prices going up. As part of our Tissue Roadmap, we're also looking in detail into then what will be our raw material supply going forward. It's not unlikely that we will see replacement of recycled tissue with more virgin tissue going forward.

We, actually, have already examples where we are doing this. For instance, in Chile, in our factory where there is an abundance of virgin fiber, we have actually been able to reduce our costs for the first time almost ever, this is highly unusual, by replacing recycled fiber with virgin fiber, also then achieving a higher quality of the final product. This is part of our long-term strategy that sourcing part.

Mikael Jåfs: But you're not giving a number?

Magnus Groth: We know that both recycled fiber prices and virgin fiber prices will be very volatile going forward, so it will change over time.

Mikael Jåfs: Thank you.

Fredrik Rystedt: Mikael, normally we give a directional guidance, as you know, on raw material prices for the different parts.

If you look at just Q1 what we estimate, if you look at personal care, we believe it's going to be slightly higher, this is chemicals and SAP, or super absorbent, basically oil-based.

If you look at the tissue side, we believe it's going to be stable in comparison, once again to last year's quarter; and for forest, slightly higher or higher. This is basically our directional guidance.

Perhaps in this context maybe also sequentially it's important, what is it going to look like in comparison to this quarter? For personal care, we expect prices to be, or costs to be higher, for tissue stable, and for forest also higher. That's pretty much the directional guidance.

Mikael Jåfs: Many thanks.

Josephine Edwall-Bjorklund: OK, next question.

Stellan Hellström: Stellan Hellström, Nordea. First question on the personal care business and your organic sales decline. How do you feel you are maintaining market shares in the various markets? Maybe, also, if you can comment on how you view the tender balance for this year?

Magnus Groth: Absolutely. The overall trend continues that in feminine care we are broadly gaining market shares in most markets. In incontinence care, it's quite stable.

In baby, we're, actually, doing well in our core areas, which is then Europe, Malaysia, Colombia and parts of Latin America, where we are having baby businesses. While, of course, we have a negative growth impact then from the decisions we have taken to step out of some baby positions. In our core baby areas, we are doing quite OK.

And yes, I guess that was the three categories. In tissue, quite stable overall with, actually, growing market shares in China and in Mexico.

Stellan Hellström: And the tender balance was?

Magnus Groth: The tender balance has been negative throughout the year, which means that looking at the upcoming healthcare tenders for incontinence care, we have more to a high proportion of the tenders are ones that we already have, so a higher probability of losing than gaining.

It's been negative this year, and it will continue to be negative throughout the first half of 2017, and then it will be easier again.

Stellan Hellström: All right, very well. Also, a question on the price pressure that you're seeing in tissue now. How do you expect that to play out in the coming quarters? And do you expect to see some easing, given the higher raw materials costs that are coming in this year?

Magnus Groth: I think it's unchanged, no change. We continue to see tough competition in tissue. In our overall efforts to balance growth and margins, I think we are, overall, feeling pretty good about it. We're continuing to see some growth where we need to grow, and where we have high margins. And then, of course taking out growth, like for instance with some of the mother reels sales that we had in Europe, where margins have been low. So, I don't see any changes in the market environment.

Stellan Hellström: All right, thank you.

Joséphine Edwall-Björklund:

Any more questions? OK, then let’s go to the telephone. Please, operator, you can open up the lines.

Operator: Certainly. It’s star and one to ask a question. And your first question comes from the line of Oskar Lindström, from Danske Bank. Please go ahead.

Oskar Lindström: Yes, good morning, thank you for taking my call. A couple of questions. The first one is around organic growth, and given that you're sort of saying that the difficult trading environment of 2016 will continue into 2017, what measures are you taking to either take market share, or drive category growth in that environment?

And follow up on that, what kind of impact will that have on A&P spending? Should we expect A&P spending as a share of sales to continue to increase sequentially in 2017, versus what we saw in 2016? That's my first question.

Magnus Groth: You're absolutely right that the way to grow is, of course, to introduce innovations, and to then have efficient advertising and promotions to support that to improve of course also in the in-store execution, so not only above the line advertising and promotion, but also below the line advertising and promotion.

We are working in all of these areas improving our go to market, improving our efficiency, in all parts of our business.

Specifically, your question about A&P, and if that percentage is going to increase. I have to ask Fredrik; my assumption is that it's quite stable.

Fredrik Rystedt: We don't normally give forecasts on that.

Oskar Lindström: All right. If I may a second question to following up on Stellan's question there, around the pricing environment in tissue. You have cut, as you mentioned, quite a bit of mother reel capacity in Europe during 2016. Should we expect that, or do you expect that to have an impact on the market balance in Europe during 2017? Or what kind of an outcome do you expect from that?

Magnus Groth: Any capacity reduction has an impact even though I think in the big picture this is a minor contribution. The reason why we're doing this is because, for us, these volumes are not contributing to enhancing our margins.

Then, the overall supply and demand balance for this year is there continues to be some new capacity coming into the market, primarily in Spain and Portugal, and one or two other smaller plants. But, overall, I think we had a big increase of about 2 percent of supply in 2015, and slightly lower in 2016, and then maybe slightly lower now again.

We, also, have quite some new capacity coming into Russia and Turkey. The Russian volume is not really impacting Central Europe, the Turkish volume could impact the European business to some extent.

Oskar Lindström: But do you feel that the supply/demand balance in Europe as we speak and looking ahead is under control, or is this a problem for you?

Magnus Groth: It's not a bigger concern than it has been over the last five or six years. It's business as usual.

Oskar Lindström: OK thank you. And then finally just you mentioned this information brochure that you will distribute ahead of the AGM. I presume that that's the one that's going to include more detailed financials for the forest products business? That's the first part of that question.

The second one is also once you report Q1, will you also change your reporting structure for the hygiene business?

Fredrik Rystedt: Maybe I can answer that, Oskar. The information brochure will not contain that broad information on forest, that will be a Q1 issue, as we have stated before.

As relates to the potential future segments of hygiene, we have no answer for you there at this point. There will, of course, as part of this entire project, or potential split, we're also reviewing how to best present the hygiene business as we go forward.

But we believe we present it in a good way today, so this is an ongoing review. We may or may not change that, but we have taken no such decisions, at this point.

Oskar Lindström: All right, thank you very much.

Magnus Groth: What is new is that we will have to take into account, the acquisition of BSN in our overview of how we're going to present the new health and hygiene company.

Oskar Lindstrom: Yes, all right, thank you very much those were my questions.

Operator: Thank you. Your next question comes from the line of Alice Baghdjian, from Bloomberg. Please go ahead.

Alice Baghdjian: Good morning. Thanks for taking my questions. A clarification question, really, you mentioned some time lags in getting approvals for the BSN deal. What approvals are those, and do you still expect the acquisition to close in the second quarter? Thank you.

Magnus Groth: We feel highly certain that the acquisition will close in the second quarter. All of these approvals relate to competition authorities, and since we don't have any overlapping products, we are not competing, we don't foresee any issues. So, it's just a matter of taking the time to process this in various countries.

Alice Baghdjian: OK, thank you.

Operator: Thank you, and your next question is from the line of John Ennis, from Goldman Sachs. Please go ahead.

John Ennis: I actually have two questions. The first one is within the baby division that declined in the fourth quarter, I wondered what proportion of that was associated with the exiting of certain businesses, such as Mexico?

And then the second question, you gave us some CapEx guidance for next year, working capital is obviously quite a big boost in the fourth quarter, I wondered if you could give us any kind of steer on the working capital line for next year? Thanks.

Fredrik Rystedt: Your question, the first one was how much was Mexico of the total business I think, or –

John Ennis: Yes, and in general the other exits that you've had over the course of the year?

Fredrik Rystedt: The impact of that for the total Group, yes, good question. That slide we actually took away Johan. So, let me come back to that exactly, but it had a material impact, of course, of the growth, because that's where we saw the sales going down. So, of course, it had an impact.

The second thing on the working capital, we don't give forecasts there. We are constantly working to of course reduce working capital in all parts, including inventory and accounts receivables, and increasing accounts payables.

We have reduced, I mentioned from 8.1 percent to 7.4 percent in just this year, and we had a corresponding decrease last year as well. So, we've had a good performance.

Of course, there's always a limit to how far we can go, or how low we can go on working capital. We've come a long way and, of course, we will continue to strive for an improved efficiency, but it's very difficult to give you an estimate of that.

John Ennis: OK, that's fine. Thank you very much.

Operator: Thank you. Your next question is from the line of Iain Simpson, from Societe Generale. Please go ahead.

Iain Simpson: Thank you very much an my apologies if this has already been asked, but you talked about SEK 11 billion of CapEx this year, of which SEK 4 billion is in Forest. I think you've also said that the forest spin-off will have SEK 5 billion of debt.

Is that SEK 5 billion of debt on spin-offs, and how much CapEx will the forest business carry out in a post-spin-off in this year, how much of that SEK 4 billion is pre-spin, and how much is post-spin?

Also, if you could just tie that back to the Östrand plant expansion in forest, how much of the total cost of that do you think will be outstanding by the end of this year, how far through that does the SEK 4 billion take us? Thank you very much.

Fredrik Rystedt: A lot of questions, I will try to give you an answer. If I start with your question of the SEK 5 billion, what's that going to be at spin-off?

First of all, the SEK 5 billion was actually at December 31, 2016 as an estimate. That means that all cash flow after that date will sort of add to that debt, and when I said add, it's because we expect the negative cash flow from forest due to the Östrand investment.

In fact, you can say all of that SEK 4 billion that I just alluded to in terms of CapEx will, actually, affect that SEK 5 billion if you understand. So, that I think takes care of the question, if you look at your first two questions.

If you look at your last question we have spent, the total investment of Östrand is SEK 7.8 billion, and so far we have spent SEK 2.6 billion roughly, so that leaves another SEK 5.2 billion to spend roughly. For this year, of course, a very significant part of that SEK 4 billion relates to Östrand, so hopefully that will give you a rough feeling of the numbers.

Iain Simpson: That's very clear, thank you very much.

Operator: Thank you, you have no further questions. Please continue.

Joséphine Edwall-Björklund:
OK, so with that Magnus any final remarks before we conclude today?

Magnus Groth: No final remarks. We are looking forward into 2017, another busy and exciting year for SCA.

Josephine Edwall-Bjorklund:
So with this, thank you for joining this conference. Good bye.