

Essity Aktiebolag Interim Report Q3 2017
Moderator: Magnus Groth
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Joséphine Edwall-Björklund: Hello and finally welcome to Essity's Interim Report Press Conference for the third quarter 2017. I would like to apologize for the inconvenience and the delay, but we have had some technical issues. My name is Joséphine Edwall and I'm Head of Communications and today our CEO and President, Magnus Groth, will, together with our CFO, Fredrik Rystedt, go through the highlights in the report. With this, I hand over to you, Magnus.

SLIDE 4: Summary Q3 2017- Q3 2017 vs Q3 2016

Magnus Groth: Thank you, Joséphine. I hope that the numbers here will look better than our technical issues.

Organic sales increased with 1.8 percent in spite of the challenging market conditions both relating to volumes and to price pressure and adjusted EBITA margin increase by 30 basis points to 12.6 percent and this is in spite of significant raw material headwinds across the board actually that Fredrik will get into.

Adjusted Return on Capital Employed increased by 10 basis points to 13.8 percent. We continue to see very strong contribution from an efficient improvement. Last quarter, we said that we were positively surprised and I have to reiterate that this time, of course, the reason is that we are really emphasizing cost efficiency throughout the organization to compensate for the difficult market conditions and the high raw material prices.

As you can see from performance, it's really working so very happy about that. We continue to show a strong innovation funnel and this to some extent impacts also actually our margin development because the launches are typically associated with the high promotional pressure and this affects some of our markets and categories.

SLIDE 5: Financial Summary - Q3 2017 vs Q3 2016

Net sales increased by 7.7 percent and BSN accounts for 8.2 and then a negative currency impact makes up a difference to the organic sales of 1.8 percent. Adjusted EBITA up 10 percent and excluding BSN, the organic adjusted EBITA was minus one percent. We continue to show a strong cash flow also in the third quarter of this year.

SLIDE 6: Financial Summary - Q3 2017 vs Q3 2016

Earnings per share remains on a strong level and I'm happy to also note that BSN is contributing positively to earnings per share already straight from only a few months after the acquisition.

SLIDE 7: Initiatives and Recognitions

Some initiatives and recognition during this past quarter.

We have teamed up with Microsoft on the Internet of Things. What this means specifically is that we are linking our Tork EasyCube sensor enabled systems to Microsoft's intelligent building platform called Azure. Which means that the facility management companies can now follow the usage of tissue and the need for cleaning and so on in the washrooms through Microsoft Azure system based also on our Tork EasyCube platform.

Another important step when comes to the digitalization of our products. We were also recognized just a few weeks ago by the European Parliament for a new service also a step from just selling product, selling services which includes recycling of hand towels: Tork hand towels.

And we offer the full package that when you sign up with us, we actually collect used hand towels from the washrooms, recycle them in one of our plants and return them as toilet tissue.

Sustainability is very important for us and we work and follow the United Nation's sustainable development goals until 2030.

This is a very efficient and successful public private partnership that is now in it's second year with the United Nation's Foundation and we're doing this of course because its good for the world but also because it helps us to drive business and growth in our categories since hygiene and health are two very strong long-term goals according to the sustainable development goals.

Also, just a few days ago, we were recognized by CDP which are a not for profit global organization actually the organization that follows the carbon usage and water usage and other areas of consumption in all industrials and we were recognized as the world leader for actions regarding the forests and water.

This fits very well with the fact that we had the similar award from the world wildlife foundation not long ago, leading in that area.

SLIDE 8: Innovations for People and Nature - Q3 2017

Before getting over to the numbers, I would like to mention one very exciting innovation and it's the one that maybe looks the least exciting on this slide but it's actually this: Tork PeakServe dispenser that you see there to the left and it's also here.

This dispenser looks like a normal dispenser but it can take 250 percent more towels than the product that it replaces and it's surrounded by 12 patents. The benefit to the users is of course that it's quicker to get the towels, it's always full, it requests substantially less refill so it's very suitable for high traffic environments like stadiums and so on.

For our customers like a stadium, the benefit is that with clean, functional washrooms with access to hand towels, they sell more products. They sell more soft drinks and food and so on so it's a win-win. And I would just briefly show you what makes it so unique because you don't see it from the inside.

Actually, what makes it different is that it's fed from the top, so you don't have the pressure from gravity that compressed the tissue and you refill it from the bottom if you see here – and that means that there's never and

pressure on the tissue as you take it out of the machine and it's super simple once you think of it of course. Refill from the bottom with Velcro which also makes it more difficult to copy for competitors, so it's very difficult for another company to provide the tissue to fill in these dispensers. It has a very proprietary aspect to it. It's a big launch for us in Professional Hygiene that we're in the middle of right now both in North America and Europe.

SLIDE 9: Personal Care - Q3 2017 vs Q3 2016

Over to Personal Care, organic sales increased with a solid 3 percent and EBITA increased with 45 percent, of course the acquisition of BSN medical is a big part of that but also higher volumes, cost savings and we continue to see a good development of the Inco business in North America and we continue to have a positive impact from the closure of our baby businesses in Mexico and India for another quarter. Of course, we see the opposite effect on sales. However, offset by lower prices and higher raw material costs.

The adjusted EBITA margin was 14.9 percent which is an increase with 210 basis points even if you take out BSN, there was margin uplift around 100 basis points, still a very strong margin contribution from the Personal Care business excluding BSN.

SLIDE 10: Personal Care - Q3 2017 vs Q3 2016

And organic sales came from volume. We had a negative price mix that came mostly from mature markets even though we had good growth for Baby Care and the launch in France of Lotus Baby it's progressing well. Of course, we are promoting those products which has a negative price impact. Flat sales for Feminine Care and flat sales for Incontinence Care where we see a good growth in retail also through a lot of promotion underpinning new launches and flat sales in Health Care where we see a higher price pressure than we have in the last couple of quarters.

In North America, we continue to grow both in health care and in retail and in the emerging markets a little bit of a mixed picture. Asia very good growth in Feminine Care and Incontinence Care but slower growth in Baby Care.

In Latin America, we had a negative impact still from the closures of Baby Care in Mexico.

And Russia where we see good market share growth in the premium segment of our baby diaper business but we're still losing some share in the value segment and also due to product launches we are promoting our products in this very competitive market.

SLIDE 10: Medical Solutions - BSN medical acquisition

Medical Solutions, integration is progressing well, our organic sales increased sequentially quarter 3 over quarter 2 with one percent to 1.7 percent and the adjusted EBITA margin improved by a little over two percent compared to the second quarter to 19.2 percent.

We're quite satisfied with these numbers and with these numbers we feel that the business case that we had for this acquisition is looking quite good so it's a positive development here.

SLIDE 12: Consumer Tissue - Q3 2017 vs Q3 2016

Consumer Tissue, and this is where we had this huge challenge from raw material prices and also a very high competitive pressure in Western Europe. Organic sales increased 0.7 percent and adjusted EBITA decreased eight percent.

The higher raw material cost impacted margins with 290 basis points, big negative and we were able to offset a lot of that through cost savings and improved mix but not entirely. When it comes to the lower prices in Europe, they are a result of a number of factors. One is that we have had slightly lower growth in Europe over the last year than before so under a percent rather than one and two percent.

We've also had capacity additions throughout the year so the supply demand balance has weakened which of course increases the competitive pressure and price pressure. Also, retailers are under pressure and of course extending that to their suppliers being us.

Another factor that's impacted these lower prices is the fact that there has been a perception that pulp prices would eventually come down so that this was a temporary pain. And I want to make it clear that we don't believe in this, we believe that the industry needs price increases and that our ambition is to increase prices in Western Europe and we are initiating that now in Consumer Tissue.

It will not benefit the fourth quarter or the first quarter of next year but it will benefit the latter part of next year. We definitely need to work with price increases now for the long term in Consumer Tissue.

SLIDE 13: Consumer Tissue - Q3 2017 vs Q3 2016

Again, as we can see volume up 1.4 percent and price mix down and relates very much in different markets where in Western Europe we had lower sales both to due to price and volumes; while in the emerging markets positive development even though at a somewhat slower pace in Latin America and Russia than previous years.

However, remember that even the global GDP growth is very good, it's not even spread, it's very much in Europe and North America where the penetration of our categories is quite high. Why GDP growth is slower in that in Latin America for instance.

SLIDE 14: Professional Hygiene - Q3 2017 vs Q3 2016

Finally, Professional Hygiene where organic sales increased with 1.2 percent and adjusted EBITA decreased by three percent. Again, we see higher raw material costs, lower volumes but better price mix and I'll get back to that. Very strong adjusted EBITA margin of 15.4 percent in spite of these raw material headwinds.

SLIDE 15: Professional Hygiene - Q3 2017 vs Q3 2016

If you look here, there's a different mix when it comes to organic sales because volumes were down but price mix was up and this is due both to price in North America and mix in general.

When it comes to prices in Europe, we are right now negotiating with our customers to increase prices from first of January next year so this is something we are planning for.

As you can see there in the emerging markets, we continue to have a very good growth of Professional Hygiene.

With that, Fredrik.

SLIDE 17: Net Sales - Q3 2017 vs Q3 2016

Fredrik Rystedt: Thank you, Magnus. I will as usual just give a few comments on the sales figures and as you've seen we grew out net sales totally with approximately 7.7 percent and as you can see here, BSN of course contributed very strongly to the growth of net sales.

If you look at price mix, it was negative for both Personal Care and for Consumer Tissue and I'll come back to that but of course we have a continues fairly high price pressure in the consumer tissue market.

On the volume side, basically the opposite good growth in Consumer Tissue and Personal Care and slightly negative on Professional Hygiene. If you remember, now you see an organic growth here of 1.8 percent but you also know that we have done quite a few things that are deliberate as margin focus or value creation focus.

We've done exits, you will remember India and in Mexico and if you take just those two, that has an impact of roughly about 0.3 percent or so on the net sales growth here. And we've also abandoned contracts as you've heard and if you add all of those things up, we have a rough impact on organic sales growth all about a percent. The underlying here is roughly 2.8 percent for organic growth. Of course, significantly improved versus Q2 that you see here.

SLIDE 18: Adjusted EBITA - Q3 2017 vs Q3 2016

If you look at this, it's kind of obvious from this slide where we have the challenges, it's very clear in the price and mix side and on the raw material.

And if you look at the organic adjusted growth, you see a decline of approximately one percent of EBITA and I'll take you through these.

Starting with price and mix, if you look at Personal Care, it's actually the majority so it's close to SEK 160m of negative price and mix and then you need to remember that mix is actually positive. Price is negative and there're basically a lot of it comes from our Inco business and there are a couple of things here, first one is that we have a slightly higher price pressure in the Health Care side, but we've also launched a number of new very good products you see some of them here, TENA Men ActiveFit as an example, and of course that brings along also promotional activity. This is very much planned we also have promotional activities that impacts price and mix for Personal Care and of course Inco.

If you look at Consumer Tissue, also there we have a positive mix component which is related to a continuous increasing share of branded products and this is of course our focus as you know.

But of course, the negative impact, so the total here being roughly SEK -40m or a little bit more than that is a very negative price environment as Magnus elaborated on and this is retail branded or the private label side of our business, predominately. We've seen that throughout the year and of course as Magnus said, we have a continuous high raw material pressure and we also see that the industry profitability from others is becoming more of course pressed and that leads us to believe that there is a much higher likelihood for price increases as we go forward in 2018.

Having said that of course the full impact of the price decline or the price pressure that we've seen this year is still not taken fully in Q3, we will see that more in Q4.

Professional Hygiene, I think Magnus alluded to it; we have a positive mix and we also have a positive price development there on the back of previously announced price increases that we have executed on.

Looking at the volume, there once again I talked about it also in the sales slide we had a positive development in Personal Care in all categories, all geographies so a good development generally in terms of volume contribution. Looking at Consumer Tissue, some of you may have seen that the Asian growth has been very strong and in the mature markets in i.e. Europe for us, much more challenging. And you will remember that our focus is very much that of retaining margins so there is a deliberate sacrifice of volume in the mature market.

If you look at the Professional Hygiene, a slight negative development there in terms of volume; there are a couple of things we have as we previously talked about, abandoned some contracts in this area, very low margin contracts, and you will have also perhaps noted this quarter, that we've had some impact from the hurricanes in the United States. That's actually not small, it's been a fairly significant impact on that.

Most noticeable on this page, raw material and this is interesting SEK 466m, Magnus mentioned it, 180 basis points, but in reality, the actual underlying impact is much bigger so we have a positive dollar impact here of roughly SEK 160m, included in these numbers. So, if you add those up, it's actually gross or the pure underlying raw material impact is actually SEK 630m. I think it's the biggest negative impact we've seen in any quarter ever. So of course, that's very significant and specifically for Consumer Tissue impacting margins by a negative of three percent, but also in Professional Hygiene with recovered fiber 1.7 percent of margin and also because of basically oil-based and to some degree fluff its actually 0.7 percent of margin (Personal Care).

It is a really challenging environment here and I'll come back to that in a second but of course it will remain at least for some time.

I think I said last time, we were very happy about the savings Q2 2017 of SEK 370m I think we were actually communicating these were abnormally high and as you can see we were even higher this quarter.

Once again this is a very good quarter for us in terms of cost savings, we also saved on other things, including SG&A that you will see in the Other part, but

this is on cost of goods sold and we see specifically very good results of the restructuring that we have announced previously so that comes into play in terms of machine efficiency or time efficiency or asset utilization, those kinds of things.

And we also see continued benefit in things as material rationalization so a really good quarter. This may sound a little odd, but once again I would like to just stress the fact that these are abnormally high levels that you see here from the second quarter in a row.

This is pretty much the result, and once again the acquisition is BSN here and we improved the margin with two percent in the quarter so a really good performance also for BSN margin wise.

SLIDE 19: Raw Material Development

Raw material, I promised to say and this is kind of obvious, this is just one grade: Sorted Office Paper (SOP) for the US and Europe which you see on the graph on the left.

And as you can see, we've had some easing on the North American prices and this has to do with import restrictions that China has imposed in terms of importing recovered fiber and that has led to an easing, but it's kind of clear from this slide that it's still much more negative than it was last year and you can also see that European prices on recovered paper has continued to increase so a pretty negative picture as you see here for the time being. And it's very clear also for the Eucalyptus (EUCA) and NBSK and Fluff pulp that the pricing development is not favorable.

Very significant specifically related to eucalyptus, for Consumer Tissue we use roughly about 60 percent or a little bit more than that in eucalyptus for standard tissue and roughly about 40 percent of NBSK so this lower line here is very costly development for us.

Just as perhaps as an outlook – it's not an outlook, but it's our judgement of what this will mean for us in Q4, if you compare Q4 of 2017 versus the same period last year, we will have basically significantly higher raw material costs.

That's kind of obvious when you see the slide. So, significantly higher Personal Care, Consumer Tissue and Professional Hygiene.

Some of you I know are sometimes asking about what's the sequential? How will that compare to this quarter? And what we basically see here is for Personal Care largely flat. If you look at Consumer Tissue, it will be higher and this is of course related to eucalyptus in particular that you see here. Professional Hygiene, it's more difficult to say, it should be flat or perhaps slightly higher so this would be the sequential development.

SLIDE 20: Cash Flow - Q3 2017 vs Q3 2016

Just a final few words on the cash flow, we're quite pleased with the continued strong cash flow throughout the organization, you see that it's considerably lower than what you saw last year and this simply has to do with an extremely strong development of last year and in particular in very strong inventory reduction in a few different places.

So, what you can see here is operating cash flow is much better, BSN is a big part. Working Capital is a very different number this year, but this is largely due to the fact that we had a good development last year and we also had somewhat higher, not significantly, but somewhat higher inventory levels in Consumer Tissue and we are aiming for a continued improvement, but in this quarter, it's largely flat or somewhat higher.

And then perhaps finally then on the capital expenditure side our judgement is that the full year estimate will be roughly around SEK 6.5bn, which is somewhat lower than we said originally in the year, SEK 7bn. And this is partly just facing, but it's also to some degree currency so the Swedish krona is actually now stronger and that has an impact so we'll be roughly about SEK 6.5bn or in that ballpark.

And with those words, thank you Magnus.

SLIDE 22: Summary Q3 2017 – Q3 2017 vs Q3 2016

Magnus Groth: Just to summarize then, challenging market conditions both as relates to volumes and price pressure and in spite of this, I think we've been able to hold on both to growth and to margins and I also want to mention the continued improvement of BSN and that integration is progressing well and in spite of all these challenges and the cost focus we have in the organization, we are fully committed to our very strong innovation funnel going forward, because of course in the long term, this is what will make the difference.

So, with that I finish this presentation and let's move on to questions.

SLIDE 23: Q&A

Stellan Hellström (Nordea): You mentioned that you have initiated price negotiations in Europe. Have those already began and if so have you any information on how competition is reacting?

Magnus Groth: This is now Professional Hygiene so with the Tork brand and normally that's how we do it with annual price negotiations in Europe and we expect to get some price increase for next year here and remember that most of our Professional Hygiene business, almost all of it in Europe is based on recycled fiber. So, we believe that we can increase prices there.

Stellan Hellström: Very well, I think before you said that your tender balance in Incontinence Care will move into a more favorable in the coming quarters. Now that you see these big, or the relatively high price pressure, is that affecting your view on your growth prospects?

Magnus Groth: I think it's too early to say, in this quarter, we still had a slightly negative to stable tender balance, and it will now turn to positive in the fourth quarter. You can see that we have an underlying volume growth that's quite good actually.

And when it comes to the price pressure I feel that the fact that oil based products are increasing could actually help ease the price pressure a little bit, but I mean we're used to price pressure. It was unusually high in the third quarter and we'll see how that develops going forward.

Fredrik Rystedt: And in the Health Care sector, we normally have price decline so this is in that sense not unusual and we normally compensate that with mix. So it was just unusual.

Stellan Hellström: All right. Finally, you've obviously been very successful in taking down costs, and you're running some programs to do that. When you look at your savings initiatives, how do you see that developing going forward? I mean, obviously these are very high levels and how is your plan for next year?

Magnus Groth: Yes, it's very high levels. And actually, one explanation is that when raw material prices are very high, we're also able to get – because we're the world's biggest pulp buyer and a big buyer of the products – we're able to get higher discounts.

So typically, in a high raw material cost environment, we get higher savings due to discounts from the suppliers. And that's part of it, but of course we're focusing much or even more on what's even more important, and Fredrik spoke about it, is to increase machine efficiency, asset utilization, and material rationalization.

You know, fundamentally improving the business. And what we saw in this quarter was very strong contributions from all those different lines.

And going forward, depending on what happens with raw materials, we expect to see a good contribution from what we can influence ourselves, and then again, this was unusually high savings that we had in the quarter. So, don't expect this run rate every quarter.

Stellan Hellström: Thank you.

Linus Larsson (SEB): Thanks. I would like to ask about your growth targets, and I appreciate that you have a very strong focus on margins for the time being, nevertheless you have a growth target of in excess of three percent, you grew by 1.8 percent organically in this quarter.

Can you tell us a bit about when you aggregate the targets and expectations in your organization, is it an excess of three percent and at what point in time should we start to expect the in excess of three percent growth?

Magnus Groth: Three percent is a long-term target, and an ambition that of course we have also communicated, to give you an indication of where we would like to be. In this environment, where we both see lower demand for some categories, which we think is temporary, but also price pressure, we think that 1.8 percent is - combined with exits that we've decided to make to protect margins - we think this is an OK development, but of course, if we start seeing benefits in all these different areas, so more benefits from prices as well as volume. We don't need such a big change, maybe high GDP growth in Latin America, for instance, doesn't have to change that much to improve. Of course, we don't know if that's going to be the case, if that's going to happen, but this is what we're aiming for.

Linus Larsson: Fine. And may I also ask around BSN, it's encouraging to see quite a bit of margin improvement, in Q3 vs Q2, but still your also quite a bit below the 2016 level. Should we expect that to be reached anytime soon, will you be back on that sort EBITA margin level where the business was before the acquisition?

Magnus Groth: The EBITA levels are not completely comparable, because the numbers we presented were the numbers that were done before we acquired the company, and we have slightly different definition of EBITA in Essity than the previous owner.

We're quite happy with the current margins. Of course, we'd like to improve further. We have some negative impact from integration costs and so on. The answer is we're quite happy with the current margins. The margins that you have seen from previous years are maybe higher than how we would account for them in Essity.

I don't know if you want to elaborate on that Fredrik.

Fredrik Rystedt: No, it's exactly what you said Magnus. I don't think it's fully comparable. You've seen the margins from last year, and this is of course we just take

whatever they had. And if you look at their EBITDA or EBITA and then you look at their full EBIT you can see there is a very significant difference between those two.

There of a couple of perhaps more technical things. First of all, we have the 0.4 percentage points roughly in our integration costs for the quarter. And then there is a technical difference in their previous accounting they had in terms of amortization they took all the intangibles including computer systems or whatever but we don't do that, we only take on acquisition related assets. So there is about a percent, little bit more than that, close to you 1.5 percent difference in that definition.

And then in the old BSN company where they were accounting something they called as normalization of profits. We don't do that, we just take that in our ordinary profits, so to speak.

So as Magnus said, they're not comparable and, in our way of looking at it when we look at our own plans, and judgement for the future this is very consistent with that. So, they're performing very much in line with what we have expected or even slightly better.

Linus Larsson: And just to make it maybe it even clearer if possible. On a like for like basis if you add back the 0.4 percentage points of integration costs in the quarter.

Fredrik Rystedt: That would increase from 19.2 percent to 19.6 percent.

Linus Larsson: Right, what was that on a like for like basis in Q3 last year then?

Fredrik Rystedt: It's really difficult to calculate, and in order to answer that question. We would have to go back and look at every kind of normalization items or items affecting comparability and then compare to our own standards. We do that of course internally, but none of that stuff is audited and we have not published those number.

So, I can only give you kind of a generally thing. If you look at it from a more general perception it would have been lower than what you see this

quarter. Last year, so the performance is better this year than it would have been last year.

Linus Larsson: OK, thanks. One final question, I appreciate, since when you became Essity, you have opened up your disclosure in several ways. Much appreciated, and now for instance your divisional structure is very similar to one of your close peers Kimberly Clark.

Looking at your margins versus Kimberly Clark margins, there is a big gap. My question is to what extent do you expect to be able to close that gap, and on what timeline?

Magnus Groth: Yes, this is a common question of course, and the margin gap actually decreased in this quarter to some extent. Which is of course our long-term ambition, and we typically state that looking at this gap, some is structural due to our geographic focus, with them being very strong in North America, while we're very strong in Europe.

Of course, in the very long term we work with our geographic mix as well, but this is very structural. Then there are areas where we can definitely close the gap, and we're working on that. So that's our ambition to reduce the margin gap, but to get up to the margins levels of this competitor in the medium term it's very challenging just due to the different mix.

Also, category mix is different where they have a higher percentage of Personal Care. Where we have a higher percentage of Consumer Tissue, and that's we are doing acquisitions like BSN, focusing very much on investing in growth in our Personal Care categories. The high margin categories, and why we are involved in this Cure or Kill program. Also, to move out of less profitable or less margin contributing businesses. So, I think we have a very ambitious program to close that gap going forward, but that takes time.

Linus Larsson: But, you didn't really answer the question.

Magnus Groth: It's impossible to say. It's kind of a desktop analysis. It's also going to vary quite significantly with exchange rates. I mean in this quarter of course, if you buy and use the products in USD, it's going to impact you more than

maybe for us that had a positive impact from the stronger EUR/USD in this quarter.

You know, you have to look at that impact as well. And that both I think impacted the increase in the margin gap that you've seen over the last three or four years. Because when pulp prices came down, the euro actually weakened in the meantime, we didn't get the full benefit of that with our country, or currency, mix compared to some competitors. Now it's going a little bit the other way.

Joséphine Edwall-Björklund: Thank you, yes, give it to Mikael.

Mikael Jåfs (Kepler Cheuvreux): As we discuss North America I can note in the report that you say that you have said that you have seen improving sales in the Incontinence in North America. Can you say a couple of words of that, and perhaps link it to the entrance of another competitor into that field a couple of years ago in your position in North America?

Magnus Groth: Yes, so we've spoken a lot about our weak position, and the fact that we were struggling both when it came to growth and profitability in North America. Which is of course very frustrating being the global number one incontinence player here with over 20 percent global market share to have a weak position in the world's largest incontinence care market.

That's why we worked so hard on this turn around. We are now seeing the benefits and growth both in Health Care and in Retail. In Retail, we have more or less changed everything. We have changed our marketing mix. We have changed our assortment strategy. We've changed how we work with our go to market with our different partners, and all of this has had led to a significant impact both on growth and actually on, even bigger impact on margins so we are quite profitable in Inco Retail now.

In Health Care, similarly where we had a slightly stronger position. We're also now gaining traction and growth. In Retail, we are not growing with the market yet, because the market growth in the US has been accelerating the same way as it did for a couple of years in Europe due to increased competition. But for us the importance here is to show a healthy profitable

growth in general and to have a good plan for the next two or three years with our key customers. That makes us feel confident that we would continue to develop in a good way going forward.

Mikael Jáfs: Thank you

Olof Grenmark (ABG): One question on a group level and one regarding Consumer Tissue, if I may.

You mentioned that you had a negative price mix effect year on year in the third quarter of minus 115 million SEK. And you said that we could see a continued price pressure into the fourth quarter. If we assume that prices stay unchanged at this level, will that effect be worse or better year on year in the fourth quarter? That's the first question, please.

Fredrik Rystedt: Yes, we don't actually give forecasts other than the fact that, as we've already said, that the Consumer Tissue prices are not fully in to the numbers yet. So, you will expect a continued negative picture. But we never give exact forecast. We typically give views on raw material. But we don't do it on price and mix, because there are a lot of variants in terms of what we launch, in terms of promotional product, for instance, or market behavior or different price impact. But of course, you would interpret our segment here is that it's going to be a continued challenge in Q4.

And since not all the price decreases have come into the picture, it will be a challenging quarter in that respect and hopefully improve thereafter.

Olof Grenmark: Fair enough. And then regarding Consumer Tissue, you mentioned new capacity as one of the three challenges why market conditions are tough. We've had new capacity in consumer tissue for quite some time from new players. Should we interpret that this is a worsening trend?

Magnus Groth: Not really, actually, typically we've seen a capacity increase with about two percent, which equates to two large paper machines every year in Central Europe, because then there's some new capacity in Turkey and in Eastern Russia and so on that doesn't really influence Europe, Central and Western Europe that much.

And we've seen a little bit more than that last year and this year. And maybe next year. However, with the current pressure on prices and with also maybe rising interest rates going forward, we see that there's more hesitancy when it comes to the certainty of some of the plans.

So last year, this year and to some extent, next year, there's slightly higher supply increase than demand growth. But after that, we see very little actually. And we've also seen some opposite behaviors, actually, both in Europe and in China, just in this quarter, where smaller, non-integrated converters actually have ceased trading because of problems with this higher raw material costs and high mother reel costs. We're seeing that, both in Europe and in China and that's one of the reasons why Vinda has been growing so well in the third quarter.

Olof Grenmark: Thank you.

Joséphine Edwall-Björklund: OK. Any more questions?

Phillip Mitchell (Första AP-fonden): Hi. Quick question just about working capital. It looked like there were some quite big swings at the various levels of working capital. Could you just run through how much of that is structural versus one off, and in particular, whether it's related to some of these savings you've got on the raw material cost?

Fredrik Rystedt: Maybe I can take that question. There are no real structural if you compare this ongoing year, we're working pretty much with all of the different lines of the working capital and it's basically progressing. So there are no structural changes this year.

If you look at last year, we had a fairly big swing in the third quarter there. And that had to do with inventory adjustments, and particularly related to pulp inventory. So, the pulp inventory was reduced a lot during third quarter in parts of the group, and that had that very positive impact.

There are no big changes in days if you take days of sales outstanding or days

in inventory, for instance or accounts payables. They're all roughly structurally continuing on the same level or improving. We have a slight decline or deterioration this quarter, but that's more for temporary reasons, so generally in good shape.

Joséphine Edwall-Björklund: OK. I think this is, from the room, all the questions. Operator, please help us open up the questions from the phone.

Celine Pannuti (JP Morgan): Yes, good morning. My first question is on the Personal Care volume acceleration, to which extent you've seen, because I think it's around five percent, you said that there was still an impact of one percent from some of the decision you've made in Mexico and India. To which extent this is really market share driven or whether you've also seen some higher demand in the market? And to which extent is that sustainable?

And to sustain that, does it mean that we continue to factor this negative price mix, or at some point do you expect that you would need lower promotion behind your launches?

And then maybe also, if you comment on Russia? Because I was surprised to see it was still negative, given you were saying that we should see a rebound in the second half.

My second question is on the run rate of savings. You've been communicating not to expect this. I don't understand exactly why in the sense that if you have a better efficiency on a machine or you are suddenly using less material, why would not that be a new state and therefore keep running until we analyze that? And equally, same on terms of some of the plants that you've closed. So, if you could share some light on that.

And maybe we have not heard a lot of planned closure recently. Are you done, or do you think there's still capacity for plant or distribution center rationalization?

And then finally, could you comment on the impact of hurricanes on Professional Hygiene? You said it was significant. Some of the Staples

companies are talking about several hundred basis point hit on their US business. Would that be as well what we should expect for you? Thank you.

Magnus Groth: OK. I will try to answer the easier questions and I will leave the others to Fredrik.

So, Tissue Roadmap, we are still in the middle of it. This is now your fourth question about the structural, if we're done with structural changes. I don't believe we are done. We'll never be done because we'll always be restructuring to some extent. And there is some more to do in Tissue Roadmap even though we have accelerated the plans due to the tough market conditions. We progressed a good way in that program, but we still have some more to do.

When it comes to the savings run rate, of course, yes. When we close inefficient, old assets, when we increase machine efficiency, asset utilization of existing assets, the bottleneck, when we do material rationalizations. All of those are savings that are then ongoing for the future. I mean we have them as a new basis, absolutely.

So, what I was referring to previously is that when it comes to some raw material discounts, they tend to go up and down with actually the underlying raw material price. When raw material prices are very high, discounts are higher and then the raw material prices come down and so the discounts, so that's something that could swing them in relation to the raw material prices. But other than that, we're happy with the progression of the underlying lasting savings that we are achieving.

And Russia minus 10 percent, it's very challenging, it's very competitive. All the competitors are there and we're doing good progress in premium. That's been the big re-launch focus for us now. We're doing OK in Feminine. We're struggling a little bit on the value part of our Russian baby business. We have plans in place for that as well.

In general, our Russian business is very successful, so we're continuing to grow market share with Consumer Tissue, with good margins and also in

Incontinence Care and with of course Professional Hygiene with the Tork brand, where we have close to 40 percent of the market share in Russia. So overall, we're very happy about our Russian business, but it continues to be very tough in baby specifically and specifically in the value part of that business.

But we continue to fight and feel confident that we have the products and initiatives and the innovation necessary to succeed.

Fredrik Rystedt: Yes, hurricane. Yes, Celine. Maybe just one more comment on the savings side. It's of course also as we continuously do savings and not least restructuring. And that's, these past savings get into the comparable numbers in order to maintain the same number on a Q on Q level, that means that we have to be even stronger than what we were in the corresponding period of last year.

So, it's a relative and that's why it's a challenge. So, if we've had a very strong quarter and that gets into the comparable, we have to do even more. That's also part of the explanation in addition to what Magnus said.

Then the hurricane effect, totally for Professional Hygiene, the impact on organic sales growth was two percent, but the absolute majority of that was related to the abandoned contract. The storm effect was less than half a percent, roughly, less than that. So, the 200 - 300 basis points that you've heard from others, we did not have that kind of impact on organic sales growth, so less than half a percent.

Celine Pannuti: Yes. My first question was about the volume growth in Personal Care. Could you comment on is this market driven or market share driven?

Magnus Groth: Market share, it's difficult to follow on quarter over quarter, it's very short notice. But we are gaining market share in several of these categories, so that's definitely a factor. We're also seeing better traction, especially in emerging markets in many places. And maybe a slightly better underlying growth in some of them, more specifically, China, actually.

Fredrik Rystedt: And of course, Lotus in France is also contributing. There are many different factors.

Magnus Groth: There's a very strong launch program in Inco retail, that's helping. We have the baby launch in France that's helping. We are really improving in Vinda in Personal Care, in Inco and Fem Care, not in Baby, where we have a very small business. In Latin America in general, doing quite well in all categories. And also from a market share perspective.

Celine Pannuti: Thank you.

Peter Testa (One Investments): Hi. Thank you for taking the call. I have just a couple of questions, please.

One, just going back to this point on abnormally high cost savings, can you just give a sense of is it just the raw material part which is abnormal or are there other actions which you take as a shorter-term measures, such as deferring maintenance and other factors to try to manage in a stretched period that you wouldn't do in a more normal period?

Then the second question was as you gear up to push the raw material pricing through in Consumer Tissue and what you just said, was it tougher supply/demand environment. Can you give some thoughts as what you tried to do to protect yourself from the volume risk in that period to try to give yourself the power to work your way through in that market? How you manage the volume risk when others have lower utilization.

And then the third was just a very short question. You mentioned India and Mexico, the losses were helping the profit. I was wondering if you could give some sort of quantification of the benefit of not having those operations in the business. Thank you.

Magnus Groth: OK. If I start with the two ones. Cost savings, they weren't abnormal, they were unusually high, I would say. This means that we're not taking any extraordinary temporary measures, really. So the savings we're achieving are in there for the long term. It's not that we're cutting down on regular maintenance or anything like that.

When it comes to Consumer Tissue price increases, how would we protect that. We don't see bigger volume losses. We will continue to focus on our branded assortments, which is more protected than private label. Then, as you know, in Europe we're approximately 50/50 brand and private label, which then also has a mixed improvement.

So, to grow our branded part, that's our key focus here. And to protect that. And then it's also about working together with our retail brand partners in developing their assortments and making them more attractive. But we have, I think, really shown that we are willing to take some volume loss if it protects and helps margins in the long term.

And we continue with that strategy, absolutely. When we look at low margin retailer brand contracts or mother reel sales, we will not protect them in order to just keep volumes up in that case. We would rather restructure.

And then India and Mexico, Fredrik.

Fredrik Rystedt: Yes. We have not disclosed that. I think I mentioned that the impact on the organic sales growth was 0.3 percent for the Group as a whole. And of course, this is Personal Care, so it's roughly about a percent for Personal Care. That's the impact on organic sales growth.

But we have not disclosed the impact on margin or profit.

Peter Testa: OK. Thank you for the answers.

Oskar Lindström (Danske Bank): Yes. Thank you. Three questions. The first one is regarding price increases in Consumer Tissue, in Europe, in particular. You mentioned this a little bit during the presentation. Is this something that you are discussing price increases with customers in consumer tissue in Europe, or you will do it, or is it more a general you want to, sometime in the future?

Magnus Groth: All of the above, were those the three questions.

Oskar Lindström: No, that was the first question.

Magnus Groth: Oh, sorry. It's both, I described this before. In some countries, there are annual negotiations in some countries there are really no fixed contracts and you can actually open up for a negotiation at any time, depending on raw material prices, and so on.

It varies, actually. And that's why we have this delay in the implementation that once we start working with this, there's a delay of three, six, nine months before you see the impact.

It's a mix of all of the above.

Oskar Lindström: But you have initiated price discussions with at least some consumer tissue customers in Europe?

Magnus Groth: Yes, with those customers, where there are annual negotiations, yes of course.

Oskar Lindström: And this is something that should have an impact sort of starting Q1 and then a little bit throughout the year, or?

Magnus Groth: In Q4 and Q1 we will still have a very negative impact from the price decreases that we have accepted earlier this year and the significant impact of price increases will be after quarter one.

And this, as I stated, this is our ambition, but we see that now the structure profitability of the industry is such that we need price increases, but this is definitely our ambition.

Oskar Lindström: Thank you. My second question is regarding A&P costs, and I think you mentioned, and I get the feel that these were maybe higher than normal in the third quarter. Is that so and what's the outlook?

Fredrik Rystedt: Yes, I can answer that. No, they were not really higher, in fact they were somewhat lower, and the reason is basically that BSN has a general slightly lower A&P spend.

If you look at the underlying, no significant changes. And typically, if you look, excluding BSN for the year as a whole, it should be in line or slightly higher. And we have a great many many launches that we have done and not at least here in Q3.

We have actually done that throughout the year so it should be similar or slightly higher for the year as a whole, if you take all quarters, but in Q3 not really higher.

Oskar Lindström: Another third question, regards the negative price mix in Personal Care, i.e. the negative price, was that only driven by the Lotus launch, or was there price pressure on sort of other parts of your products?

Magnus Groth: In Incontinence Care, we have a negative price impact on the Health Care business in Europe, so higher price pressure than the normal. And we also have negative price mix in some of the other markets, category combinations, depending on if we are in the middle of a relaunch phase or if the competitors pressure is very high.

Russia would be one of those, as well of course.

Oskar Lindström: All right, thank you very much. Those were all my questions.

Robert Waldschmidt (Liberum): Good morning. Just going back to Consumer Tissue, and the pricing situation, I mean any particular markets where A) you've accepted the lower prices for 2017 where you think it may be more difficult to fully recover the price rises, and two, I mean can you call any specific markets which you might be able to do the negotiations earlier than others, and three, the magnitude of the pricing. And I appreciate you, you're probably not going to give a ballpark number, but some in the market have been saying that you need to take as much as six to eight percent, as shelf price increases, which seems like something that retailers would bark at. Thank you.

Magnus Groth: Yes, I would not be that specific. In general, when it comes to Consumer Tissue. We always say that this refers very much to Europe, and in emerging markets, including Eastern Europe and Russia, China, and Latin America, we are much faster in implementing price increases.

And that's actually happening or in our plans to happen. So the issue and the challenge is always Western Europe, and it's really nothing different than from before. But we will definitely, with differences between different market situation, work to increase prices in as many as the European markets as possible. That's our ambition.

Robert Waldschmidt: Just to follow up on that. Do you face any particular difficulties in the UK given the Brexit situation?

Magnus Groth: We've had a very negative impact of the Brexit already on the day, actually, of the announcement. And this is related to the currency impact, and also due to the tougher maybe retail climate after that when the retailers, many of them stated they wouldn't increase shelf prices.

So that is a continuous negative impact, but really only related to the currency, to the exchange rates. Since we have production in the country but we're importing raw materials, and also Personal Care products.

Robert Waldschmidt: OK. Thank you.

Ian Wood (Redburn): Hi guys, thanks for taking my question today. Just on the Consumer Tissue outlook then in Europe, I think it's another quarter where price mix is going against you as raw material fall.

And I know you've said that you've had some difficulty getting pricing because of a perception that pulp prices were going to rollover. Can you comment on whether this is still the perception in the market amongst retailers, or whether that belief that pulp is going to fall is coming away?

Magnus Groth: I mean, one of the reasons why I'm now saying this for the third time is that my perception is clear and I believe that the sentiment is changing also, because just look at the numbers.

A year ago, everybody said that there would be a slight kind of hump or peak in prices in the first quarter and then it would come down, and of course what we've seen is quite the opposite, just increasing prices quarter over quarter,

and continues news adding to that from the pulp suppliers, and we had some news also quite recently.

So definitely, I think there's a general perception now that pulp prices may not come down at the pace that was previously expected.

Ian Wood: OK, thank you.

Joséphine Edwall-Björklund: OK, with this we need to end the Q&A session, and we need to end the press conference. Any final words from you, Magnus, before we end?

Magnus Groth: No, just to reiterate, I feel that we're managing a difficult market situation quite well through cost savings and also combined with growth initiatives and of course, very simply put, we want to grow as much as possible in the high margin parts of our business and to be more margin protective in the lower margin parts of our business.

And that's kind of the overall story here, and also that we are happy with the progress of the BSN medical both the financial performance and integration.
Thank you.

Joséphine Edwall-Björklund: OK, thank you for joining, and have a good day.

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